THE COCA-COLA RETAILING RESEARCH COUNCILS

LEADERSHIP AND THE FUTURE OF RETAIL

Global Retail Summit,
Rio de Janeiro, August 2016

THE 2016 Coca-Cola
RETAILING RESEARCH COUNCILS
GLOBAL RETAIL SUMMIT

The first Coca-Cola Retailing Research Council was formed in 1978 in North America to help retailers address industry issues through organized discussion and commissioned research. Today, the Company sponsors six Councils throughout the world: North America, NACS North America, Europe, Asia Pacific, Latin America, and Eurasia, Middle East & Africa. Each Council is comprised of up to 20 retail leaders and non-voting Coca-Cola system executives.

Widely considered to be among the industry's most prestigious retail think tanks, the Coca-Cola Retailing Research Councils have published more than 60 proprietary studies on issues ranging from shopper insights and new market dynamics to technology, innovation and social media.

THIS PUBLICATION IS A COLLECTION OF PAPERS PRODUCED FROM PRESENTATIONS AT THE GLOBAL RETAIL SUMMIT, RIO DE JANEIRO, 2016.

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FOREWORD

MAKING THE DIFFERENCE

Muhtar Kent
Chairman and Chief Executive Officer
The Coca-Cola Company

> "THE BEST LEADERS IN THIS BUSINESS ARE THOSE WHO TRULY LEARN FROM MISTAKES"
>
> MUHTAR KENT

Retailing today is changing more rapidly than ever before, fueled by a potent mix of applied technology, product and distribution innovations, shifting consumer tastes and an increasingly mobile, hyper-connected world.

Retail competition, meanwhile, is intensifying. It is intensifying within what we might call the established retail community – and it is intensifying between that group of players and new competitors entering the marketplace, often with disruptive approaches and business models.

At the same time, the promise of retailing is strong and growing stronger as the world's population expands, the global middle class increases and urbanization accelerates.

In such an environment, retail leadership has never been more important. This is true at every level of retailing, from the boardroom to the stockroom. And it is true for all those who work with retailers.

Indeed, I believe that the only truly sustainable advantage in retailing today is leadership. And we all must do our part, as leaders and partners in this industry, to help each other grow and prosper with leadership that seizes the new opportunities and overcomes the challenges of our time.

Through the ages, retailers have always been well served when they and their partners maintain an acute and relentless focus on consumer needs. This is even truer now, as consumer tastes seem to shift more quickly than ever, moving in tandem with the unprecedented speed of web-based commerce, communication and social media.

Now more than ever, successful retailing demands leadership that's insatiably curious, committed to continuous learning, eager to strengthen internal and external relationships, and surrounded by good people enabled with the tools and freedom to make the best decisions.

The best leaders in this business are those who truly learn from mistakes, recover quickly and avoid making the same mistakes in the future.

For years, I've encouraged our people to remain 'constructively discontent'. We don't want to be discontent in a negative way – one that saps our energy and willingness to step out and lead. Instead, we need to remain committed to continuous improvement, without beating ourselves

> 'We can give our people a real and lasting edge by encouraging and empowering sensible risk-taking. After all, doing things the way we've always done them is a well-worn path to irrelevance'

up over yesterday's missed opportunity or becoming paralyzed by the potential for a future misstep.

Leading in this industry takes committed leaders at every level. And we can give our people a real and lasting edge by encouraging and empowering sensible risk-taking. After all, doing things the way we've always done them is a well-worn path to irrelevance.

In a rapidly changing retail environment, innovation becomes our competitive advantage. To harness it, we must find new and better ways to tap the creative genius of our people and our partners, whether in business, government or civil society.

People these days expect a lot of businesses and brands that they know, trust, love and advocate for. And we as consumer goods leaders have to step up and meet or exceed the public's rising expectations of us.

We should start with the foundational view that our businesses exist to create greater long-term sustainable value. For those of us who lead public companies, we must first create new value for our shareowners. But we can't stop there. We must also create more value for a host of other stakeholders too, including our business partners, employees, consumers and communities.

More and more of the people who rely on us and our businesses are making purchase decisions based, at least in part, on the broader value creation story we are writing every day.

Which brings me back to where I started: leadership. And it brings me to a set of questions I ask myself all the time: am I looking clearly at the world around us? Am I understanding the real contours of the consumer landscape? Am I giving our people the leadership and tools they need to help us keep the consumer at the heart of all we do?

I don't always have definitive answers to these questions. But I keep working on the answers, and I keep asking them of myself and those around me.

Make no mistake: the opportunities in retailing are vast and growing. They're growing for you as retailers and for us as providers of the goods, services and experiences you make available to the world.

In large measure, leadership will determine how far we are able to go in fulfilling the bright promise of retailing in this young and boisterous century.

> "PEOPLE THESE DAYS EXPECT A LOT OF BUSINESSES AND BRANDS THAT THEY KNOW, TRUST, LOVE AND ADVOCATE FOR"
>
> MUHTAR KENT

THE CHALLENGE OF CHANGE

Change means disruption, but also the chance to improve. Opening the Global Retail Summit, *James Quincey* considered the main issues confronting our industry

James Quincey
President and Chief Operating Officer, The Coca-Cola Company

> “THEY EXPECT ALL OF US TO STEP UP, BE HEARD AND MAKE A DIFFERENCE”
>
> JAMES QUINCEY

Brazil is an incredible backdrop for a discussion about leadership and the future of retail. This nation is in many ways a metaphor for a world in transition.

We see a large and growing youth population, rapid urbanization, massive adoption of mobile communication technologies, an increasingly powerful civil society and a middle class that has grown from 68 million in 2003 to more than 115 million today.

And with it all comes the social, economic and political volatility that so often accompanies rapid change.

All of these trends and changes, which are playing out in nations around the globe, have significant bearing on the world of retail. They challenge us as leaders and they challenge the businesses we lead.

Three areas in particular are influencing my own leadership style and, I believe, the leadership style of many others in our industry. They are: global youth culture, technology and the changing landscape of today's consumers.

Consider the great swath of youthful 18-to-30 year olds who are quickly taking over the world. This generation is moving to cities in record numbers. It's a generation that was born digital – and one that demands change from all of us.

This generation is nowhere more prevalent than in Brazil, where 18-to-30 year-olds, the so-called millennials, are now 35 million strong – about 18 percent of the total population.

By 2020, the global youth market will represent 75 percent of the available workforce and account for 70 percent of the world's spending power. Even in the more mature markets of the West, we are going to feel this youth bulge, and feel it profoundly. Indeed, at 70 million strong, America's millennial generation is the largest in US history.

This generation has already influenced two presidential elections, reshaped the nation's media and communications industries and dramatically reset expectations about work, career and family.

Today's youth care very much about the world around them. They are hopeful and optimistic. Unlike previous generations, they believe business and government can – and should – play a significant role in making the world a better place.

They expect all of us to step up, be heard and make a difference – especially the consumer goods and retail sectors.

They know our value chains reach into virtually every corner of the world. They know we have the resources, the influence and the skills to bring forth positive change. They're monitoring our every move. And they won't love our brands unless they respect and trust our companies.

Who we are is as important as, and in some cases more important than, what we produce.

