

THE INFLECTION POINT

Critical Pathways in Food Retailing



Project XII 2007

THE COCA-COLA RETAILING RESEARCH COUNCIL EUROPE



Andrew S. Grove
ex-Chairman, Intel

A STRATEGIC **INFLECTION**
POINT IS A TIME IN THE LIFE
OF A BUSINESS WHEN ITS
FUNDAMENTALS ARE ABOUT TO
CHANGE. THEY ARE THE RESULT
OF AN EVENT WHICH CHANGES
THE WAY WE THINK OR ACT



CCRRCE

THE COCA-COLA RETAILING RESEARCH COUNCIL EUROPE

The Coca-Cola Retailing Research Council Europe (CCRRCE) is dedicated to the development of a better understanding of the food retailing and allied merchandise distribution business in Europe. The focus of its energies is to identify and then to study selected critical issues and, when appropriate, to present the findings in a suitable forum, so that full advantage of the information can be taken to further develop and enhance the effectiveness of the food retailing distribution business.

CONSULTANTS:

The CCRRCE commissioned the following consultancies to lead the development of this project:

McMillan|Doolittle LLP-“The Retail Experts”

For over two decades, McMillan|Doolittle LLP has been working with the world's leading retailers to convert marketplace insights into lasting, successful strategies and retail concepts. “Winning at Retail”, co-authored by Neil Stern, the lead consultant on this project, served as the inspiration for the topic of “The Inflection Point”.

WPP/ The Store

The Store brings the vast resources and thinking of WPP, one of the worlds largest integrated marketing agencies. They were co-authors of the 2000 CCRRCE study on “The Store of the Future”.

MVI

For nearly twenty years, MVI has provided market research, comprehensive strategic retail insight and training focused on the top global retailers.

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PREFACE

Project Background

There are points in time in the evolution of markets when an Inflection Point is reached that predicts or even dictates changes in retail practices. Failure to recognise or respond to changes in observed or predicted consumer behaviour, market conditions or opportunities has often spelled disaster for food retailers around the world.

Changes in market development, demographics and legislation have spelled trouble for many retail companies. Other retailers have recognised these “signals,” have formulated a response and prospered as a result.

The CCRRC Europe commissioned this study to identify and qualify these signposts or predictors of impending change in the marketplace, in consumer dynamics or legislation that may produce Inflection Points for European food retailers in the future.

A “consortium” of retail consultancies led by McMillan|Doolittle along with WPP The Store, Management Ventures and The Henley Centre was selected by The CCRRC to develop this project.

The “consortium,” in conjunction with the Membership of the CCRRC explored the available market research, conducted in-depth interviews with retailing experts in Europe and North America and analysed the findings over a period of several months. The opinions reflected in this study are based on these combined market research data, the expert interviews, the consortium of consultancies and the advice and insight provided by the CCRRC Members.

Methodology

The methodology used for this project consisted of conducting 27 extended interviews with past, present and future retail industry leaders. Our interviews concentrated on Europe, but North American retail senior executives were also interviewed to benchmark European responses and understand differences and similarities in markets as well as acknowledging the increasing influence of multi-national businesses. Finally, leading financial analysts were interviewed to provide a balanced point of view from an external standpoint.

Throughout the report, we have included highlights from these interviews, using their words to enhance and underscore the critical observations. We have opted to issue a blanket citation for these remarks, which allowed the interviewees to speak openly and candidly about the issues they have faced and what they see in the future. The goal was to learn directly from those individuals who have lived through prior Inflection

PREFACE cont.

Points and who are actively involved in shaping the industry's future. The interviews illuminate how executives with first hand experience managed past Inflection Points and strategise for future Inflection Points. After conducting the interviews, each dialogue was edited and interpreted by expert consultancies in order to distil the common themes.

The study was conducted with the active participation of members of the Coca-Cola Retailing Research Council Europe. These interviews helped shape and deconstruct the key issues that frame this report. Through a series of workshops and interpretative reports, the key issues were then distilled into the report that follows.

How to use this report

The report strikes a delicate balance between the universal attributes that are needed for any retailer (or company) to be successful and an acknowledgement of the unique competitive circumstances that exist within each individual European market.

This report is written with the conviction that the learnings from common experiences of the past and the critical universal capabilities identified from these experiences will resonate throughout the global retail community. In many instances, we have illustrated and enhanced the point by citing excerpts from one of the twenty seven interviews conducted.

The lessons shared first-hand by world-class retailers offer compelling examples of the type of advanced thinking that characterises success. It is these critical capabilities that will enable retailers to succeed, irrespective of the particular dynamics characterising the individual markets. And, while the potential future Inflection Points identified will certainly vary depending upon the specific consumer, regulatory and competitive dynamics of each market, the examples serve as provocative anecdotes depicting the future of retailing.

Finally, the **Diagnostics Toolkit** highlighting critical capabilities is intended to be a useful tool in assessing whether one's own company is prepared for the future.

ACKNOWLEDGEMENTS

Special thanks for the generous cooperation, insights and enthusiasm of the study's participants:

Participant:	Company:	Country:
Tim Ashdown	<i>Tesco</i>	U.K.
Kenneth Bengtsson	<i>ICA AB</i>	SWEDEN
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EXECUTIVE SUMMARY and KEY FINDINGS

A STRATEGIC **INFLECTION POINT** IS A TIME IN THE LIFE OF A BUSINESS WHEN ITS FUNDAMENTALS ARE ABOUT TO CHANGE. THEY ARE THE RESULT OF AN EVENT WHICH CHANGES THE WAY WE THINK OR ACT

Andrew S. Grove
ex-Chairman, Intel

I. INTRODUCTION

We marvel at the meteoric rise and spectacular successes of a Tesco, Mercadona or Lidl. At the same time, we wonder what happened to Winn-Dixie, the giant North American retailer forced to declare bankruptcy, while its principal competitor Publix, continued to grow and thrive. Why did Safeway U.K. or Promodes reach a point where it became prudent to sell rather than to continue to compete? How did some of the seemingly invincible companies of the past decades, with massive capital and resources, begin to fall on hard times and struggle, while other new upstarts captured the imagination (and the wallets) of consumers?

The concept of an Inflection Point suggests that there are critical points in the history of an industry or an individual company that signal permanent and enduring change. When a company faces an Inflection Point, its future might literally be at stake - the proper response leads to sustained growth, while inappropriate reactions often lead to obsolescence.

Failure to recognise or respond appropriately to changes in consumer behaviour, market conditions or opportunities has often spelled disaster for food retailers in markets around the world.

Successful companies appear to consistently and accurately anticipate or create new market trends, while those less successful either fail to react to market conditions or make the wrong choices.

It is easy to point out retrospectively where these right or wrong decisions were made. It is more

difficult to be able to understand if an impending Inflection Point is at hand. And, even more critically, to have the necessary skill sets to predict those potential Inflection Points and to respond quickly and appropriately.

This study seeks to help retailers answer the critical questions that will impact their long-term success:

- **Are there ways that companies can better anticipate and react to market changes?**
- **What capabilities will a company need to succeed and to respond to future Inflection Points?**
- **What are the current sign posts that retailers should be aware of, to be properly prepared for in the future?**

II. Inflection Point - Defined

For the purposes of this study, we define an Inflection Point as follows:

AN INFLECTION POINT IS A FORMATIVE OCCURRENCE - THE RESULT OF A CONSIDERED RETAILER RESPONSE TO CONDITIONS THAT CURRENTLY EXIST WITHIN A MARKET. AN INFLECTION POINT RESULTS IN A PERMANENT SHIFT IN THE COMPETITIVE SITUATION.

For retailers, an Inflection Point is best defined in customer terms:

Changes at a market-wide level that significantly influence the overall competitive structure.

In simple terms, retailers have two options in responding to changes in market conditions:

- **They can consciously choose to create their own futures, in effect creating their own Inflection Points. These retailers are leading change, creating an Inflection Point based on their own responses to market conditions.**
- **Or, they can choose to respond to the changes in the marketplace created by others. It is often the reaction to change (not the initial change itself) that has the greatest impact on defining the Inflection Point.**

Depending on the size, niche, resources and skills of a particular retailer, either response might be appropriate. The key is being in a position to quickly evaluate the market situation and develop the appropriate response for the organisation.

III. Major Inflection Points during the Past Decade

Inflection Points in retail markets are often the result of a confluence of factors - what we will call "disruptors" and "accelerators" - that are then acted upon by a retailer. The root causes of these Inflection Points can be grouped into four distinct areas:

1. Competitive - a response to competitive developments in the marketplace. e.g. a new format from an existing retailer or a new format from a new retailer.

2. Consumer - a response to accelerating changes in consumer demand or shopper expectations.

3. Internal - action taken due to a need to change direction and strategy. While these decisions may be based on market insights, the action ultimately comes as a result of changes in the internal corporate structure.

4. External - a response to issues outside the area of direct relationships with consumers and shoppers. e.g. changes in government regulation or a significant external event. There are common capabilities that companies need to cultivate to help understand, react to and implement change in the face of significant Accelerators and Disruptors.

IV. Capabilities: Creating Evolved Skill Sets for Retailers

While all modern retailers need to master the fundamentals of running a successful business, the study indicates that there is a higher concentration of core capabilities present in exceptionally successful retailers. In the future, these capabilities will be even more important in preparing for marketplace changes.

THE KEY IS FOR COMPANIES TO BE ABLE TO FOSTER BOTH CONTINUOUS AND STEP-CHANGE INNOVATION WITHIN THEIR ORGANISATIONS. IN OTHER WORDS, COMPANIES MUST POSSESS THE ABILITY TO EFFECTIVELY RESPOND TO MARKET FORCES WHILE AT THE SAME TIME MANAGING THE SUCCESSFUL IMPLEMENTATION OF NEW INITIATIVES WHICH PROVIDE A COMPETITIVE ADVANTAGE.

The ability to develop innovation has three key components:

- **Scanner.** Retailers need to create a process to enable the identification of potential market Disruptors or Accelerators which could lead to an Inflection Point. This scanner enables a retailer to gain important information about market conditions, based on changes in the consumer, competitor and macro-economic forces.
- **Effective Filter.** They then need the ability to create and actively assess ideas that serve as responses to these changes. Inevitably, as potential responses are considered, this process will demand the ability to confront challenges, which may threaten the organisation's 'comfort zones'. Strong planning processes, strategic positioning and leadership are critical in helping the retailer make the proper decisions for the future.
- **Execution.** Ultimately, retailers must be able to determine the optimum responses for their business. But equally critical, is the ability to create systems that enable the speedy and successful implementation of those responses within the organisation.

The ability to make this innovation model succeed requires evolved skill-sets to harness consumer insights and develop talent, combined with rapid execution capabilities and strong leadership to set and reinforce key strategies.

V. Future Signposts

The signposts for future Inflection Points are already evident throughout Europe and North America. These signposts will continue to be driven by consumer changes, competitive dynamics, significant macro-economic events and internal change within companies.