THIS GENERATION OWN THE CONVERSATION

BRAND CONVERSATIONS **ARE NOW 24/7** BETWEEN BUSINESSES AND CONSUMERS

UP TO 70% OF THE WORLD'S SPENDING POWER IN 2020 WILL BE HELD BY MILLENNIALS

THEY ARE **CO-OWNERS** OF OUR BRANDS

THIS GENERATION HAS CHANGED GLOBAL EXPECTATIONS ABOUT WORK, CAREER AND FAMILY

THEY WON'T LOVE OUR BRANDS UNLESS THEY RESPECT AND TRUST OUR COMPANIES

'HAPPINESS' IS THE OVERRIDING OBJECTIVE

With brands, what used to be a one-way conversation is now a 24 hours a day, seven days a week conversation between businesses and consumers. Most of these conversations are taking place in the palms of consumers' hands. Mobile phones now outnumber the population of the world, with more than seven billion units activated.

The vast majority of today's books, DVDs, video games, electronics and computers are already purchased online. In the next decade, more and more clothing, office supplies, health and beauty products, footwear and home décor will be sold online.

Longer term, we are going to see a greater shift towards even more grocery and household products researched and purchased online.

But buying habits are only part of the story. The way we build brands is also changing in this digital and social age.

The implications for all of us are massive. We have to be more aware than ever of consumer experiences and ensure that these are in harmony with our brand strategies. As leaders we have to live in this youthful world; so do our businesses.

This next generation own the conversation. They own the channels. And they are co-owners of our brands.

We used to talk about things like brand loyalty. Today, in a world where consumers are bombarded by products and messaging, and trust in business is historically low, growth demands more than that.

We now need *brand* love – the kind of love we share with family and really good friends. The Greeks gave us that beautiful word *agape*. And it matters more than ever.

In this time of instant communication, we need consumers who are avid supporters – raging fans. We need them to be knowledgeable advocates. That kind of personal connection and affection is the true measure of advantage for successful brands.

Without question, all of today's research shows that the biggest overriding objective for young adults is one simple but powerful concept: happiness.

Not surprisingly, we've seen a huge proliferation in recent years of media and public attention given to the science of positive psychology. We see that some nations now even monitor Gross National Happiness.

What used to be the be all and end all – money and power – has been supplanted, at least to an extent, by love and friendship. I believe this has an important bearing on our brands and the way our brands engage and inspire people.

At Coca-Cola, an essential part of our consumer engagement strategy is to use our assets in innovative ways that allow our consumers to be an integral part of our storytelling and create their own stories.

What are the questions that keep us awake at night? For me, they are:

> “IN THIS TIME OF INSTANT COMMUNICATION, WE NEED CONSUMERS WHO ARE AVID SUPPORTERS – RAGING FANS”
>
> JAMES QUINCEY

> WE NOW NEED BRAND LOVE – THE KIND OF LOVE WE SHARE WITH FAMILY AND REALLY GOOD FRIENDS
>
> JAMES QUINCEY

- How will all this new technology change shopper behavior?
- When will we reach a true inflection point with e-commerce?
- Do we have the right marketing mix?
- Do we have the right beverages in the portfolio and in the pipeline?
- Are we spending enough on digital, social media, innovation and R&D?
- Do we have the right operating structure and the right people?
- Are we creating a culture that is enticing to millennials and the next wave of youth?

We have also shifted our business model to a more consumer-centric approach. Our consumers are telling us they are concerned about sugar and artificial ingredients. They are telling us they want more choice in beverages and in the serving sizes of those beverages.

We're taking these demands very seriously. In fact, we're moving away from volume to a more revenue- and transaction-based business model, one that offers a greater variety of package sizes, pricing and product mix.

In addition to more emphasis on smaller package sizes that consumers demand, we're also investing more in research and formulation around low-calorie, plant-based sweeteners like stevia.

It's about putting the consumer and retailer first in everything we do.

We all know change is never easy. And the amount of change we're seeing in our business has come with its share of disruption. That's inevitable.

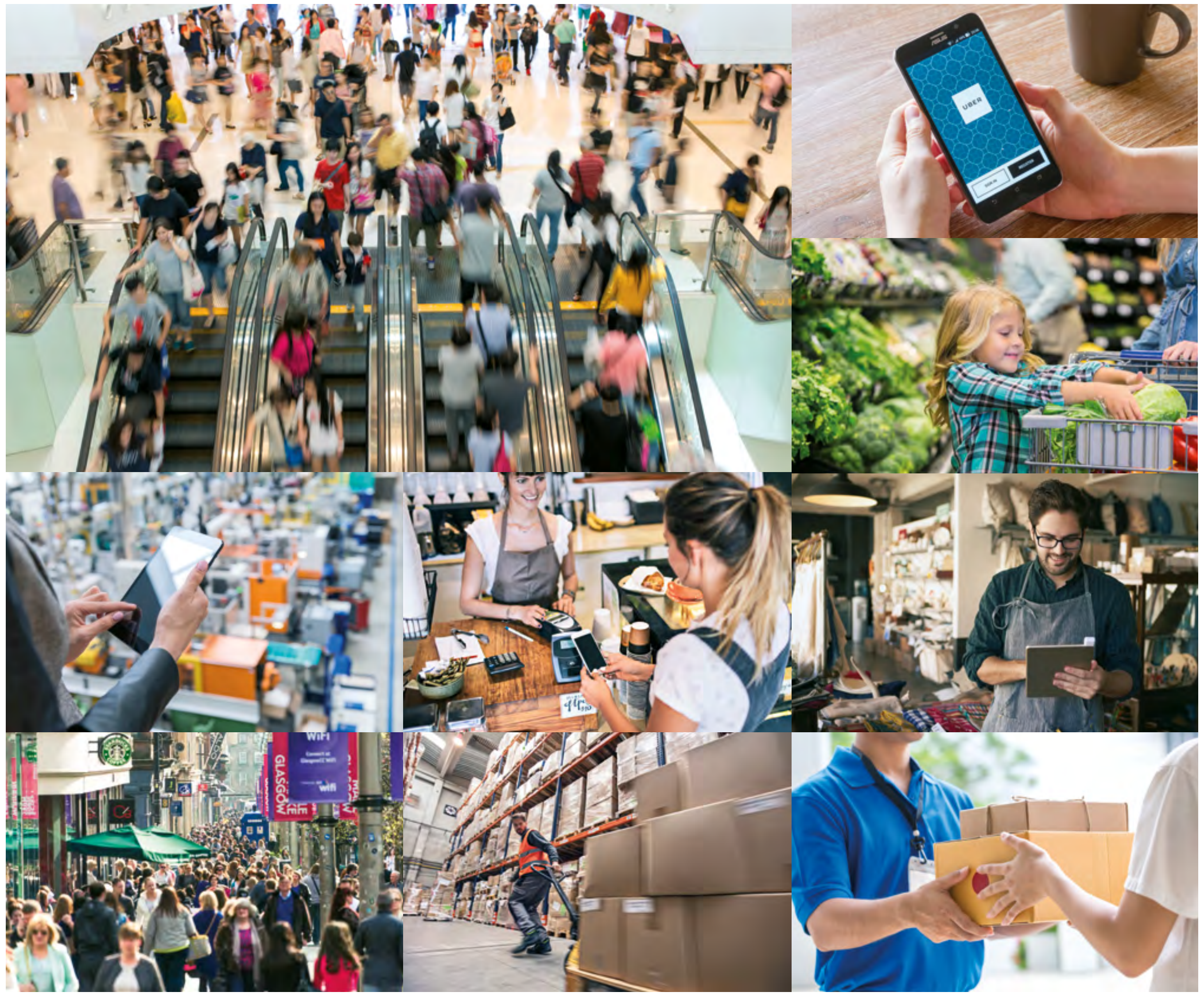
But we also know that if we're going to win in the marketplace with our consumers and retailers we have to create an internal environment for our employees that is fun, engaging, empowering and productive.

At Coca-Cola, we call this effort 'elevating the employee experience' – making our company the best possible place to work. We've made some good progress, but there is much work ahead of us.

Collectively, our companies touch more people and places every day than virtually any business in the world. And I am sure the same kinds of issues face us all – structural, marketing, business model and employee issues. We are all dealing with this complex consumer and retailing landscape.

But addressing these issues will require us to learn more, stay curious, and never stop trying to understand the changing trends that are shaping our world.

Below: There is a new complexity to the consumer and retailing landscape that we all need to address
Pictures: iStock



HOPE AMID THE TURMOIL

Everywhere we look, it seems, we see bad news – terrorism, civil war, economic stress, social breakdown, freedom under threat. But there's good reason for optimism too, insists *Condoleezza Rice*. This is a summary of her presentation

The 66th US Secretary of State and National Security Advisor, Dr Condoleezza Rice, is professor of political science at Stanford University and a senior fellow on public policy at the Hoover Institution

> MILLIONS WERE LIFTED OUT OF POVERTY AND PROSPERITY COVERED THE GLOBE
>
> CONDOLEEZZA RICE

We live in chaotic times. It sometimes feels not so much like one crisis after another as the breakdown of an entire system as we have come to know it.

That system grew out of the ruins of the Second World War, when the United States and its allies determined they would build a better system than the one they had inherited – one based on free markets and open economies.

Into this brave new world came an international monetary fund, re-establishing exchange rate stability, a world bank to help countries recovering from war, and a general agreement on tariffs and trade that wrote the rules for an open trading economy.

It succeeded brilliantly. Millions were lifted out of poverty and prosperity spread across the globe. Some parts such as the Soviet Union remained isolated from it, but it had tremendous pull – even China would become a major player in time.

Alongside free markets we saw free and peaceful peoples as democracy grew.

Now that system is under stress. From the day terrorists brought down the Twin Towers in New York the world began to worry more about terrorism. We live in a new security environment.

The economic shockwaves of 2008, which almost brought down the international financial system, are another worry. And as homes lost value and people became long-term unemployed, the relationship between citizens and their governments began to change.

People became more suspicious and con-

> “WHEN YOU THINK ABOUT IT, THERE IS A GREAT DEAL AVAILABLE TO US THAT WAS NOT AVAILABLE IN 1945”
>
> CONDOLEEZZA RICE

cerned about the loss of control to remote authorities. Brexit – Britain's decision to leave the EU – is a prime example.

The American election too is a story about identity; about a world that seems to be taking away from people the relationships that are closest to them – family, clan, tribe and nationality. As a result, we see governance crises as people and their governments try to realign in a world without borders.

Some people are comfortable moving around the world, speaking different languages and living and working anywhere they choose. They are a global elite. Many others, however, have been left behind by globalization and still cling to tribe and nation.

So, we live in a complicated world – one that is under challenge, with pressure to keep alive our open international economy.

However, we have some arrows in our quiver. We have opportunities. When you think about it, there is a great deal available to us that was not available in 1945.

Take energy. The North American energy platform, for instance, has changed the picture dramatically. Clean energy sources are being developed too, such as cellulosic ethanol in Brazil, and there is natural gas as well as oil throughout the region.

An expanding middle class across the world is something else that didn't exist at the end of the Second World War. With that growth comes demand not just for consumer goods but also for education and freedom. People's desire for control of their lives is a

Top left: Pre-war trading policies, protectionism and currency manipulation led directly to the Great Depression
Picture: Shutterstock

Left: The 'global family'... but how representative are they?
Picture: iStock

Top right: The impact of 9/11 has been far reaching
Picture: Andrew Lichtenstein/Getty Images

Right: Alternative energies form part of all our futures
Picture: iStock

fantastic force. Then there is innovation. In Silicon Valley somebody creates something every day to try to change the way we live. New technologies are emerging that will help to solve our problems.

How we use technology is important, though. We can, for example, use it to democratize education by enabling children in remote areas to receive the best teaching through online learning. If it is simply used to reinforce social stratification, however, more problems will follow.

There's one more element: human potential. In the 19th Century what you could dig out of the ground was the source of greatness. In the 20th Century it was industrialization. In the 21st Century it is creativity and innovation – human potential.

Those countries that are most aggressive at developing the potential of their people through good education for even the poorest and through openness to immigration will be the countries that most succeed.

The US has succeeded because 'we the people' was not an exclusive concept. It was not based on religion, class, nationality or ethnicity. You could rise from the lowest rung to become CEO of a great company. That is the model of citizenship that will change the way countries operate.

Ultimately, the things that are drawing people to clan or tribe will not last. Instead, people will be drawn to the open concept of bringing in the brightest and best. Together they will make the world a more peaceful and prosperous place.

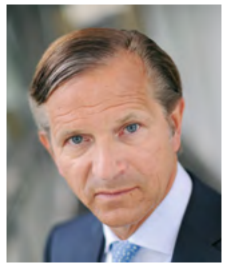
> “NEW TECHNOLOGIES ARE EMERGING THAT WILL HELP TO SOLVE OUR PROBLEMS”
>
> CONDOLEEZZA RICE

TOMORROW'S CONSUMERS TODAY

They're connected, they're powerful. And by 2030 they'll make up half of the global population. So any plans for the future of our businesses ought to start with today's teens and millennials, argues *Marc Bolland*

" WHEN WE LOOK AT TODAY'S TEENS WE SEE TRUE 'DIGITAL NATIVES' "

MARC BOLLAND



Marc Bolland began his career in the consumer goods industry with Heineken and is a former CEO of UK retailers Morrisons and Marks & Spencer. He is a board member of The Coca-Cola Company

You cannot talk about the future of retail without talking about the future of brands and consumers as well.

And when we think about our future consumers we must start with millennials, the generation born in the years up to and around the millennium. They are already powerful.

By 2030 they will account for some 25 percent (1.7 billion) of the world's population. And with teens numbering 1.8 billion and representing 26 percent globally, they are set to make up half of the world's population.

No cohort has been more closely examined than the millennials. Why? Because they're so different. Yet no one truly understands them – not even, I suspect, millennials themselves.

What we do know for sure is that technology is big in their lives. They're always connected. On average they spend around eight hours a day online.

What drives them? Coca-Cola research talks about a progression from the 'me generation' to the 'all about me' generation. Everything is more personalized. They seek to experience the world on their own terms – my needs, my place, my time, my way.