The speed and degree of change will be influenced by a combination of Accelerators and Disruptors that will create the conditions for upcoming Inflection Points. Some retailers will create their own futures and their own Inflection Points, while others will be forced to react. As trends evolve, the following areas appear to be ripe for driving retail change over the next decade:

1. Age of Wellness. Explosion of Health and Wellness, resulting in significant shifts in product mix and sourcing

2. Format Frenzy. Proliferation of new formats, driven by fragmenting consumers and shopping occasions

3. Greentailers. Retailers as active agents of social and environmental change, driven by a sudden rise in international awareness of the effects of global warming and increased consumer and government anxiety and response

4. Micro-tailing. Mastering true consumer insights to tailor assortments at a local level

5. Branded Retail. Retailers as true brands, driving product development, unique assortments and differentiated marketing messages

6. Techno-change. Leveraging new technologies for greater efficiencies and to provide consumers with access to products in new and different ways



FUTURE SIGN POSTS

SUMMARY OF FINDINGS

Successful retailers will need to become masters of managing the innovation pipeline - building capabilities and processes to identify potential Accelerators and Disruptors and to test the implications of these for their market and their own business. The following is a recap of the critical findings of the study:

- 1. Build an effective innovation model for your organisation.** This model requires a scanner to monitor trends, a filter to process ideas and strong execution capabilities, combined with the ability to foster both continuous and step change innovation.
- 2. Develop critical capabilities within your organisation.** These include strong consumer insights, people development and leadership skills to determine and reinforce critical decisions.
- 3. Effectively respond to potential Signposts.** The study identified six macro trends that threaten to become imminent Inflection Points. Assess these trends for the likelihood of their occurrence in your market and whether you want to lead, or react.
- 4. Play to your strengths.** The appropriate response to change needs to be dictated by company size, market dynamics, niche vs mass positioning and a critical assessment of your company's core competencies.
- 5. Are you prepared for the future?** Conduct a critical self-analysis to understand where and how your organisation needs to evolve in the future.

Surviving future Inflection Points demands that retailers actively develop the appropriate capabilities to succeed in a future market that promises to be even more dynamic in the next decade.

INTRODUCTION



“HOW DID YOU GO BANKRUPT? GRADUALLY, THEN SUDDENLY”

Ernest Hemingway
The Sun Also Rises

This line from Hemingway's classic novel, *The Sun Also Rises*, serves as inspiration and a metaphor for this study.

Dramatic changes have occurred in food retailing, grabbing headlines around the world: major bankruptcies, large-scale acquisitions, significant divestitures, and new competition threaten to further alter the retail landscape.

As passionate industry observers, we marvel at the meteoric rise and spectacular successes of a Tesco, Mercadona or Lidl in the past decade. At the same time, we wonder what happened to Winn-Dixie, the giant North American supermarket retailer forced to declare bankruptcy, while operating in the very same geographies, its principal competitor Publix continued to grow and thrive. Why did Safeway U.K. or Promodes reach a point where it became prudent to sell their businesses rather than continue to compete? How did some of the seemingly invincible companies of the past decades (with massive capital and resources) begin to fall on hard times and struggle, while new upstarts captured the imagination (and wallets) of consumers?

If all of these companies are competing in the same market and watching the same trends, how do some companies succeed while others fail?

We speculate that the success and failure of the companies featured in these headlines is not the result of short term actions but rather the culmination of a series of decisions made over time. Successful companies appear to consistently and accurately



anticipate or create new market trends. Those less successful either fail to react to market conditions or make the wrong choices. These companies experienced lagging sales and profits over a long period of time – then suddenly made headlines as the financial consequences came to bear.

The concept of an Inflection Point suggests that there are critical points in the history of an industry or an individual company that signal permanent and enduring change. When a company faces an Inflection Point, its future might literally be at stake—the proper responses to these signs lead to sustained growth, while inappropriate reactions often lead to obsolescence.

It is easy to reflect back on the past and point out retrospectively where these right or wrong decisions were made. It is more difficult but also more informative for retailers today to be able to understand if an impending Inflection Point is at hand. And, even more critically, to have the necessary skill sets to predict those potential Inflection Points and respond quickly and appropriately.

This study seeks to help retailers answer the critical questions that will impact their long-term success:

- **How do companies forecast or recognise an impending Inflection Point?**
- **Are there ways that companies can better anticipate and react to market changes?**
- **What capabilities will a company need to succeed and to respond to future Inflection Points?**
- **What are the current signposts (key trends in the marketplace) that retailers should be aware of, to be properly prepared for in the future?**



INFLECTION POINT - DEFINED



A STRATEGIC **INFLECTION POINT** IS A TIME IN THE LIFE OF A BUSINESS WHEN ITS FUNDAMENTALS ARE ABOUT TO CHANGE. THEY ARE THE RESULT OF AN EVENT WHICH CHANGES THE WAY WE THINK OR ACT

Andrew S. Grove
ex-Chairman, Intel

Andy Grove, the founder and ex-Chairman of Intel is credited with popularising the concept of an Inflection Point and bringing the term into popular usage in the business world. While the term Inflection Point is often used (and perhaps over-used) in the modern business lexicon, what really signifies an Inflection Point as it relates to the retail business?

For the purposes of this study, we define an Inflection Point as follows:

AN INFLECTION POINT IS A FORMATIVE OCCURRENCE - THE RESULT OF A CONSIDERED RETAILER RESPONSE TO CONDITIONS THAT CURRENTLY EXIST WITHIN A MARKET. AN INFLECTION POINT RESULTS IN A PERMANENT SHIFT IN THE COMPETITIVE SITUATION.

For retailers, an Inflection Point is best defined in customer terms:

CHANGES AT A MARKET-WIDE LEVEL THAT SIGNIFICANTLY INFLUENCE THE OVERALL COMPETITIVE STRUCTURE.

Accelerators and Disruptors

As the study progressed, it was sometimes extraordinarily difficult to identify an exact point in time (i.e. the event that Andy Grove refers to) where the Inflection Point occurs. Rather, a series of conditions appear to exist in the market that leads to a retailer response and the subsequent creation of an Inflection Point.

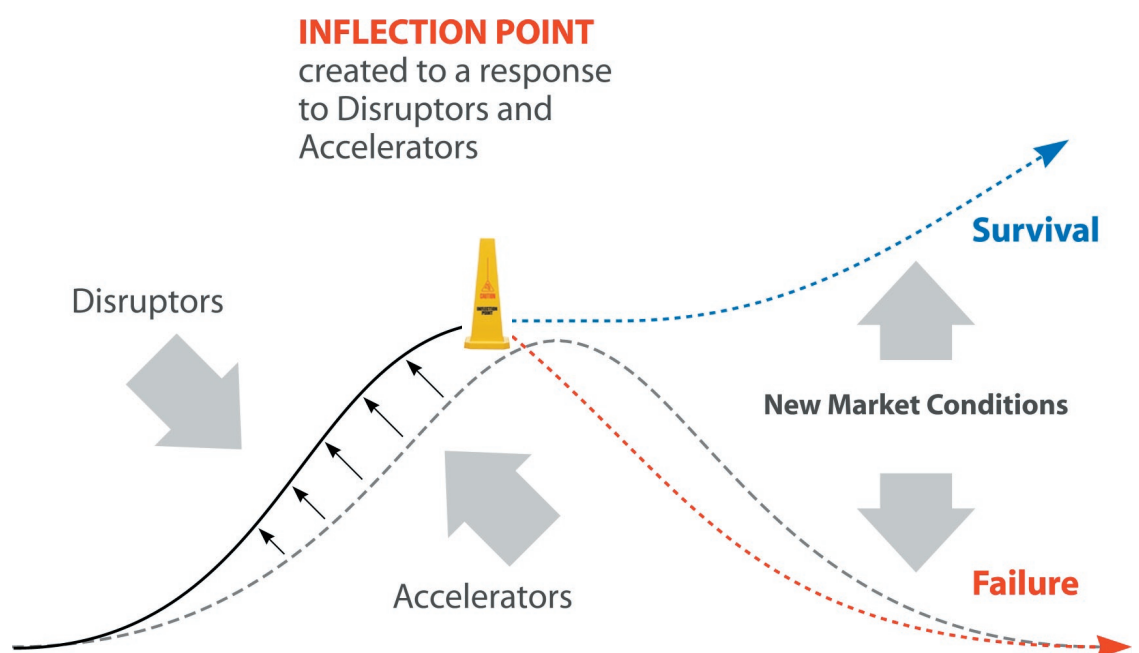
The concept of Accelerators and Disruptors was introduced to describe the notion of disruptive change in the marketplace. Retail is in a steady state of evolution, with literally thousands of decisions and changes made on a daily basis. Inflection Points represent those moments in time that upset the status quo and represent a significant and permanent shift in the market. Those changes are the result of companies' responses to Accelerators and Disruptors occurring in the market.

For example, consumer changes (e.g. aging demographics, smaller household sizes, increasing ethnicity) are often cited as Accelerators that invite retailer responses. It is those retailer responses (e.g. new convenience formats, development of the chilled ready meal market), that define the actual

Inflection Point. Similarly, the introduction of a new competitor or format to a market (e.g. arrival of Wal*Mart in the UK, hard discounters introduction into new markets) represents a Disruptor to the market, either due to the impact of that format itself or the competitive response to that retailer's entry.

The Inflection Point Model

The Inflection Point model is illustrated below. The market moves at a steady rate of change until a significant response is made to Accelerators or Disruptors occurring in the market.



A retailer responds to existing market conditions, causing an Inflection Point to occur and new market conditions to emerge. Some retailers respond innovatively and appropriately, gaining share; others either fail to react or have the wrong response and suffer reduced sales and share.

Create or React

“You can choose to be a victim or you can be an adult and innovate and go to market in new and compelling ways...”

In simple terms, retailers have two options in responding to Accelerators or Disruptors in the marketplace:

- **They can consciously choose to create their own futures, in effect creating their own Inflection Points. These retailers are leading change, creating an Inflection Point based on their own responses to market conditions.**
- **Or, they can choose to respond to the changes in the marketplace created by another company. As the interviews suggest, it is often the reaction to change (not the initial change itself) that has the greatest impact on defining the Inflection Point.**

Depending on the size, niche, resources and skills of a particular retailer, either response might be appropriate. The key is being in a position to quickly evaluate the market situation and develop the appropriate response for the organisation.

A look back at the volatile European retailing market over the past decade serves to illustrate the skills necessary to succeed in tomorrow's retail environment.

MAJOR INFLECTION POINTS DURING THE PAST DECADE

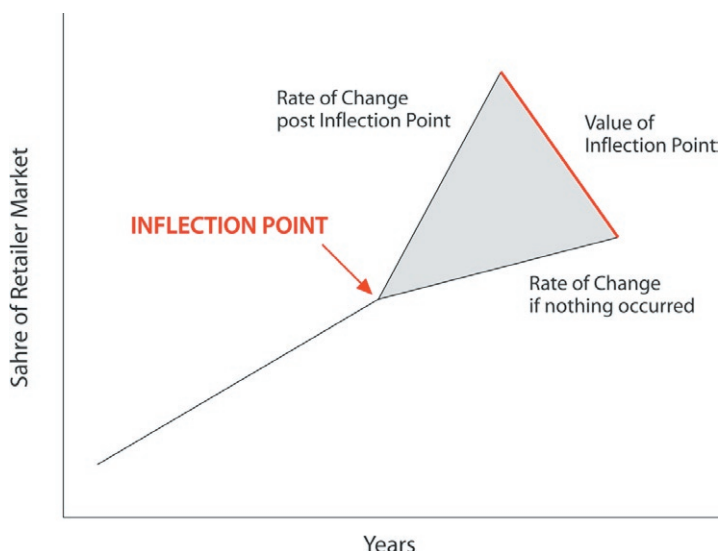


THE IMPACT OF AN **INFLECTION POINT** CAN BE MEASURED BY THE POSITIVE DEVIATION IN MARKET SHARE FROM AN HISTORICAL AVERAGE RATE OF GROWTH

Change is a constant. However, at various points in time in a consumer marketplace the actions of specific retailers create changes in the shopping behaviour of consumers resulting in significant shifts of market share. The impact of an Inflection Point, as illustrated below, can be measured by the positive deviation in market share from an historical average rate of growth.

Inflection Points in a retail marketplace, as we have discussed, are often the result of a confluence of factors (Disruptors and Accelerators) that are then acted upon by a retailer. The root causes of these Inflection Points can be grouped into four distinct areas:

- **Competitive** – Actions taken by a retailer in response to competitive developments in the marketplace. e.g. a new format from an existing retailer, or a new format from a new retailer.
- **Consumer** – Actions taken by a retailer in response to accelerating changes in consumer demand or shopper expectations.
- **Internal** – Actions taken by a retailer due to its need to change direction and strategy. While these decisions may be based on market insights, the action ultimately comes as a result of changes in the internal corporate structure.
- **External** – Actions taken by a retailer in response to issues outside the area of direct relationships with consumers and shoppers. e.g. changes in government regulation or a significant external event.