As retailers we always say that 90 percent availability is all right. To millennials it's not. They expect choice and options, and they want it immediately. There's no such thing as 'best available' in their language.

Studies show they regard their personal lives as important. They have high expectations of success and career achievement. I imagine most generations before them would have said they sought success and then also hoped to be happy. But I'm not sure I've come across a generation that puts personal happiness first.

Millennials also attach great importance to authenticity. They say they need to see it not only in people but also in companies. Be real, be pure, they insist.

When we look at today's teens we see true 'digital natives'. More even than millennials, teens have never known a world without digital technology. They don't celebrate it – they simply live and breathe it. Nor do they celebrate innovation in the way we do: it's just there, happening every day. It doesn't surprise them.

Given the centrality of digital technology in their lives, perhaps it should not surprise us then that an online identity is as important to teens as a real-life one.

A few more points to make about teens:

WHO WILL OUR SHOPPERS BE?

TEENS
10-19 YEARS

26%

1.8 BILLION OF GLOBAL POPULATION BY 2030

MILLENNIALS
19-32 YEARS

25%

1.7 BILLION OF GLOBAL POPULATION BY 2030

SOCIETY, CULTURE & VALUES

SHIFT TOWARDS URBAN LIVING

- True 'digital natives'
- Online self as important as real self
- Cautious in light of recession & terrorism
- Less judgmental on race, gender & preference
- Short attention spans
- Want more face to face contact

- 'All about me'
- 'My needs; my place; my time; my way'
- No such thing as 'best available'
- Personal happiness
- Success & career achievement important
- 'Be real, be pure'

LIFE TRAJECTORIES

TRADITIONAL LINEAR LIFESTYLE TRAJECTORY

LIVING WITH PARENTS → GET AN EDUCATION → START CAREER → GET MARRIED / BUY HOME → HAVE CHILDREN → CHILDREN LEAVE HOME → RETIRE → LIFE EXPECTANCY 74 YRS

POSSIBLE MILLENNIAL TRAJECTORIES

GET AN EDUCATION → START CAREER → BUY HOME → COHABIT WITH PARTNER

LIVING WITH PARENTS → MOVE IN WITH FRIENDS → TRAVEL ABROAD → GET MARRIED → HAVE CHILDREN → CHANGE CAREER → OLDER KIDS LEAVE HOME → RETIRE → LIFE EXPECTANCY 100 YRS??

MOVE BACK HOME → COHABIT WITH PARTNER → GO BACK TO EDUCATION → GET DIVORCED → FAMILY ADDITIONS

SELL HOME → LOOK FOR NEW HOME

first, research shows they suffer from what has become known as FOMO – fear of missing out. Second, they have short attention spans yet are prepared to 'dig deep' on subjects they care about.

They are more cautious too in some respects – cautious about the impact on their lives of external forces such as terrorism and recession, for instance, but also about digital security. In this respect, this means moving from mega-sites to smaller ones that are more secure and carefully curated.

Unlike millennials, teens are less judgmental, more serious and more interested in face-to-face contact, according to research. When we consider teens and millennials we also need to bear in mind differences in life trajectories.

I was probably 25 before I had a clear impression of what I wanted to be in life. At that age, my idea of someone who was 65 was of somebody old, bald and not leading a very active life. Indeed, life expectancy in those days was 74 in the western world.

At that time, a journey of 40 years between 25 and 65 probably saw one mid-life crisis, perhaps the break-up of a marriage, and maybe a short career break before the start of a second career.

Today young people are more profound about life at 18, or certainly 20, than I was at 25. Life expectancy is closer to 100, so that's a 'journey' of 80 years – time perhaps for two mid-life crises and three marriages.

How does all this relate to business? As we have seen, teens and millennials expect honesty from businesses and also a level of sustainability – and they will look online at our businesses to see whether they really are. Are we ready for that?

Looking ahead to 2030, what else do we need to consider? For retailers, greater flexibility and a lower asset base will undoubtedly be important. Will the generations we're discussing really want to walk through 70,000 sq ft stores?

If you listen to what they say, they want choice but they really want to be shown the best and they want 100 percent availability. They still want physical stores but they also want to get on and have fun. We know they are always connected too and so we will need technology-driven stores as well.

As employers we must also recognize that people want different career models. We know from our research that teens and millennials are not necessarily looking for a single career for life and in fact may not always wish to commit to one for more than about three years.

The final issue is brands. We know that teens and millennials love brands up to a point but are certainly less dedicated to them than we are and are far less loyal. So, if we wish to build our brands we have to understand what it is they look for most of all – honesty, quality and availability.

Above all, we need to remember that by 2030 today's teens and millennials will represent half of the world's population. Teens will be around 30 years old and millennials approaching their 40s. They will be our core customers with families of their own.

Best to start preparing for them now.

> "LIFE EXPECTANCY IS CLOSER TO 100, SO THAT'S A 'JOURNEY' OF 80 YEARS"
>
> MARC BOLLAND

Left: 'Always connected'
Picture: iStock

REAL-TIME RETAIL

PLATFORMS IN CHARGE?

Over the past century we've witnessed three main development phases in the retail world. Now, says *Dan O'Connor*, we're about to enter a fourth. Welcome to 'real-time retail'

Dan O'Connor is Founder and CEO of RetailNet Group, which advises major brands and retailers on market trends

Change is not necessarily what we would choose, but it is what we must lead. The speed and nature of change, and the importance of making clear choices, are on every industry executive's mind. Over time, powerful external forces – societal, technologic, economic and political – can drive an industry through significant growth and maturation cycles and pave the way for new business models at an accelerated pace. One good example of this was the movement from DVDs to streaming video. After 10 years or more of the first generation DVD rental model, operators such as Netflix had a very short time to move capital, people and capabilities to the next generation business model. Leadership teams had to straddle both old and new generations while delivering financial results, engaging consumers and re-tooling their technology, distribution and people. Spotting, understanding and managing the movement between these 'experience' or 'S curves' are perhaps *the* critical leadership capability in the future. Operating between these generations is a world of *and* not *or*. Each succeeding business model rarely substitutes immediately or entirely for its predecessor. It generally takes decades for the rotation to conclude. But the market-share gainers 'between the S curves' are almost always those who are well positioned for the future before it begins – especially those who can operate the preceding and next generation business model at the same time.

There are three very visible generations of retail across the world today and leading markets now are poised for the fourth.

Right: Mary Evans Pictures

Generation 1: Local trade, 'mom and pop' independent retail operators are well developed globally. Collectively these are highly fragmented, community based retail ecosystems that control about 50 percent of all retail. They compete through proximity, localization, credit, relationships and more. Brands and distributors play a critical role.

Generation 2 – the often labeled 'Wal-Mart' generation – created new economies by consolidating the fragmented local trade,

> "UNDERSTANDING AND MANAGING THE MOVEMENT BETWEEN THESE 'EXPERIENCE' OR 'S' CURVES ARE CRITICAL LEADERSHIP RESPONSIBILITIES"
>
> DAN O'CONNOR

TAKEAWAYS

The first moment of truth is no longer in the store and is migrating to large-scale marketplaces and intermediaries. For the first time we will see a world where the platforms are leading the consumer, brands and retailers.