Substantial time was spent in understanding the key Inflection Points from the past decade. These proved informative in more precisely defining the nature of an Inflection Point and providing a critical bridge to defining the key capabilities required to survive future disruptions.

Swedish retail prices in general were higher than those found in continental Europe, reflecting the purchasing power of one of the world's wealthiest economies. At the same time, German food discount retailer Lidl was looking to expand into other potentially profitable European markets.

COMPETITIVE

Lidl's Entry into Sweden

As we have hypothesised, it is often the reaction of incumbent retailers to a new competitor entering a market that forms the basis of an Inflection Point rather than the new competitor itself. In Sweden, the German discount retailer Lidl's 2003 entry into the market provides an illustrative example.

Lidl's interest in the market was readily apparent to some of the existing chains. In August 2001, ICA, Sweden's largest retailer announced a new joint venture with the Dansk Supermarked group of Denmark to introduce the Netto soft discount concept. The Axfoods group, owner of the Willys discount concept, further accelerated its expansion ahead of Lidl's entry. The first Lidl store in Sweden finally opened in September 2003 in the county of Skane.

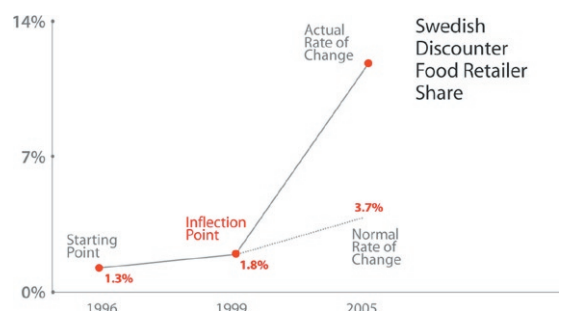
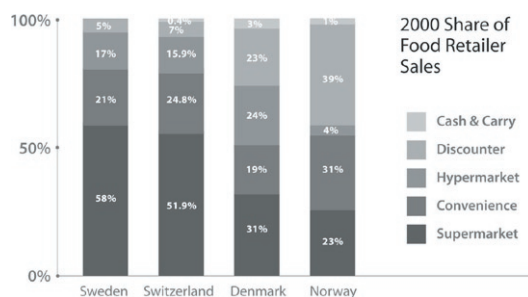
Accelerators and Disruptors

By 2000, the Swedish market had consolidated into an oligopoly of three large retailers. While the market remained competitive, it was notably free from the price-oriented promotional campaigns of neighbouring markets like Denmark. Furthermore, Swedish food retailing shares were highly concentrated into a smaller variety of store formats than those found in other wealthy European markets



THE INFLECTION POINT

Between 2000 and 2005 the discounters grew their share rapidly. It should be noted that discounters like Lidl and Netto have not enjoyed success without challenge in Sweden. Both chains continue to report operating losses, although sales in existing Lidl stores continue to improve.



COMPETITIVE

Although the growth of the discounters in Sweden has been dramatic, the incumbent supermarket brands remain the largest players in the market. They have not remained passive in responding to increasing discounter competition. In 2004 Sweden's largest supermarket and hypermarket retailer, ICA, launched its first ever nationwide price cutting campaign in its ICA branded stores. ICA reduced the prices of its top selling SKUs by an average of 5% during 2005 and has enjoyed excellent same store sales increases. The Axfood Group has begun to investigate changes in its property strategy after noting that its stores located next to Lidl outlets are performing better than those without direct discounter competition.

Learnings to Apply

The Swedish case is an interesting example of large incumbent retailers being aware and aggressively reacting to the impending entry of a new competitor. As the market has continued to evolve, the incumbent chains have focused on understanding how to respond within their core supermarket businesses. This has included altering their pricing policies, shifting private label assortment and diversifying their store portfolios.

Lidl's entry into Sweden was an Inflection Point for the market. The entry of a single company into the market not only resulted in shifting market shares. It also altered the marketing, assortment and organisational policies of the country's largest retailers.

CONSUMER

Growth of the Chilled Ready Meal Market

Great companies can generate consumer Inflection Points by creating new offers and products which meet growing needs. The development of the Chilled Ready Meal market in the United Kingdom is one of the greatest successes of the past decade among retailer-led Inflection Points. A category that did not exist 20 years ago is now used by 66% of UK consumers annually.

Accelerators and Disruptors

During the 1970's and 1980's family structures in the UK changed dramatically. As in other European markets, the opening up of the job market to women led to increased economic mobility and a radical shift in family structures. Birth rates and average family sizes began to decline. UK consumers were facing the following challenges at meal time:

- **Less time to cook due to increased working hours and responsibilities**
- **A declining knowledge of meal preparation due to the breakdown of traditional family structures**

Additionally, as air travel became more common and immigration increased, UK consumers began to experience a variety of cuisines never before imagined. From the once exotic Chicken Vindaloo to the Paella sampled on a vacation in Spain, the demand for a wider range of meal options was growing. New kitchen technology also played a role. The microwave oven made meal preparation easier than ever before.

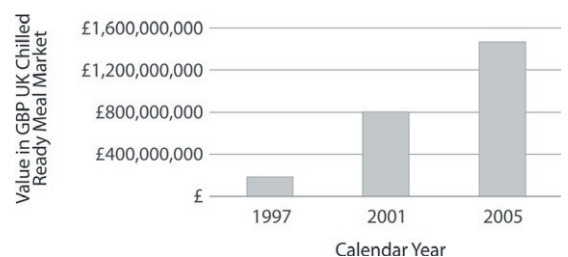
While all of these trends were clearly in evidence in the marketplace, it was a group of retailers, led by Marks & Spencer, who seized upon the opportunity presented by chilled ready meals.



THE INFLECTION POINT

During the 1980's Marks & Spencer (M&S) conducted consumer research which confirmed the trends supporting the demand for meals which were both more exotic and easier to prepare. Given the company's long history of advancing food technology, the culture and practices were in place to begin thinking about new ways to meet these needs.

The challenge for M&S was that there was no supply chain and manufacturing process in place to support this concept. Due to short shelf lives, (especially when compared to frozen meals), the entire chilled ready meal concept required rapid deliveries. In addition, the displays of these products were best served by a new range of open chillers. Finally, as Marks & Spencer executives embarked on this experiment, they had to ensure that the final product



CONSUMER

could be delivered at requisite M&S quality.

M&S took the decision to move ahead, working with a group of core suppliers who understood the potential and were willing to invest in the concept. The category quickly grew at M&S and as a new crop of suppliers emerged, all of the major UK multiples quickly moved into private label ready meals.

The explosion in demand for chilled ready meals changed the food market in the UK. From its introduction in 1983, growing to a market of less than GBP 200 million in 1997, by 2006 the UK market for chilled ready meals was estimated by Mintel to be worth GBP 1.57 billion. In 2006 nearly 66% of UK consumers purchased a chilled ready meal.

Learnings to Apply

M&S's success in the chilled ready meal market relied on a number of core capabilities. First and foremost, the company had a process for studying consumer needs and assessing the implications for their business. Secondly, M&S had knowledge of food production processes and technology. The company had a history of upstream production management in food going back to 1949. Thirdly, M&S was willing to support its suppliers by entering into multi-year understandings to build an entirely new supply chain.

Finally, a core group of M&S executives supported this decision. While there was no data available to validate the concept, the feeling was that the consumer data was overwhelming.



Major Inflection Points during the Past Decade

INTERNAL

Metro Group's Restructuring

Although internal change is a constant for most businesses, there are several examples from the past decade where it has led to the transformation of businesses. Companies that have decided to make radical changes to their business models, thereby creating their own Inflection Points, have been quite successful. One such example is Metro Group.

Accelerators and Disruptors

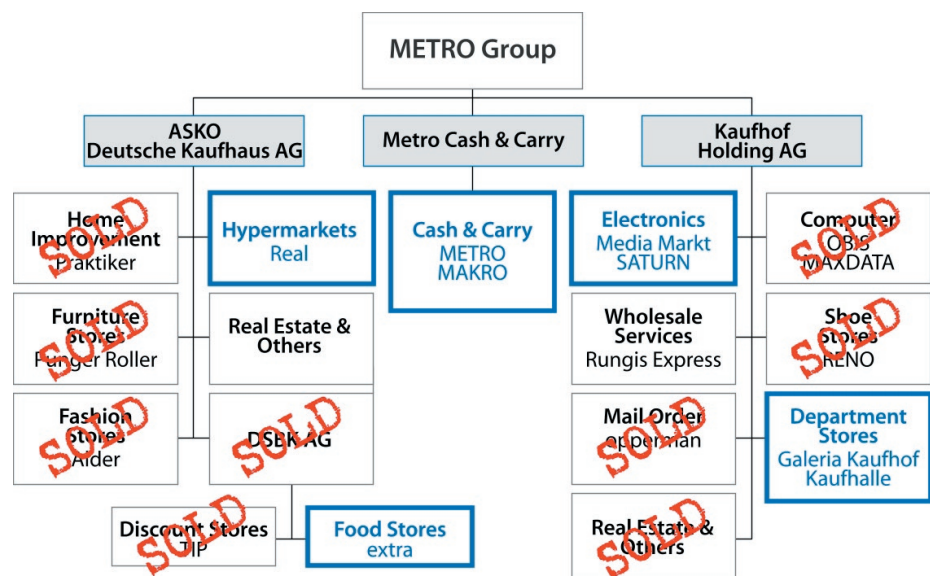
By 1995 the Metro Company was looking to grow at home and abroad. However, its ability to raise enough cash to keep up with its expansion plans was becoming a challenge. At the same time, two other holding companies which were related to Metro were also looking to reposition their businesses. In total, the three companies which were to form the Metro group had accumulated a large amount of debt. As private holdings, these companies were increasingly struggling to keep up with their funding needs.



THE INFLECTION POINT

Metro was floated on the market in July 1996. Consolidating three companies into one, while making the transition from a private to public company, had a substantial impact on the management of the business. The challenge was to create an organisation that was accountable to its shareholders, offered favourable returns and was transparent in its methods and performance.

The Economic Value Added (EVA) model was introduced in 1999 as a comprehensive tool to measure management performance. Metro's improving relationship with the financial community allowed the company to refinance its debt, undertake a series of complex financial transactions and expand the company's presence abroad.



INTERNAL

At the same time, the management took the bold step of radically scaling back its existing operations in Germany with the longer term view of rebuilding a more profitable path to growth. Over the following 3 years several companies were disposed of while Metro focused on a select group of businesses. Within these, they focused on productive locations, selective expansion and acquisitions. The end result was that Metro put more of its scale behind fewer brands and saw a significant increase in profits and market share in Germany, one of Europe's most difficult markets.

While the challenge for some of its businesses is far from over, a more aggressive financial management style, combined with a willingness to let go of legacy businesses, has put the company in a much stronger position.

Learnings to Apply

While each case of internal change is specific to an individual company, some lessons can be taken from the Metro example. In this case there was a basic recognition of the mounting financial issues that were restraining their ability to grow. However, it is the capabilities required to manage change that are the most important:

- **A willingness to change internal measurement systems to balance growth objectives with the need to satisfy a new group of financial shareholders**
- **A willingness to refocus the company on acquiring businesses which would deliver a balance of growth and returns in the market – whatever previous efforts may have been undertaken**
- **A willingness to embark on mergers and allow newly acquired entities to help transform the culture of the business**

EXTERNAL

Impact of Regulations on the French Retail Market

The ever-changing landscape of government regulation presents challenges for all businesses. During the past 20 years, the French market has undergone more externally influenced Inflection Points than any other market in Europe.