Retailers, brands, marketplaces and intermediaries will all inter-connect in non-traditional roles to create new, non-linear value networks with completely new economics, consumer experience and tempos.

Each enterprise will have to decide how 'real time' they need to be.

creating and scaling new supply chains and leveraging lower costs to improve prices and market share. G2 retailers account for about 30 percent of all retail today.

Generation 3 saw the addition of online 'marketplaces' (eg Amazon and Alibaba) and 'digital intermediaries' such as Google and Facebook to the G2 value chain. These digital enterprises collectively came from outside the retail industry with no vested interest in the previous generation business models or incumbents and as a result are having a profound impact. As with previous generations these new digital players do not create new consumption; they are re-directing it. Driven by real-time data and analytics they compete with G1 and G2 for share of trips and spend through viewership, new demand generation techniques, delivery and more. Some 250 of these marketplaces exist worldwide, serving both B2B and B2C. They constantly add new capabilities to more deeply engage the consumer thereby raising 'switching costs'. The momentum globally today is towards G3 and represents about 20 percent of all retail.

All three retail generations are present in even the most developed markets today. However, shares are shifting and the time between generations is shortening dramatically, as is the movement from a 52 week planning approach to real-time interactions with consumers.

What's next? The world is rotating again towards the next generation, 'G4 retailing',

also known as 'real-time retail'.

Generation 4 is about reorganizing the industry value chain towards much more consolidated 'value networks' enabled by large scale digital platforms. These platforms are the by-product of today's consolidation and integration of the fragmented digital marketplaces, intermediaries and software enterprise operators. We expect that there will be below 100 and maybe as few as 25 of these large platforms by 2025 with which most consumers will engage. Few incumbent retailers will own one of these platforms. Therefore G4 will be about retailers and brands realigning their respective competencies while integrating their own and others' stores onto these large scale platforms. These platforms (and consumers) will continue to evolve with new technologies – robotics, digital bots/artificial intelligence, driverless delivery networks, 3D printing networks, advanced genetics (life sciences) and more.

While the evolution to G4 requires clarification it is clear that complex leadership questions arise. For example:

- **Future consumer:** What can I expect from my best customers? Where are the critical moments of influence? What matters most?
- **Market structure:** How and when will my market change? Which store types will win?
- **Value networks:** How will retailer move to become a platform based, technology company with stores (vs store based with some technology)? How will supply chains change? How will retailers 're-scale' what are now fragmenting (not consolidating) supply chains? How will local retail operators integrate, partner and align with specific marketplaces? Which retailers will ride on which of the digital platforms?
- **Managing between the inter-generational S curves:** How do we position between the generations? How do we bring our people along?
- **Control** – who is in control? In essence, G1 saw brands in control, G2 put retailers in control and G3 has consumers in control. With G4 it will be the platforms themselves in control as consumer switching costs and barriers to entry increase.

Pictures: iStock

THE TALKING POINTS

Summit delegates considered three questions

WHAT DOES THIS MEAN FOR OUR COMPANIES?

Traditional retailers, still representing some 50 percent of the industry worldwide, are likely to be closer to their communities and consumers and should make more of those ties. Recognize that the G3 marketplaces are generally less well placed to supply fresh and temperature controlled goods, which gives G1 and G2 retailers an advantage. Who 'owns' the consumer in the emerging G4 environment, meanwhile, is as yet unclear and raises other important questions. For instance, where do shopper loyalties lie – with the product or platform? Who owns the shopper data and who controls it? Where are the critical influence and decision points? Additionally, should store based retailers integrate with a platform? Is proximity and the store experience still valued? How will we 're-scale' our stores to recover the volume that moved out of the store to a direct model?

DO WE NEED TO THINK AND BEHAVE DIFFERENTLY AND/OR HIRE DIFFERENT PEOPLE?

Every new generation requires new strategy, structure, systems, vocabulary and core people competencies. We must accept that different career and reward models will be necessary. While every company must be more flexible in the way it recruits, retains and rewards the core question is how to bring our existing organizations to the next generation skill sets. If it is the case, as suggested, that new demand generation models, last mile delivery and store solutions and analytics are required how do we lead our people there? And how do we blend our traditional skill-based teams with our new more digitally enabled associates? How do we embed the new vocabulary of 'digital leadership'?

HOW WILL WE APPROACH THE FUTURE CONSUMER?

Where are the most critical consumer influence and decision points? How will we influence these to lock in our consumers? Stores will remain important as they still have the advantage of an economic ROI, proximity, consumer value, key 'traffic drivers' such as fuel, fresh and temperature control, and we need to continue to make the most of them. Also, the in-store experience is and can be an advantage over on-line for many categories. However, consumers are changing. And we will not be able to catch the likes of Amazon in terms of technology and scale so we need to find out how to work in this new environment. Ultimately, consumers are still looking for sense, sustainability and vision, and these can be provided in both the physical and digital worlds or as suggested in the G4 value networks with technology, stores and supply working in a highly integrated way.

TOP 2020 TECHNOLOGIES THAT ARE SHAPING GENERATION 4 – REAL-TIME RETAIL

SENSOR NETWORKS CONNECTING

- PRODUCTS
- STORES
- FABRICS
- BUILDINGS
- HOME
- CITIES

COGNITIVE COMPUTING AI

- HUMAN TO MACHINE INTERFACE
- DIGITAL AGENTS
- CHATBOTS

ROBOTICS AND AUTOMATION

- ROBOTICS & AUTOMATION
- COMPANION ROBOTS
- AUTONOMOUS VEHICLES
- DRONES

ARTIFICIAL REALITY

- VIRTUAL REALITY
- AUGMENTED REALITY

LIFE SCIENCES

- RNA / DNA SYNTHESIS

BLOCKCHAIN

- SMART CONTRACTS
- BITCOIN

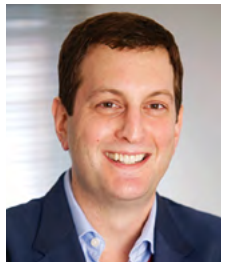
MOBILE NETWORKS

- UBIQUITOUS CONNECTIVITY
- MOBILE DATA SPEEDS (5G)

THE FUTURE VALUE CHAIN

AT THE HEART OF THE CHAIN

The latest vision of the value chain incorporates previous industry consensus and puts consumers at the center of new opportunities for retailers. *Ethan Sinick* examines the possibilities



Ethan Sinick is Research Director of the Coca-Cola Retailing Research Councils of Eurasia, Middle East & Africa and Asia Pacific, and is head of Shirland Ventures, which carries out retail market research and analysis

How and where do retailers create economic value in the process of fulfilling consumer demand? Where is it possible to find new sources of profit as retailers move products from manufacturer to shopper?

The idea of a changing value chain has been recognized for some years now within the retailing industry. When a group of retail executives came together as part of the Global Commerce Initiative in 2005 to examine the issue, they set out a linear view of the value chain.

This linear view began with procurement process improvements through synchronization with consumer demand. At the center was a vision of a single large-scale supply chain providing a multi-channel offer that could reach shoppers in any type of local area.

This multi-channel offer included various forms of e-commerce, large stores and small stores, and offered chances to further unlock value through optimization of the product mix sold in each location.

This value chain model remains relevant for much of the work retailers do today. Indeed, many companies still see opportunities for expanding the number of channels they use to fulfill consumer demand while improving co-ordination and increasing economies of scale.

> “THE INDUSTRY SEES NEW CHALLENGES AND OPPORTUNITIES IN AN EXPANDED VISION OF THE VALUE CHAIN”
>
> ETHAN SINICK

But, a decade later, the industry sees new challenges and opportunities in an expanded vision of the value chain.

Last year, another group of international retail executives came together under the Consumer Goods Forum and created a new view of the future value chain. Rather than a linear vision of a chain, the new thinking placed the demands of the consumer at the center of a network of value.

The 2015 model recognizes there are many more ways to create value in a world where the empowered, connected consumer can be at the heart of the consumption process.

Modern consumers increasingly expect products to be customized, which offers the opportunity to create incremental value through direct connections with manufacturing and sourcing.

They also interact with other societal ‘stakeholders’ – governments, sustainability NGOs and so on. This in turn opens the door for retailers to show leadership, meet new needs and create even more value.

In short, this network offers more choices and opportunities to create value than the

FUTURE VALUE NETWORK

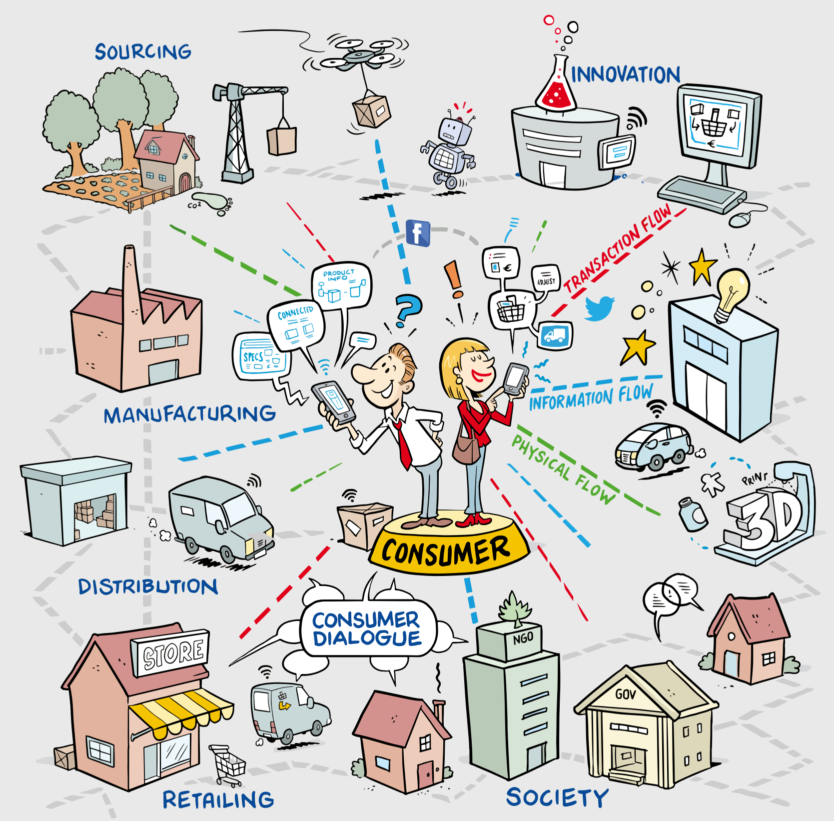


Illustration from CapGemini and The Consumer Goods Forum 2016 report “Rethinking the Value Chain: New Realities in Collaborative Business”

2005 linear chain, but without invalidating it.

Borrowing from the thinking of Planet Retail RNG, this change can be seen within the evolution from G1 to G4 retail models. Given that the G1 to G4 retailing models exist simultaneously in our markets, there is another way to think of these value chains.

In G1 and G2 retailing, most of the value will still be created by selecting the most efficient range of products that meet the greatest amount of demand generated by brands (whether national, local or private label).

There are opportunities to create revenues from outlets where the consumer’s demand is fulfilled and through credit payment. Finally, as these are asset intensive value chains, there are also opportunities to benefit from value growth in the underlying property assets.

In the G3 and G4 models, the choices multiply and retailers have more possibilities to influence the brand- and demand-creation process directly.

At the extremes, retailers such as Amazon have created a complete in-house marketing services agency to build brands within their digital stores and throughout the online universe. The expansion of opportunities to create value is essential in an expense-heavy value chain where there is no longer an opportunity to generate value from the underlying value of property assets.

The variety of G3 and G4 digital models creates thousands of possibilities to satisfy shopper demand through different logistics and digital location models.

Finally, the ‘digitization’ of transactions means that retailers can do more than make money from credit; they can make money from the digital address books provided by their shoppers or the log-ins and secure transaction processes which they might be better at providing and managing.

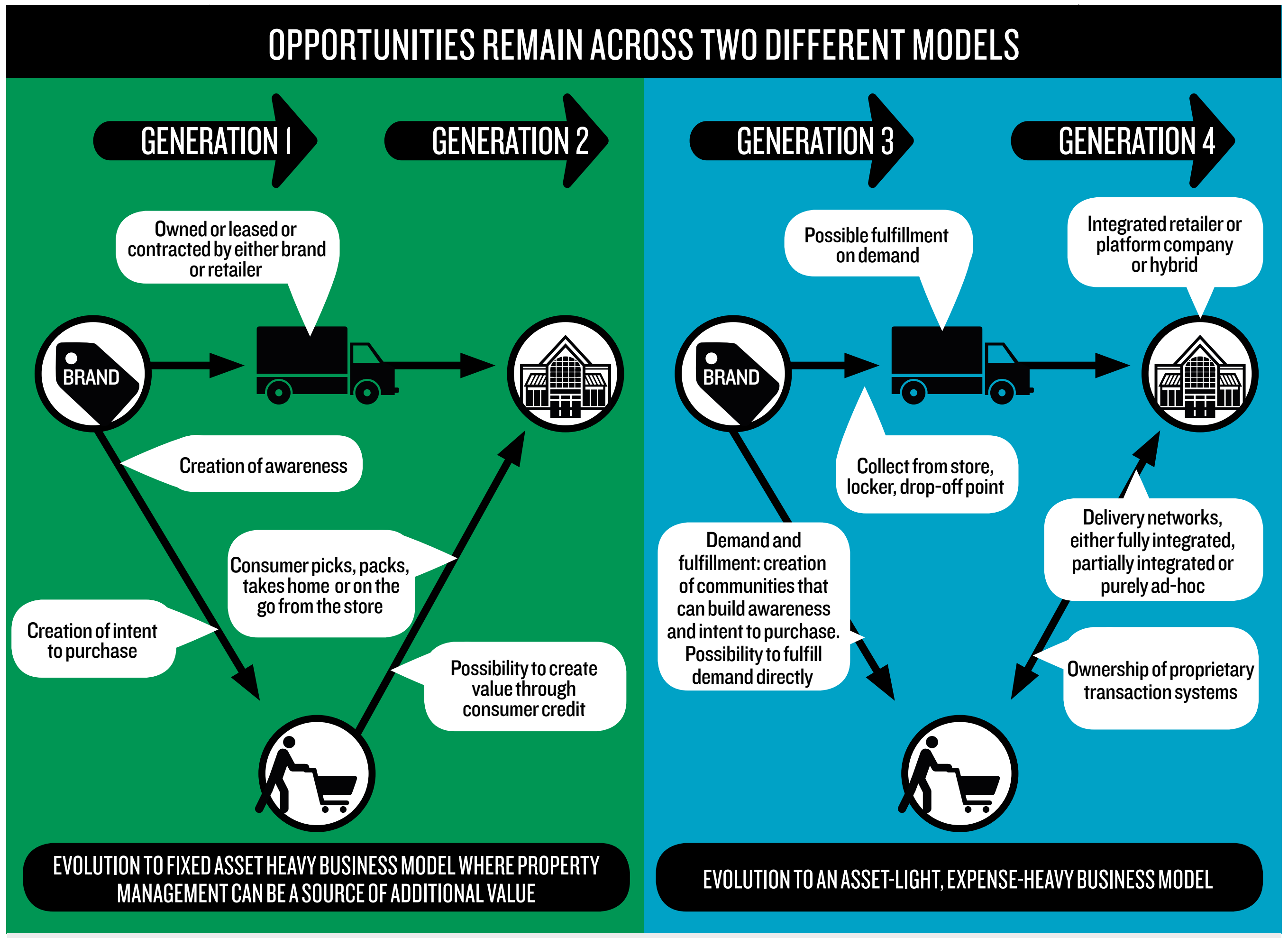
These generational models can be summed up as having different financial choices. G1 and G2 remain asset heavy, balance sheet-led value creation models. In G3 and G4, the retailer trades assets for expenses.