Accelerators and Disruptors

From the mid-1960's until the mid-1990's, French hypermarkets combined a wide assortment with an aggressive pricing model to lure consumers away from the supermarkets and traditional food outlets. By 1996, more than 50% of all categories sold by food retailers went through the hypermarket channel.

In the early 1990's the success of the hypermarkets finally led to an alliance among political opponents. While the French government had consistently taken an interventionist stance in many economic sectors, it was now ready to intervene in the seemingly mundane world of grocery retailing. Two key laws were passed:

- **The Loi Raffarin** – This 1996 law prohibited the opening of new stores larger than 300 square metres. While it did not explicitly target hypermarkets by name, the law virtually brought an end to new hypermarket openings.
- **The Loi Galland** – Passed in 1997 this law eliminated below cost selling in France. While the exact definition of cost was somewhat murky, the law had the effect of eliminating significant

price differences between retailers and channels. Suddenly, the hypermarkets could no longer offer extremely low prices to offset the cost of a long distance shopping trip.



THE INFLECTION POINT

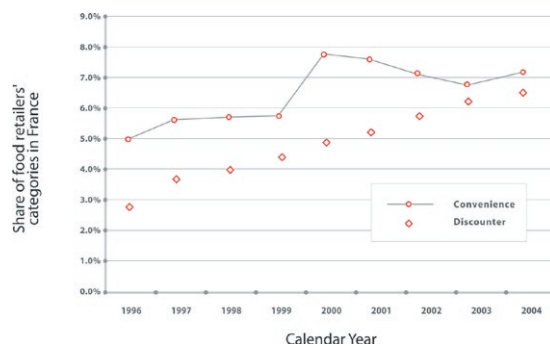
These actions served to stifle market share growth of the hypermarkets.



At the same time, convenience store retailers and hard discounters continued to expand. These formats had suddenly become the winners in the market. The discounters had the flexibility to open smaller sized formats and their reliance on private brands gave them flexibility around the pricing laws. With little price difference from the hypermarkets and fewer barriers to expansion, these formats became more attractive to consumers and more ubiquitous in the marketplace.

EXTERNAL

Eventually the leading hypermarket chains reacted. Traditional hypermarket companies like Carrefour, Auchan and Leclerc moved into a series of mergers and developed new formats that gave them

**Building Capabilities**

Although each example from the past focused on a unique market and a unique situation, we believe there are common capabilities that companies need to cultivate to help understand, react to and implement change in the face of significant Accelerators and Disruptors. The next section on capabilities enhances these thoughts.

continued growth despite the challenge to their core format. While this strategy was successful in terms of total growth, the critical challenge to the hypermarket format remained unresolved.

Learnings to Apply

Changes in macro-political and economic climate can create both challenges and opportunities. The ability to monitor these potential changes can create opportunity for the companies who react swiftly and effectively.

The regulations in France helped the rapid growth of hard discount and convenience formats, which were able to react to the new pricing and building laws with great agility. The major hypermarket players reacted with format innovation of their own, but lost market share in the short-term as a result.



**CAPABILITIES:
CREATING EVOLVED
SKILL SETS FOR
RETAILERS**

“...we don’t believe that a business can prosper on the narrow focus of ‘one size fits all’, and we don’t believe that one store format, one store offering, that’s not tailored to an individual market or ethnic pocket or geographic location, has the chance of **successfully connecting with customers in individual markets.**”

Successfully competing in the modern retail marketplace requires broad and increasingly complex skill sets. Where retailers were once able to effectively compete by being efficient distributors or effective operators, reaching the consumer today in an increasingly competitive market requires a deft combination of skills.

Not only must the modern mass-market retailer master the fundamentals of operational excellence, it must be equipped with deeper skills in areas such as marketing, product development, supply chain, systems and logistics. The ability to respond to the needs of specific customers in specific communities through tailoring its merchandising assortments, marketing offers or the format itself, leads retailers to acquire a specific set of competencies and to develop new types of skills.

In the interviews with leading retail executives, the discussion on capabilities focused on developing a different type of thinking within their organisations. While the need to be cost effective and ruthlessly efficient is consistently stressed, historically it was viewed more as a cost of entry than the source of differentiation itself.

Rather, the interviewees stressed a higher level of core capabilities that will ultimately enable retailers to focus on the key competitive differentiation: the ability to foster continuous and step-change innovation.

This report consciously chooses to focus on these high level capabilities as the keys to long-term retailer success and in a retailer's ability to create or withstand future Inflection Points.

The picture that eventually developed is consistent with a broader model of innovation that drives leading business practice today. Yet, as was often pointed out, retailers face unique challenges: the transparency of business strategy (i.e. ideas are on display continuously) and the huge number of employees and consumer touch-points (millions of transactions and interactions daily) require a greater emphasis on skills than other types of business.

- **Phase 1: Scanner.** Retailers must be able to successfully understand the various Disruptors and Accelerators in the marketplace. This scanner enables retailers to gather pertinent information about key changes occurring in the market.

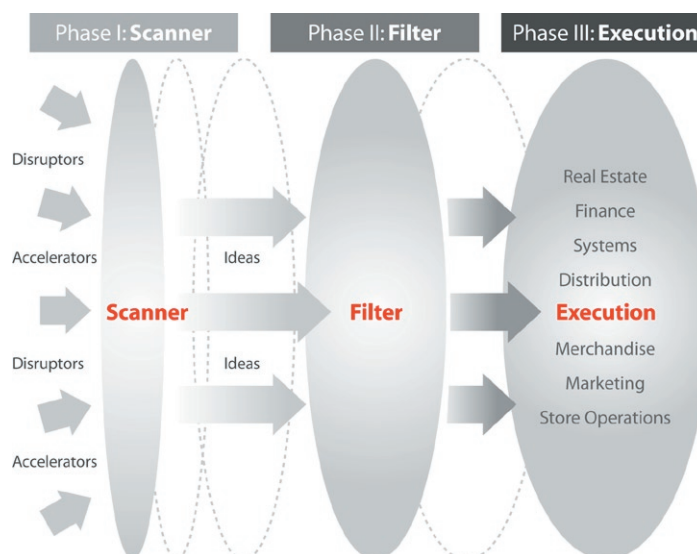
- **Phase 2: Effective Filter.** They then need the ability to create and actively assess the potential ideas that serve as responses to the changes in the market. This filter must be developed with sensitivity to the company's unique circumstances and its competitive position in the marketplace. Strong leadership and planning is essential if companies are to filter their ideas effectively.

- **Phase 3: Execution.** Ultimately, retailers must be able to determine the optimum responses and have the mechanisms in place to quickly and successfully implement those responses within their organisations. This requires broad skill sets in effective execution.

INNOVATION MODEL

The Innovation Model

The Innovation Model depicts a flow from the interpretation of Disruptors and Accelerators, to the dissemination of ideas through to execution:



Successful companies have the unique ability to deliver effectively in all of these critical areas. Less successful companies ultimately have a deficiency in one or more of these aspects.

What are the core capabilities involved in each phase and how are these capabilities changing over time? The interview process revealed that the skills in each phase are also evolving. More often, it is the subtleties in each area that define true capability.

PHASE 1

Building an Effective Scanner

While it is true (or at least so it seems with hindsight) that many of the major trends were easy to predict, some companies clearly exhibited greater skills than others in reading and reacting to those trends. It was apparent that those with an effective and sensitive scanner have an advantage over the competition with respect to understanding the impact of key Accelerators or Disruptors existing in the marketplace.

Intense customer focus, awareness of the competition and of the external environment are three key attributes of an effective scanner.

Intense Customer Focus

Almost every company says they are customer focused. Every company claims to listen to their customers. How, then, do you build customer insights into an organisation, thereby creating a true a 'learning organisation'?

Part of the challenge lies in having the right tools.

Advanced companies have multiple mechanisms in place to listen to their customers and to encourage feedback, ranging from active tracking studies to qualitative mechanisms. Further, several companies have achieved a distinct advantage by mining customer data, gathered from shopper loyalty cards or the active management of databases.

Still, it would be easy to simply go through the motions of listening to the customer without making the customer central to all decision making. As one executive from a company that struggled through the 90's explained:

"We had had supremacy for many years, but we hadn't kept pace with changing consumer demand...I think we were all sort of hoping we would wake up tomorrow and the customers would have come to reasoning and realise the error of their ways...we hadn't really properly established why our customers were doing what they were"

Contrast this statement with one from that retailer's chief competitor at the time:

"To listen to our customers very carefully, and by listening to them we were able to grasp opportunities and make changes...ahead of our competitors...You've got to encourage complaints, encourage people to tell you what you don't want to hear"

But, equally as important to listening, is the creation of mechanisms designed to respond to the information received. The same retailer goes on to say:

“...your ability to replicate something is much more about the soul of the business isn’t it? You’ve got to want to hear. You’ve got to work out what the right questions are.”

Companies are listening to the customer with increasing sophistication. They are integrating these insights into their businesses in order to create true “learning organisations” that use consumer, transactional and external data to create a foundation for sound decision making. This will be a key factor in determining a retailer’s scanner capabilities.

“We don’t have all the baseline data we need, but we’ve got to begin to integrate real-time consumer centric information into our decision-making”

Competitive Insights

In much the same manner, a healthy respect for the competition is a critical ingredient of a scanner. In Europe, over the last decade, the impact of hard discounters has been enormous.

“We were actually riding high thinking, well, no problem no problem.....but what had happened (and I think it would be about ‘92)... was the arrival of the limited line discounters”

Some retailers were fully prepared to make the appropriate response. Others lagged behind. Staying on top of competition requires active benchmarking in a market that moves very quickly. Not only must retailers pay attention to their own markets, they also need to be scanning the greater retail environment.

Active monitoring of competitor activity is a must. Frequent benchmarking exercises (within and outside home markets) provide retailers with competitive intelligence and new ideas on a timely basis. Participation in industry associations and attending key events and workshops help companies maintain an active scanner for competitive and industry insights.

Monitoring and Shaping Government Policy

Changes in regulations, restrictive growth policies and other government mandates can play a critical role in shaping the future. Many retailers take a passive role in policy making, simply waiting and responding to change.

Retailers with highly sensitive scanners actively monitor policy development or attempt to play an active role in shaping it. While this is by no means an end-all solution, it does enable retailers to exert a positive force.

“...everybody says nice things about the environment, but a very large number of people weren’t going to get out of the habit (of using free plastic bags) too easily. One of the actions we took was to influence government policy. We were the ones who said ‘oh yes it’s a shame but we’ve got to do it because it’s government policy...’ The tax on the plastic bags we negotiated with the government has been a huge success”

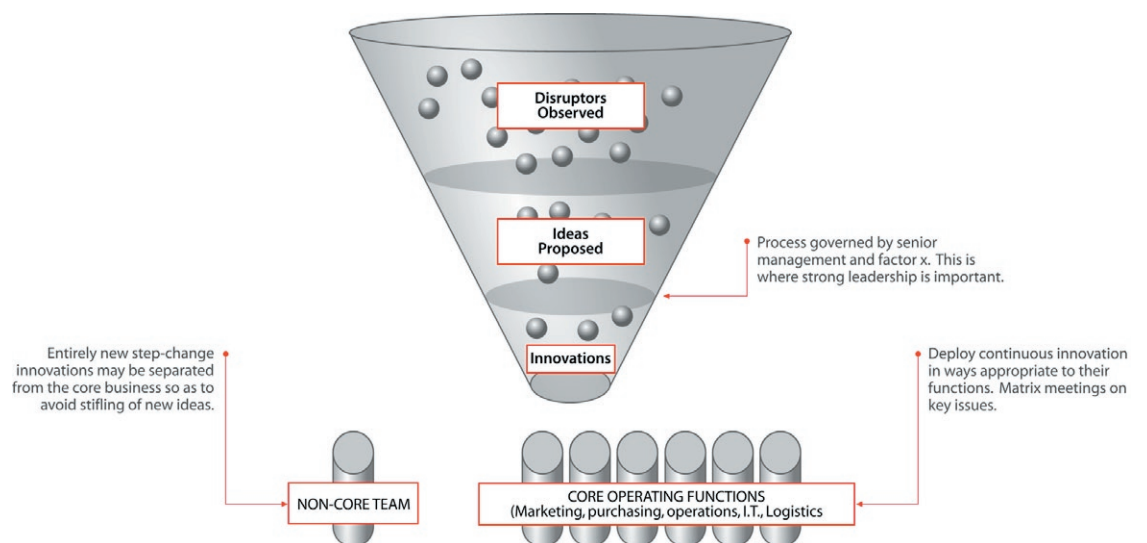
Understanding when to act, and what disruptors to listen to, requires retailers to develop highly tuned scanners.

PHASE 2

Creating an Effective Filter

“And that’s the genius of the business because we’ve got people who can take that data... which frankly everybody can get, and they can come up with highly innovative creative products just before the customer thought they wanted them. We call it staying half a step ahead, that’s the way we work, because if you’re two steps ahead then your timing is off...”

The scanner helps create a series of potential ideas that an organisation can then develop. The way organisations go through the filter process is the next key skill that a retailer must develop and the principal steps in this process are a reflection of the organisation’s true capabilities: its long term strategy, planning processes, strength and quality of its people and the nature of its leadership.



The concept deals with the mechanics of the filter: How do ideas progress through the system? It also highlights a critical difference between continuous innovation and step-change innovation.

Continuous innovation is processed through the core operating functions and is part and parcel of the rapidly changing nature of the retail business. e.g. changes to assortment, pricing, operating policies, advertising, etc, that are frequently made to keep up with the competitive demands of the business.

Successfully managing **step-change** innovation requires different skill sets within an organisation. Retailers, in particular, struggle with the concept of breakthrough innovation, particularly if the nature of the innovation requires radically different methods of operating.

Of note, a hard discount retailer points out the difficulty for conventional retailers in replicating the discount concept. This is illustrative of the practice of trying to compete using continuous versus step-change innovation:

"It's (discount retailing) a totally different way of doing retailing compared to a supermarket or for a hypermarket; it's totally different. That is also the reason why we divided (it off) from all (our) other organisations. We are not looking for synergies with our sister supermarket company ..."

In much the same manner, a retailer who has been highly successful in developing alternative formats warns about the traditional organisation's tendency to marginalise new ideas:

“When you look to do things differently, the expectation is that we’re going to do them very differently and then we’ll reel them in if we go too far. But let’s push on going too far. In order to do that, you’ve got to insulate it away from the base business, so that it doesn’t have this gravitational pull back to the base business.”

Building an innovation engine is going to be the core capability needed for retailers to survive future Inflection Points.

Creating an effective filter requires advanced skills in the following areas:

Long-term Strategy

Most companies have a defined vision of the business they are in. The key for many companies is having the determination to change or shift strategy when the situation demands:

- **When is the right time to develop a new format?**
- **When do you contemplate radical change to the merchandise mix or overhaul pricing strategy?**
- **When do you make the decision to enter a new country?**
- **How do you determine the appropriate time to adopt a new business model?**

- **How do you assess whether it is the right time to make a major acquisition?**

These seminal moments in changing or shifting strategy often become key internal Inflection Points for a company, as illustrated in the earlier Metro case study. It is the determination to change that shapes the ideas that go through the filter.

As one example, a leading European retailer made the decision to acquire stores outside of its core market and at the same time fundamentally changed its business model at home by adopting a wholesaler model in addition to running its own retail stores. With these two major shifts in business focus, they have re-engineered what defines the company. The common thread was looking to be both “bigger and better”, which was echoed in other interviews as well. This is emblematic of how to develop a long-term strategy, which might fundamentally shift the composition of the business:

“Basically the last 10 years, as a retail company... we have been looking at the best combination of becoming bigger and becoming better. There were times that maybe depending on how we were pushed by the market, pushed by the consumer, pushed by the financial market, pushed by the general management, that we were maybe more focused on becoming bigger and then other times on becoming better. I think we are now in a stage where we clearly understood that if you really want to become an important player as a group in the food retail business that you have to do both and find the right combination”

In many cases, there are simply too many trends and too many opportunities to pursue. Thus, it is critical for a company to triage ideas in order to determine the ones that are right for them:

“...one of the mistakes was that I listened only to our own customers. That’s sound market research, but the emphasis we missed. There’s a lovely quote in the Irish language that means ‘listen to the sound of the river if you want to catch a fish’. Now I take the case that it isn’t enough to say we listened, because a river is changing all the time... but unless you listen very carefully, you’re missing some of those. I think you also have to be greedy enough to say I want all of those customers, even though you may decide afterwards I can’t possibly look after all those customers.”

Having the right mechanisms in place to filter ideas is the next critical step. Depending on the type and nature of an organisation, that task can fall into multiple areas:

- In larger, more mass retail driven organisations, planning processes need to be put in place that allow multiple ideas to be sifted from many sources.

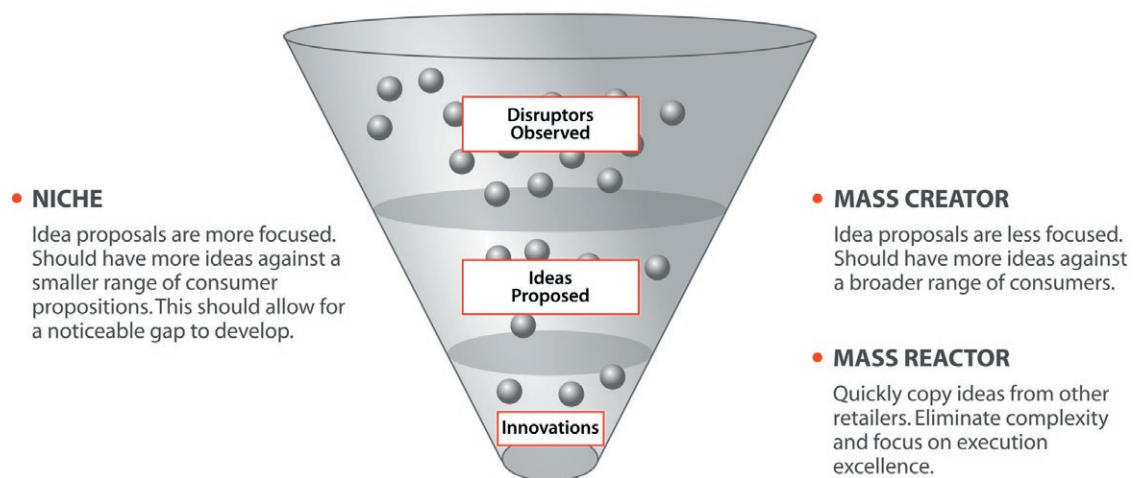
“We have a series of processes that unite us really, so we have what we call our customer plan which is the dozen big things we’re going to do for customers next year. Now they will be things that typically need cross-functional work to bring them to life...”

Organisations that have invested in developing a customer-centric culture that extends throughout its structure and workforce with clear and well understood goals will be better equipped to generate and filter ideas. The organisation must have the ability to learn from people at all levels within it. As one retailing giant put it:

“The key leaders in our company are the store managers. It’s almost 99% probability if you have a good store manager you have a good store, and I think we have some very good leadership in our company, but a company our size, it’s really all about the culture. Nobody can lead a company of this size at this point, nobody could, so it’s got to be embedded in the culture and it has to be reinforced every day”

- In a smaller, or more niche oriented retailer, the key is to focus intensely on a smaller group of core consumers. The filter should narrow ideas down to those most relevant to the customer target. Fewer ideas need to be evaluated against a mass population. Focus is essential given limited resources.

Niche vs. Mass Retail



The model of niche versus mass is illustrated above.

They have that crucial component, Factor X, which helps steer them in the right direction.

Visionary Leadership

Regardless of the size or type of company, leadership skills are absolutely critical to successfully navigating a retail business through Inflection Points. At some point, all of the information, facts and data available will not be enough. Difficult decisions need to be made and communicated with authority and consistency to the organisation.

Process will only go so far. Leaders help make and, perhaps more importantly, reinforce the key decisions that propel an organisation. This can be boiled down to gut instinct, great decision making or, to what one interviewee called, "Factor X".

Great companies who survive Inflection Points have the capacity to make better decisions, more often.

The characteristics of the successful nature of leadership have been the focus of many articles and books. We do not seek to repeat those learnings in this study. Rather, our focus is specifically on the unique concept of leadership in retailing and its demands – i.e. of running an intensely competitive, rapidly changing business with initiatives that are often transparent to competitors.

While there were differing opinions on what makes a successful retail leader, some common and very powerful thoughts did emerge.

Management Style

Some of the most successful retailers characterised the leadership styles in very much the same way, drawing almost identical analogies in defining expectations of the company. These expectations focus on an almost relentless campaign to avoid complacency and the trappings of success. Consider the insights from the following four retailers, whose organisations vary considerably in size, complexity and geographies:

"You've got to be constructive and you've got to be paranoid; you can't be paralysed, because paralysed is one stage away from being dead"

"Be on your toes. Don't be confident; be scared to go to work everyday. Create faster than they can steal. If it doesn't work, throw it out the window and start over"

"He is always restlessly dissatisfied. We just opened a store and most of his questions were around what would you have done differently? How could this store have been better? What will you do next time? And by being restlessly dissatisfied you don't get hung up in the status quo"

"...humility and pride are the top core values... the abilities of leveraging on best practice, being a proud learner and a humble teacher...and always putting the company's success first"

All of these retailers pointed out the critical need to act, not to settle and not to be complacent. These

are absolutely core values that need to be instilled in organisations and be drivers of the filter.

Management Types

There is certainly disagreement with regard to the type of management style needed to succeed. Some retailers likened it to a dictatorship—with clear authority being communicated and orders being followed. Others saw the process as more democratic, with ideas and leadership coming from within:

"Democracy doesn't work in retail. Successful retailers are militaristically organised and there are one, two, or three people at the top who say this is the format, this is the positioning, and this is how we do it."

"You know it's not benign. It's despotic...You've got to have a passion for bringing people a better idea, even if it's a bad idea the first time through. You're going to do 10 bad ideas for every whatever – 20 good ones right, but you've got to keep pushing and pushing it forward"

No matter what the leadership style, being able to stick with a strategy and ensure commitment and execution within an organisation is critical.

"I think most strategies don't fail because they are lousy strategies; most strategies fail because A) there's a lack of operational discipline, and B) the leadership doesn't have the courage to stick with it long enough to win"

What is clear is that leaders display “courage”, an unwavering conviction in the belief that the company is doing the right thing. Managing this message and communicating it to everyone in the organisation, is at the heart of the definition of good leadership.

The Visionary Leader

Finally, it became apparent in the course of the interviews that some organisations are simply blessed with great leaders. These leaders are literally shaping the vision of retailing today and in the future, not only for their own organisations, but for the industry as a whole.

“Having somebody visionary at the helm is absolutely key...it sets the expectations”

“He is playing his role as a very charismatic and inspirational leader...he happened to be there at the moment he was needed...it could have been a totally different picture”

Like any industry, retail has been blessed with its share of visionaries whose actions helped shape the business as we know it today. The distinction of this type of leader in retailing, as opposed to other types of businesses, is his or her unwavering focus on the consumer as the central concern.