While these models work in isolation, a future challenge will be to understand how to get the best out of an asset heavy, expense heavy multi-channel business that services all of the retail generations.

TAKEAWAYS

As retail markets evolve and most retailers end up investing in multiple models, it is important to identify the value chain possibilities for each generation of retail channel that you may be developing as a business. Efficient choice remains critically important for extracting value in G1 and G2 retailing, while influencing demand is an essential part of value extraction in the G3 and G4 models.

Value chain evolution is an ongoing process with each year presenting opportunities for retailers to create more value as competition challenges historic areas of profitability. At the core of any successful retail business is the ability to develop the leadership humility and organizational balance and flexibility to shift, change and reshape value chains.



THE TALKING POINTS

LOOKING AT THE FUTURE VALUE CHAIN, WHAT ARE THE MOST CRITICAL STRATEGIC CHOICES TO BE MADE TODAY?

Retailers may be feeling comfortable in their G1 and G2 environments but G3 and G4 pose all kinds of questions. No one has the blueprint for 'how to do it'.

Online vs offline and real estate strategies all require massive and difficult choices – not easy decisions to make alone.

Everyone is looking at G3 and G4 operators for answers, but there is a feeling that the likes of Amazon and Alibaba are so far ahead that by the time newcomers get into the market they will already be on to the next big thing.

Collaboration, and perhaps some consolidation, could be the answer. Certainly, rapid innovation means the way forward may well lie in partnerships and strategic alliances with different experts running each part of the operation. This recognizes that 'I may not have the competency but I'll bring in someone who does'.

Does this turn your store into a shopping mall and a giant collection point? Either way, we are witnessing an evolution from convenience to solutions. The definition of convenience is changing.

HOW, WITH WHAT SKILLS AND WITH WHOM DO WE CREATE OUR FUTURE LEADERSHIP?

In increasingly data-driven companies, leaders will need to be able to show they can get their business to change – to innovate and adapt the way they work.

Change is happening fast, and leaders are not always 'in tune' with developments.

Leadership cultures and mentalities are not always easy to shift. This may mean empowering front-line people with the data to make their own decisions more.

To succeed, leaders must be ready to embrace the 'ecosystem', understand how it works and decide who are competitors and who are partners.

They cannot always say they know better and they have to accept their business may not always be able to do everything by itself.

WHAT ARE THE DOMINANT CONSUMER PERSONAS WE WILL FACE AND SELL TO IN OUR MARKET?

Achieving a consensus on consumer personas is tricky. It's not so much about who you are and what you look like but what you want.

So, stop talking about the person and think more about their needs. It's occasions that shape the persona – a person can have many personas according to need or situation.

This probably explodes years of thinking in market research. Instead of 'know your customer', you have to know their needs.

One or two things are certain: consumers today are more informed and have access to far more information. Whether they are always accurately informed is another matter.

They want instant delivery, too. Businesses are set up to respond in days, but people want them to respond in hours. As businesses, we have to look hard and decide what we can do to create extra value.

FUTURE CONSUMERS

THEIR FUTURE, OUR FUTURE

For tomorrow's consumers, look no farther than today's teens and millennials – born in the digital age and making lifestyle choices all of their own. By *Carla Buzasi*

Carla Buzasi is Global Chief Content Officer at WGSN, trend forecaster for the fashion and creative industries

More than ever before, we live in a data-driven world. And no one knows this better, or personifies it more, than today's teens and millennials – our emerging and future consumers.

While the global population is forecast to grow from last year's 7.2 billion to 7.6 billion by 2020, the number of mobile broadband users is expected to continue increasing far more rapidly, from 3.3 billion to 4.2 billion over the same period. And teens (sometimes referred to as Generation Z) and millennials are leading the charge.

Right: Teens and millennials are leading the charge
Picture: iStock

So what characteristics can we identify in our future (G4) consumers? How do they behave? What 'makes them tick'?

It's worth remembering of course that there's a bit of the chameleon in all of us. To some extent, the persona we project may well vary to suit the time, place, situation or simply the people we're with. We don't behave in exactly the same way all of the time. For statistical purposes socio-economic groupings provide a better yardstick.

But in considering the behavior and traits of the future consumer, certain factors stand out. For a start, consumers are now born with unprecedented levels of data about themselves and the world in which they live.

Thanks to social media and digital platforms as well, we find consumers increasingly promoting their own 'brands' and lifestyles. What to older generations might have been seen as bragging is regarded as perfectly normal by teens and millennials. Self-promotion is in.

So too is a kind of reward culture in which aspirational consumers associate with aspirational lifestyles. 'Because we're worth it' might well be their mantra.

There's more to the future consumer than mere self-interest, though. Research shows today's young consumers are interested in

> "THERE'S MORE TO THE FUTURE CONSUMER THAN MERE SELF-INTEREST"
>
> CARLA BUZASI

TAKEAWAYS

People with lower incomes are statistically likely to spend more money on brands with ethical and environmental credentials. What are you doing to best position your brand to have credibility in the sustainability space?

The future consumer doesn't want to be told how to feel or think, and certainly not what to buy. This is a challenge but also an opportunity. How can you and your company learn to collaborate with the very people you want to purchase your products?

the world around them too and hold opinions about world events. They are also mindful of recent economic challenges and have concerns about data privacy.

Research also points to eight key priorities among this group, which the industry needs to understand.

In no particular order:

- Everyone is a fact checker
- People value experiences over products – doing beats buying
- They may have more than one job, and are not necessarily looking for a career for life
- Shorter attention spans are coupled with faster processing speeds – the eight-second filter
- They seek everyday convenience
- They favor the personalized and customized – individuality
- Taste fragmentation and experimentation is driving the 'global palate'
- Awareness of health and wellness is rising but it remains more an aspiration than reality.