For this reason, we believe long-term Inflection Points are ones that ultimately result in shifts in consumer loyalties. There is a great temptation to manage for short-term returns, but great danger as well:

“The great people in our business...none of them were profit maximisers...they were customer satisfaction, or customer service maximisers”

While the concept of a “Great Leader” is important, organisations cannot simply rely on one person. Companies must successfully manage transitions in leadership. Such a transition is potentially an Inflection Point in itself, a turning point for the organisation. In this example, a strong, visionary leader was replaced by an executive that lacked similar skills:

“he wasn’t an intuitive retailer and he wasn’t a communicator in the same way... so the whole question of strategy and communicating to the troops that this is the direction we’re going... became rather vulnerable.

Many companies in the next decade will be faced with critical leadership transitions and, as one retailer pointed out, the answer is not necessarily just about having visionary leaders, but it’s also about having consistent leadership:

“It’s not about the leaders per se; it’s about leadership and are you true to your beliefs? It’s really about being who you are and staying true to those beliefs every day”

After building an effective scanner and filter, it then comes down to execution.

PHASE 3

Execution

Marrying Higher Level Capabilities with Operational Excellence

The first two phases and their corresponding capabilities need to be integrated into an agile and highly effective retail organisation. Interestingly, discussions concerning navigating future Inflection Points tended to be strategic, not tactical in nature.

In no way does this discount the critical operational skills needed to be successful in retailing. Rather than reiterate these essential capabilities, the interviews probed more on which of the operational capabilities were likely to see the greatest degree of change in the future?

It was universally agreed that the fundamentals of successful retailing will require the following, at a minimum:

- Selling products at competitive prices in what promises to be an increasingly competitive marketplace

- Creating supply chain efficiencies with a relentless focus on streamlining the distribution process

- Fostering superb merchants and merchandisers who create compelling assortments for customers. Creating these assortments will require strong product development skills.

- Encouraging astute marketers to develop and communicate meaningful differentiation strategies

- Providing high levels of customer service, with motivated passionate associates

Strong multi-disciplined retailers ultimately have the ability to marry these capabilities with critical day-to-day operating functions. And, truly world class retailers excel in all of the critical areas outlined below.

OPERATIONAL EXCELLENCE

Real Estate

Finance

Systems

Distribution

Merchandise

Marketing

Store
Operations

More advanced skill-sets will grow out of the need for differentiation. Some examples:

- **Real Estate.** The ability to effectively manage a portfolio of real estate interests is already becoming a critical skill set in a number of European markets. On the one hand, there is the issue of the reconfiguration of existing properties in response to fragmenting shopping behaviours and changing consumer demands. On the other hand, changing market forces are affecting the acquisition of new sites and property construction. The reconfiguration of existing properties will also be a critical skill set as certain formats reach maturity.

“the classic real estate department has to change dramatically...companies are still thinking about things from the point of view of the store model and developer...rather than looking at their portfolio as a whole”

- **Merchandise.** Retailers are moving from being passive distributors of merchandise to active developers and creators of products and brands. The ability to manage new product development, nurture advanced merchandise capabilities, supply chain partnerships and creative capabilities will have a direct impact on managing future Inflection Points. These skills become even more critical as pressure grows and the ability to tailor assortments at a local level puts additional pressure on offering the “right” merchandise mix.

“Working with suppliers, we made some really bold future-looking investments in facilities. I worked in partnership with them which kind of ring-fenced our ability to not only develop the product, but to break new ground and create high quality food manufacturing”

“We don’t want to rely on branded manufacturers to bring us innovation—we look to find our own pockets of opportunity”

- **Marketing.** More investment dollars will go into marketing efforts in the future, with an emphasis on communicating differentiation. The notion of a retail brand resonates as an important future signpost, which will require new and enhanced capabilities for retailers.

“We really need to build a marketing competency within our company—we are behind here”

“We have to invest our money in branding...we are doing a good job here but have a ways to go”

“Branding is the competitive issue. And if you see the advertising budgets in the industry you’ll see it is growing in the direction of retailing”

Play to Strengths

The final step in the assessment process is for the retailer to know and understand its own capabilities. The directive to “play to your strengths” suggests that retailers must look for opportunities that exploit a skill set that’s already in place. Defining these key skills is a final filter in evaluating the right opportunities for the organisation.

People Powered Organisations

Core Capability, Future Inflection Point, or Both?

Perhaps the most hotly debated topic in the interview process was the role of people within a retail organisation. It goes without saying that an organisation is only as good as the people working in it. Nowhere is this truer than in retail, where millions of consumer touch points exist, where associates interact with consumers on a daily basis.

Having a great people-driven organisation is fundamental in retail. The ability to make the key attributes of the innovation model work is highly dependent upon the skills, resources and motivation within the organisation.

In interview after interview, the importance of people was constantly reinforced:

“Getting the people that you work with to believe in what you’re doing. The employees are still more important than the customers. If you can take care of them and get them to buy into what you’re doing, the customers will follow”

“We try not to select people who are the type of executives who have been chasing many companies and for whom our company is just another step in their career. We try to promote people from within our organisation and to try to educate them all the time and to motivate them by placing them together.”

“You don’t migrate practices, you migrate people”

The ability to attract talent is always a competitive issue and threatens to become an even bigger issue in the future. Retailers point out the many difficulties in recruiting, training and managing new people in the face of numerous challenges, from a shortage of talent, to ethnic issues and motivation.

“As far as the workforce is concerned, it could come to a breaking point. I mean for companies in the local market. We will have to very suddenly extend hiring into the foreign workforce. That means Africans, Asians or East European – Polish, Romanians, Bulgarians, which is a workforce that is physically there, but totally unprepared for the service level that we need and we are doing nothing to change that. The government is not anticipating...we are not anticipating, and it will come within 5 years.”

“Workforce challenges are big. We’re having – as are a lot of people – difficulty recruiting, retaining – particularly distribution centre workers – so we are looking at technologies that are less people dependent in our distribution

facilities. We're also looking at centralised production of fresh foods, so we can reduce the risk of a food safety in our stores..."

Can labour actually be an Inflection Point? Is it possible for companies to develop breakthrough strategies in workforce management that could provide a sustainable competitive advantage? Companies do believe that a motivated, superior workforce will be critical to executing operating in the future:

"We've got to find ways to attract...we can always attract employees, but I'm talking about spirited, enthusiastic, passionate employees, and I think we need to look at the business from a more distinctive way as a "foodie" would look at the business. We've got to get more of those people in the business because they are like magnets that attract people to the stores"

In the future, labour issues will be even more complex and challenging for food retailers. Importing people (on a seasonal or permanent basis) to work in tight labour markets; the development of flexible working benefits and supporting cause related initiatives (e.g., Whole Foods) or the development of subsidised worker housing (Tesco), may represent just the tip of the iceberg in the efforts that companies will go to in creating a superior work force.

People can and do make the difference.

FUTURE SIGNPOSTS



“The competition will get more intense. It will just get worse and worse. And there will be other big global companies emerging”

The retail business will become more complex and more vibrant than ever before. Competition will continue to grow, increasing the need for excellence. Global retailers will continue to emerge and trends will migrate across markets and across borders at an even faster pace.

The concept of “hyper-competition” suggests that the best practices from around the world will blend together across all European countries and will put extreme pressure on retailers to achieve even higher levels of excellence. Current best practices in format development, customer insight, supply chain and logistics capability will rapidly find their way into every market.

What does the future hold? One of the goals of this study is to identify the signposts that point to future disruptions. All of the retail experts we interviewed held strong opinions as to the likely future Inflection Points for their industry. Whilst not all of the six future signposts explored in this section were identified by all of our interviewees, the final shortlist consists of those around which there was either consensus, or which were discussed with great intensity by a significant number of our panel. Taking the interviewees as a ‘Delphic’ group, we believe the six future signposts outlined here herald changes in the marketplace which should be keeping all retailers awake at night.

Successful retailers must become masters of managing the Innovation Pipeline: building their capability in identifying Accelerators and Disruptors; correctly translating those trends into actionable ideas; then having the execution skills to rapidly deploy and implement them for their companies.



We can divide Accelerators and Disruptors into four broad areas:

- **Consumer Drivers.** Rapidly changing demographics and consumer behaviour leading to opportunities for retailers to adapt merchandise mix and formats.
- **Competitive Drivers.** Increased levels of competition continuing to force retailer response. New competitors will continue to emerge from both inside and outside the market as retail reaches a “hyper-competitive” state.
- **Internal Drivers.** Internal changes driven by management succession and visionary leadership setting new agendas and objectives for companies.
- **External Drivers.** External market factors, driven by new political and economic realities

Inflection Points are most likely to occur where we see drivers across different areas intensifying and combining. For the future signposts identified below, we have grouped the drivers as we see them into these four areas. Whilst not all drivers need be present to signal an impending Inflection Point, evidence suggests a greater likelihood of an occurrence when they are.

In the interview process, it became clear that there are two distinct issues involved in envisioning the future:

- **There are clear Accelerators and Disruptors that retailers are actively dealing with today.** These include drivers such as the increasing importance of health and wellness and the burgeoning science of consumer behaviour used to tailor stores and offers more specifically to unique consumers.
- **There are unknown forces that are unpredictable but need to be factored into long-term planning.** From the possible outbreak of a pandemic to game changing technologies, it is critical for companies to carefully monitor and anticipate future disruptions and to factor them into strategic plans.

A Provocative Look at the Future

Built on the comments from the retailer interviewees, and supplemented with our understanding of trends and market dynamics, this study has identified six mega signposts that will likely lead to future Inflection Points—radical responses by retailers that will change the market.

Key Signposts

- **Age of Wellness.** Explosion of interest in Health and Wellness, resulting in significant shifts in product mix and sourcing
- **Format Frenzy.** Proliferation of new formats, driven by fragmenting consumers and shopping occasions
- **Greentailers.** Retailers as active agents of social and environmental change, driven by a sudden rise in international awareness of the effects of global warming and increased consumer and government anxiety and response
- **Micro-tailing.** Mastering true consumer insights to tailor assortments at a local level
- **Branded Retail.** Retailers as true brands, driving product development, unique assortments and differentiated marketing messages
- **Techno-change.** Leveraging new technologies for greater efficiencies and to provide access to products in new and different ways

For each signpost, we have identified the following:

- Key Accelerators and Disruptors influencing this trend
- Likely innovation implications—what will it mean?
- Capabilities cross-check. How does this signpost match against needed capabilities?



AGE OF WELLNESS

Prediction: An explosion of consumer interest in Health and Wellness issues, resulting in significant shifts in product mix, services and sourcing for retailers. Pushed to its extreme, we may see a world where every product has to be able to broadcast some sort of wellness benefit. The first retailers who figure out a way to integrate the larger concept of wellness into their business will turn the market to their advantage.

The Inflection Point will come when a retailer successfully analyses and exploits both attitudinal and behavioural (i.e. EPOS) data to engage consumers both emotionally and functionally across their whole offer. If one looks at innovations we are already seeing today - e.g. retailers incorporating doctors and dieticians into retail concepts to create healthy meal plans, in-store cooking classes - it is not a huge leap to imagine a world where retailers become the centre for healthcare, expanding beyond dispensers of products to offering comprehensive health services.

Support: This was the most frequently cited future signpost through the retailer interviews. Retailers are seeing an explosion of consumer interest that has grown faster than many anticipated.

"There does seem to be a long-standing trend of people eating differently, better, more concerned about health, wellness, product origin. We think those trends are going more mainstream and natural and organic and health and wellness certainly are a part of that. It's got a little ways to go yet to reach down further, but I think the trend line is there. I think

we're at an Inflection Point. I do think people are not only going to think more – even lower income people – about what they eat and how they eat, but I think also people are going to begin to think about the mental effects of foods that they eat. It affects your psychology, not just your physiology"

Evidence for Accelerators & Disruptors—Age of Wellness

This trend has ample support among each of the key quadrants of Accelerators and Disruptors, driven by the consumer, competition and growing external influences:

COMPETITIVE

- Whole Foods entry in Europe
- Rapid competitor response and growth in wellness oriented ranges
- Supplier initiatives e.g. providing healthier options

CONSUMER TRENDS

- Aging Baby Boomers
- Consumer awareness of health trends
- Increased affluence
- 150 million adults and 15 million children in Europe alone predicted to be obese by 2010

INTERNAL

- Retailer activism
- Own range developments

EXTERNAL

- Governmental desire to curb costs of health care
- Media attention and scrutiny
- Food safety scares e.g. BSE, Salmonella, Mercury in salmon

What are the innovation implications?

In this instance, there is ample evidence of Accelerators and Disruptors suggesting a long-term trend. By definition however, an Inflection Point does not exist until significant marketplace shifts occur.

This requires innovation from retailers, whether it is in the form of an outside factor like Whole Foods or sweeping changes that constitute a retailer's response to the changes above.

"...peoples' growing interest and concern with things that provide them with a convenient healthier lifestyle. So whether organics will grow or not... balanced products, information, food integrity, respectful information – that's not a fad, that's a mega trend that will become pervasive as people get more informed and intelligent about obesity and child obesity and most importantly the impact of nutrition on children's learning capability"

Capabilities Needed

Retailers must confront these changes, and assess the best way their business can capitalise on this inescapable trend. It will have more impact in developed countries with higher levels of affluence than in less financially secure countries.

Strong skills in consumer insights, sourcing, and marketing (getting the message to the consumer and to the media) will be critical in turning this into a market changing Inflection Point.

FORMAT FRENZY

Prediction: An increasing number of formats will be developed and managed by retailers as a way to respond to the fragmentation of both consumers and shopping occasions in their core markets. One size no longer fits all. The impending 'death of the traditional hypermarket', as we know it today, will force retailers to venture into new formats and to discover new functions for their asset base. Retailers who wish to grow or maintain market share will have two basic segmentation schemes: 1) by format size and 2) by format purpose. The Inflection Point will come either when one retailer manages to perfect one format, effectively becoming a format 'killer', or manages to create a brand which seamlessly stretches from kiosk to super-centre to virtual store.

Support: While there is already evidence of this in Europe, it is also frequently mentioned in North America, and was cited in many interviews as a forerunner of new concepts. Retailers have frequently mentioned that single formats are not enough in the face of new market dynamics and an increasingly fragmented consumer base.

"I think you've got lower income people looking for solutions to a very stressed economic situation and at the same time you've got people looking at food as an experience"

"These smaller households have more money to spend and are more convenience oriented... That of course will have an impact especially on the big hypermarkets. The compact hypermarkets will be able to survive, but the big hypermarkets will have a hard time"

In a prior study done for the CRRCE, The Store of the Future, the nature of fragmented shopping trips was a critical factor in shaping future stores. The study highlighted how shopping trips have fragmented, and the nature and type of trip is also changing.

Shopping Mission Trends (2000)



Source: Coca Cola Research Council Europe / The Store of the Future / 2000

This chart, updated in 2005, reveals that the nature of shopping mission continues to evolve; the immediate trip is segmented even further than in prior years:

Shopping Mission Trends (2005)



Evidence for Accelerators and Disruptors— Format Frenzy

Consumer change appears to be a clear driver of the need for multiple formats. The Inflection Point, however, may come in response to new competitive formats entering the market that pose a significant threat to a retailer's core business. The introduction of hard discounters or hypermarkets into a market is often cited as a likely catalyst for this response:

COMPETITIVE

- North American innovation
- Successful segmentation models of competitors

CONSUMER TRENDS

- Urbanisation
- Higher income levels/More working women
- Time pressures - more things 'to do'
- Income polarization
- Fragmented shopping trips

INTERNAL

- Desire to grow market share in core markets
- Defensive measures to protect share

EXTERNAL

- Government regulations
- Restrictions on building
- Technology and globalisation changing the dynamics and benefits of 'scale', including at a format level

Innovation Implications—Format Frenzy

New types of hybrid formats will emerge that are combinations of existing formats in the marketplace. These combinations or re-combinations of businesses and categories will invigorate retailers who can develop and roll-out formats.

More than ever, merchandise mix will blend food, non-food, foodservice, services and e-commerce in increasingly inventive ways.

- Hypermarkets will be reinvented out of necessity in response to business conditions and changing demands
- Radical changes will occur as part of the mix
- Increased space will be devoted to foodservice and restaurants
- Non-foods will blend in-store and e-commerce capabilities
- New forms of discounting will emerge, blending elements of hard discount with in-store experiences
- Hybrid foodservice formats will be developed that focus exclusively on providing consumers with options for quick home meals, utilising own brands and combinations of in-store and external prep
- Convenience will continue to grow and reinvent itself, with specific formats built around specific convenience occasions
- Customer specific formats, targeting specific ethnic groups or consumer interests (wellness) will grow

Capabilities Needed

The ability to understand and respond to consumers requires advanced insight research, analysis and application. Developing and executing across multiple formats often demands the ability for a retailer to practice step-change innovation, with the capability of operating a format independently from the main business.

GREENTAILERS

Prediction: Some retailers will emerge as active agents of social and environmental change, taking a pro-active role in protecting the environment and leading the charge on accountability. All retailers will have to be able to prove their environmental and ethical credentials. Currently a point of differentiation and the license to charge a price premium, the demonstration of environmental/ethical behaviours along the whole supply chain will evolve to become a hygiene factor. The ethical standard will constantly shift, following the market leaders and consumer and media demands.

The Inflection Point(s) will come when business models can change based on demonstrable, commercial advantages from being green: a) cost advantage which allows for lower prices b) site approvals which allows for more space c) a measurable consumer advantage which does not cannibalise own sales

Support: Tesco's recent announcement to spend £1 billion on becoming a green retailer certainly underscores the emergence of this trend. In the meantime, there are more headlines and stories on conservation, sustainability and energy than ever before. As globalisation continues, the pressing need for energy conservation will become a more critical issue on the international agenda and will attract increasing consumer awareness.

Historically, the majority of consumers spoke to this trend but did not act upon it. It is now clear that the Accelerators are in place to cause a true Inflection

Point. Finally, it seems to make good business sense - not for selfless reasons but to drive down costs while simultaneously contributing to the greater good.

"It's going to be a big subject; it's going to affect businesses a lot, so things can happen to you with laws and carbon emissions and climate change bills and government regulation, tax and so on. Or you can get ahead of it and actually see if you can change your business model and actually benefit from it."

"And the fun part for us is it's profitable... we believe energy costs have nowhere to go but up over time and we're doing something about it today. We believe waste is going to be a major problem in this world and so we're doing something about that today – packaging size. We put in waste bayers in all our stores. We used to pay people to haul away our waste and now they pay us and we like that too. It brings that cost down again, so we're doing a lot of things in those areas – sustainability. But actually you can do it for the customer and it's the right thing for society and you can make money at it, because we can sit here and talk about society and what we want to do to change the world, and some people will appreciate that somewhat, so that's the business case."

Evidence for Accelerators and Disruptors— Greentailers

The potential for issues concerning the environment and social responsibility accelerating into an Inflection Point is being driven today by a combination of strong consumer and external trends.

As is always the case, however, key companies are responding to those trends, with internal strategies that are leaping ahead of the competition. This will necessitate a reaction, and the cycle will begin in earnest:

COMPETITIVE

- Early efforts by major retailers- Tesco, Wal*Mart
- Niche retailer examples- Starbucks, Whole Foods

CONSUMER TRENDS

- Growing awareness and strong voice through Internet
- Social responsibility grows as transparency grows

INTERNAL

- Visionary leadership
- Individual 'epiphanies' by leaders and/or associates
- Improved tools for sourcing, fair-trade and traceability

EXTERNAL

- 'Green' political parties become more active and climate change a key political party issue
- Government pressure for companies to look for cleaner energy sources
- Government intervention re energy efficient buildings - stores and warehouses

Innovation Implications--Greentailers

Greentailers will emerge developing a comprehensive package that addresses multiple components around social responsibility and the environment. These retailers, in close cooperation with suppliers, will lead in the following ways:

Greentailer components:

- Environmentally and energy efficient buildings
- Energy-conscious fleets
- Efficient methods for dealing with waste
- Eco-friendly packaging
- Products that are responsibly sourced, traceable to their source and demonstrate environmental responsibility
- Supply chain partnerships for collaborative demand planning that reduces waste in the system
- Sustainable products, potentially with exclusive distribution to create long-term advantages
- Associates who have high quality of life and permission to prioritise their own well-being
- Transparent policies concerning sourcing, labour relations and corporate policy

When looked at in combination, Greentailers will represent a radical change in every aspect of business policy, causing a massive Inflection Point.

Capabilities

Leadership will be critical in spearheading the charge. Companies must marry the capabilities of an active scanner for balancing consumer needs with business responsibility.



MICRO-TAILING

Prediction: Retailers will have the ability to customise the assortment and service proposition in their stores through the use of consumer insights, ultimately creating 'unique' stores for their customers: 'MyStore'. This will be achieved through the development of the right format to fit each community and the tailoring of the assortment in that format. Mastering and applying precise consumer insights on a localised basis will be essential in these executions.

Support:

It has long been the desire of large retailers to be able to effectively replicate the advantages of a local retailer: an intimate knowledge of the neighbourhood and customers enabling them to provide the appropriate mix and service. While many industry experts use buzzwords like CRM (customer relationship management), technology is finally catching up with the promises. Retailers must now put in place the systems and investments to make this a reality and create competitive advantage.

"...we've got to begin to integrate into our decision-making, real-time consumer centric information. And I think that's one of the things that we as a company can do, we as an industry can do, as we compete against the alternate format, is really build that marketing competency...frankly I think we're more in-tune to making things very local, very regional. We think food is very personal, very local...it's different than mass merchandise."

"We are looking for a systemised approach to improve our businesses and much more based on customer insight than before, so we invest a lot in customer data, customer knowledge and customer insight."

Evidence for Accelerators and Disruptors— Micro-tailing

The fragmenting consumer base is a powerful Accelerator behind the need for more tailored assortments by store. Responses to, and awareness of, competitor activity (and success) is causing other retailers to react.

COMPETITIVE

- Retail success stories
- Technology advances
- Hypercompetitive marketplace, need to differentiate and justify costs in terms of consumer energy and time investment

CONSUMER TRENDS

- Increasing complexity and proliferation of consumer segments, channels, and product categories

INTERNAL

- Retailers seeking to build up consumer relationships via community initiatives

EXTERNAL

- Technology evolution allowing individual identification (e.g. through mobile phones) as well as micro adjustments to supply chain and offer

Innovation Implications—Micro-tailing

Tailoring the stores precisely to the needs of the community can be accomplished in a variety of ways. Successful retailers will emerge who successfully combine the following skill-sets enabling them to reach consumers at a localised level:

- Development of an 'insights network', integrating data on attitudes and behaviour as well as transactions,
- Deep, and current understanding of the nature of consumer shopping occasions
- Innovation around needs of particular ethnic communities, and ranges tailored to meet them
- Greater autonomy for local management with regard to local community initiatives/product range
- Recalibrated supply chain to allow optimisation of local offerings

Capabilities

Consumer insights, technology and people development will be critical capabilities in making Micro-tailing an Inflection Point

BRANDED RETAIL

Prediction: Select retailers will be capable of elevating themselves to the status of true brands through unique assortments, differentiated marketing messages and an unmatched competitive position. They will effectively become a “market of one”, creating a sustainable competitive advantage.

Support: Marketing spending today is shifting from suppliers to retailers as retailers begin to spend more time and resources on marketing initiatives. Many retailers are coming to the realisation that differentiation can only be achieved through creating unique assortments and being able to powerfully communicate this positioning to their customers.

“We don’t want to rely on branded manufacturers to bring us innovation—we look to find our own pockets of opportunity.”

“Branding is the competitive issue. And if you see the advertising budgets in the industry, you’ll see it is growing in the direction of retailing.”

Evidence for Accelerators and Disruptors— Branded Retail

As is often the case in marketing, the need to become “branded” is driven by internal and competitive accelerators. The consumer is not actively seeking out retailers who have become brands—it is the drive of companies to simultaneously increase differentiation and profitability.

COMPETITIVE

- Consolidation on the part of retailers and suppliers
- Success of highly differentiated retailers

CONSUMER TRENDS

- More sophisticated and savvy about marketing: often more sceptical, but also more willing to ‘collude’ with brands which they allow into their portfolio

INTERNAL

- Retailers exercising more control of their environments and relationship with the consumer
- Desire for long-term differentiation

EXTERNAL

- Hyper competitive marketplace evolved to offer consumers a branded experience at every moment and in all spheres of life(style)
- Government ceding control to retail and suppliers (e.g. wellness, finance) allowing far greater space for brands to anchor and develop
- Development of and enhanced use of media and technology for branding touchpoints

Innovation Implications—Branded Retailers

Branded retailers will emerge having mastery in three critical areas:

- Creating compelling marketing messages to the consumer that effectively communicate brand differentiation. These messages speak in a unique voice that move retailers from commodity to branded messages
- A compelling in-store environment, with great displays and great people
- The development and deployment of proprietary products. This involves increasingly sophisticated use of controlled brands that provide retailers with greater leverage and differentiated offers. It also requires more sophisticated supply chain collaboration and partnerships where retailers take an active role in product development.

In order to accomplish this, retailers will rethink their core capabilities, integrating brand communication at every touchpoint. They will have clarity on brand essence – whether through focus on a single articulated niche, or a portfolio approach across product lines or formats.

They will utilise all forms of media and creative content, from out-of-store marketing to their own store environments. They will embrace new media and acknowledge its role.

Collaborative partnerships with manufacturers will become the norm to create meaningful differentiation.

Branded retailers will have a distinct soul, driven by corporate social responsibility elements that become central to the brand proposition.

Capabilities

A rethinking of the brand, and the development of strong external and internal branding programs. This requires advanced thinking in marketing, people development and an understanding of the consumer.



TECHNO-CHANGE

Prediction: Technology breakthroughs which allow relevant information transfer across platforms and systems along the supply chain right up into the consumer space will provide a sustainable competitive advantage for companies who back the right technologies and invest early. Technology breakthroughs will help substantially reduce the costs of doing business and provide consumers access to products in new and different ways.

Support: Interestingly, technology as a driver of a future Inflection Point was only mentioned by a few retailers. But, the retailers who did cite this as a key disruptor also happened to be among the largest and most influential in the world. The history of technological change indicates that new technology typically has a long gestation period, followed by periods of enormous change.

Whether it is RFID and data synchronisation, self-checkout systems, or home shopping and delivery, it is likely that we will see the rapid adoption and use of technology become a driver of an Inflection Point. As one retailer astutely pointed out, "I will use technology to understand what customers want, but it's not technology that will solve my problem...it's just a tool. But, this tool will help retailer's manage labour issues, reduce out-of-stocks, and provide consumers new ways to access brands.

"People will do business with a brand of store, but they'll do business with multiple aspects of that brand of store. One week they might go to the store in a traditional way, they've got a dinner party they want to go see what they want to buy. Next week might be busy; they'll have it delivered, and maybe the week after that they'll be near the store and they'll pick it up, and I think that kind of variety – we're probably at some kind of an inflection point there but nobody has figured out the economics of making all that work yet, but they will."

"...we're the only ones getting better because it's out there and we decided to commit to it. So people will follow us but we may have five years of benefit before they even get in the game."

Evidence for Accelerators and Disruptors— Techno-Change

A new generation of consumers is growing up increasingly comfortable with the new technology which is likely to be behind this Inflection Point. Internet usage continues to increase and simultaneously e-commerce gains share, particularly in non-food categories.

At the same time, retailers face (what might become a chronic state of) shortage in labour and are actively seeking solutions that provide more efficiency. Finally, technology continues to come down in cost. We are looking at the perfect conditions for an Inflection Point.

COMPETITIVE

- Major retailers investing heavily in RFID and other data synchronisation and technology efforts

CONSUMER TRENDS

- Proliferation of technology ownership
- Increasing comfort with technology
- Increasing willingness to interact with some organisations on a purely digital basis

INTERNAL

- Labour shortages
- Need for more efficiencies

EXTERNAL

- Stakeholder and shareholder pressure to constantly streamline cost base and improve efficiency
- Availability of increasingly sophisticated and user-friendly technology
- Decreasing costs for technology

to help streamline the supply chain and significantly reduce out-of-stocks. At first glance, this seems to drive efficiency more than customer benefit. However, a significant improvement in in-stock conditions benefits the retailer through greater sales and higher customer satisfaction.

- Labour-savings and customer facing benefits. The perfection of self-checkouts can benefit retailers by replacing scarce labour and ease the customer through the buying process. Tied, potentially, to RFID, imagine the first retailer who can offer customers a checkout-less experience without any of the checkpoints that exist today?

- Customer insight technology to drive scientific merchandising, pricing and marketing decisions. Tied closely to many of the major signposts (branding, Micro-tailing), this technology will marry art and science together.

Innovation Implications - Techno-Change

Retailers will emerge leading in investing in forward-thinking technology. While technology will continue to play an active role in helping run and analyse businesses more efficiently, Inflection Point breakthroughs will result from necessity. These breakthroughs will have a critical customer-facing component and be forceful enough to drive market share gains:

Four potential areas for a significant breakthrough:

- The emergence of data synchronisation technology

- Home delivery. The final frontier of retailing requires integrating technology, supply chain and consumer acceptance. While many have tried to bring this technology to consumers, it has proven to be disappointing from a profitability standpoint. But with strong consumer demand and increasing technology, a leading retailer will figure this out and reap the benefits.

Capabilities

Having an effective filter will be absolutely critical: ensuring that the right decisions and choices are made combining strong systems capabilities, consumer insights and the ability to develop and market the ideas.



DIAGNOSTIC: ARE
YOU PREPARED FOR
THE FUTURE?

It is a shared belief that there is no perfect retail company and no one organisation that could respond positively to each of the questions below. But **better organisations will have more positive answers or plans in place to shore up perceived weaknesses.**

This diagnostic tool kit has been developed to help retailers assess where they stand from a capabilities point of view across the critical issues. To recap, successful retailers of the future must have the ability to drive both continuous and step-change innovation throughout their organisation in order to survive future Inflection Points.

It is a shared belief that there is no perfect retail company and no one organisation that could respond positively to each of the questions below. But better organisations will have more positive answers or plans in place to shore up perceived weaknesses.

Consumer Insights - Is the Customer at the centre of your decision making?

- ☐ 1. Are consumer insights a high priority for your company? Do you have processes in place to generate consumer insights, utilising a combination of both qualitative and quantitative measures?
- ☐ 2. Are consumer insights regularly considered and disseminated to all relevant departments of the company?
- ☐ 3. Do you have advanced data mining capabilities to understand the actions of specific customer groups within your stores?
- ☐ 4. Have you integrated information (consumer, transaction, industry) together to create a learning organisation?



Diagnostic: Are You Prepared for the Future?

- ☐ 5. Are there mechanisms present to act on the information received?

Competitive Insights – Do you look outside of your own backyard?

- ☐ 6. Does your company actively benchmark your competition?
- ☐ 7. Do you look outside the confines of your own market for important changes in the greater retail marketplace?
- ☐ 8. Do you look outside your own industry to understand broader consumer trends?
- ☐ 9. Are you an active member of industry associations, trade organisations and share groups designed to disseminate industry data and trends?

Governmental Policy and External Issues – Do you have an awareness of how policy and external issues affect your business?

- ☐ 10. Do you stay abreast of new governmental policies?
- ☐ 11. Does your company take an active role in helping shape policy?
- ☐ 12. Does your company have active contingency plans in place to respond to unforeseen external circumstances?

Filter Mechanism

- ☐ 13. Are marketplace changes thought about with regard to how they will impact your specific business?
- ☐ 14. Do you engage in perpetual change of your business strategy? Are you constantly changing the assortment, prices, operating policies, marketing etc. to keep up with competitive demands?
- ☐ 15. Are there mechanisms in place enabling the business to “sift” through the vast amounts of incoming information?

Vision and Strategy

- ☐ 16. Does the company have a clearly articulated vision and strategy?
- ☐ 17. Are the company's core values and beliefs understood and constantly reinforced?
- ☐ 18. Does the organisation engage in thoughtful long-term planning?

Leadership Skills

- ☐ 19. Do you have a strong leader or management team in place?

-
- | | |
|---|--|
| <input type="checkbox"/> 20. Is the organisation “hungry”, avoiding complacency? | <input type="checkbox"/> 31. Can you create compelling and differentiated in-store environments? |
| <input type="checkbox"/> 21. Are clear succession plans in place and career paths built for managers? | <input type="checkbox"/> 32. Do you have the ability to tailor assortments to specific customer groups? |
| <input type="checkbox"/> 22. Are decisions that are made communicated with authority and consistency to the entire organisation? Are decisions consistently reinforced? | <input type="checkbox"/> 33. Have you successfully developed new brands or formats within the organisation? |
| <input type="checkbox"/> 23. Does your company have a track record for making sound decisions? | <input type="checkbox"/> 34. Do you have strong product development and private branding capabilities within the organisation? |

People

- | | |
|--|--|
| <input type="checkbox"/> 24. Is your organisation filled with employees who are perpetually striving towards something better? | <input type="checkbox"/> 35. Are you engaging in advanced partnerships with key suppliers? |
| <input type="checkbox"/> 25. Do employees in the company have a clear understanding of the company’s goals and objectives? | <input type="checkbox"/> 36. Are you actively utilising new forms of marketing with your consumers? |
| <input type="checkbox"/> 26. Are your customer service employees motivated and passionate? | <input type="checkbox"/> 37. Do you actively spend money and resources around brand development? |
| <input type="checkbox"/> 27. Is your company cost effective and efficient enough to compete in the marketplace? | <input type="checkbox"/> 38. Do you have the ability to rapidly respond to changes within the marketplace? |
| <input type="checkbox"/> 28. Are you pricing competitively? | <input type="checkbox"/> 39. Are you participating in, or closely monitoring, potential technology disruptors? |
| <input type="checkbox"/> 29. Are distribution processes streamlined? | |
| <input type="checkbox"/> 30. Is the assortment compelling to your target audience? | |

FINAL THOUGHTS



While all modern retailers need to master the fundamentals of running a successful business, the key finding of the study was the evidence of a higher concentration of core capabilities present in exceptionally successful retailers.

Companies must be able to foster both **continuous and step-change innovation** within their organisations.

The following is a recap of the critical findings of the study:

- 1. Build an effective innovation model for your organisation that can accommodate continuous and step-change innovation.** This model requires an effective scanner to monitor trends, a filter to process ideas and strong execution capabilities.
- 2. Develop critical capabilities within your organisation.** These include strong consumer insights, people development and leadership skills to determine and reinforce critical decisions.
- 3. Effectively respond to potential Signposts.** The study identified six macro trends that threaten to become imminent Inflection Points. Assess these trends for the likelihood of their occurrence in your market and whether you want to lead, or react.
- 4. Play to your strengths.** The appropriate response to change needs to be dictated by company size, market dynamics, niche vs mass positioning and a critical assessment of your company's core competencies
- 5. Are you prepared for the future?** Conduct a critical self-analysis to understand where and how your organisation needs to evolve in the future.

Surviving future Inflection Points demands that retailers actively develop the appropriate capabilities to succeed in a future market that promises to be even more dynamic in the next decade.



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