We can further break our future consumers down into four 'tribes'. These are:

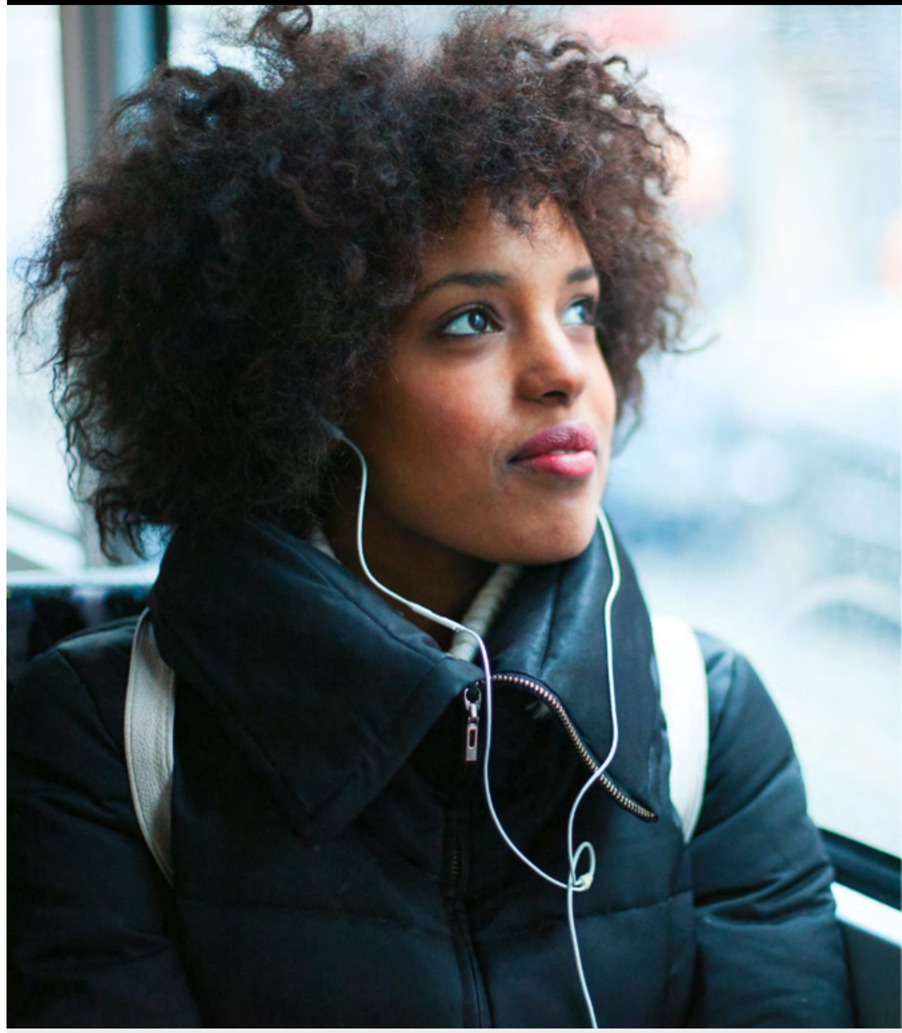
1 The **'moment makers'**, for whom time is the ultimate commodity
2 The **'new expressionists'** – flexible, creative and looking for inspiration
3 The **'conscious creatives'**, who prefer quality to quantity
4 The **'tactilians'** – they crave physical and emotional touch and a 360-degree shopping experience.

To illustrate this point, it is said that people today touch their smartphone more than any other object. Indeed, it's said that Britons check smartphones 1.1 billion times a day. And Americans check theirs some eight billion times a day.

One final point to bear in mind: we may like to think the old influence the young. Today, where shopping trends are concerned, it is the other way round – the young are increasingly influencing the old.

Left and above: 'Because we're worth it' – the mantra of aspirational consumers? Pictures: iStock

WHAT IS DRIVING CHANGE IN THE NEW GENERATION 4 CONSUMER?



REWARD CULTURE
The aspirational consumer looks to treat themselves and associate with aspirational lifestyles

GLOBAL INTEREST
Consumers support the world around them by following, and having an opinion about, world events

SECURITY UNCERTAINTY
Consumers are mindful of recent economic challenges and slow recovery, alongside big data privacy concerns and personal safety

THE TALKING POINTS

WHAT STRATEGIC CHOICES SHOULD WE BE CONSIDERING?

If it is the case that our future consumers have short attention spans and are less loyal, how do we adjust to meet their expectations? It flips strategic planning on its head. Never mind five-year plans – we need five-quarter plans.

In a fast-changing digital world, adopting emerging ideas quickly and securing the capital for them is far from easy.

Our stores may be our best assets but we need to be able to do more than simply sell products in them. The future consumer may well demand more from us – and survival will be difficult unless we do.

First, though, we have to determine if what we're doing in the marketplace is working. And we need to make sure we don't let 'organization' get in the way and block progress.

WHAT ARE THE MOST PERPLEXING ISSUES AND HOW SHOULD WE APPROACH THEM?

Shoppers have always been a little fickle – what they want today may not be what they want in a year's time – but perhaps they're becoming even more so now. Keeping up with them in a fast-changing environment is difficult.

We need to take care, too, when we categorize people. Their personas or profiles change. They don't like to be 'pigeonholed'. In the UK and Germany, for instance, some of the big discounters do not sell only to poorer shoppers. It's now considered smart by middle-class customers to shop with them too. The same trend is being seen in Brazil.

At the same time we are seeing greater divisions of wealth – the 'haves and have nots'.

All of this makes it difficult to gain attention and get into meaningful engagement with shoppers. How do you talk to the different tribes? And how do you create the business processes to do all this efficiently?

WHAT ARE THE IMPLICATIONS FOR FUTURE SKILLS AND LEADERSHIP?

We need to listen to younger consumers and understand what they tell us. This is not always easy for older leaders. And if leaders fail to adapt, the business is in trouble. Many are 'uncomfortable in this space'.

They also have to be able to listen to younger staff members. The best leaders are those who harness the energy and ideas of their younger staff.

Two important points to bear in mind: first, it's important to realize that the young are less afraid of failure. If one initiative proves successful they will not worry about the other nine failures.

And second, they do not always seek hyphenated careers – one of the identified characteristics of millennials. If they can see a career path and an audience for their ideas they will be just as likely to stay, for the benefit of the business.

ONE STEP AHEAD

When newcomers eat into your market they bring change and disruption. How do you deal with it? Staying one step in front of them (or better still two) is a start. As *Ian Larkin* explains, it takes vision

Ian Larkin is Assistant Professor, Strategy Area, at UCLA Anderson School of Management

> "ONE OF THE CONUNDRUMS FOR BIG COMPANIES IS THAT THE BIGGER YOU ARE, THE HARDER IT IS TO RECOGNIZE CHANGE"
>
> IAN LARKIN

When the RAND Corporation, one of the foremost US think-tanks, hired a group of leading technologists and sociologists it asked them a seemingly simple question: what is going to be the biggest innovation in the next 50 years?

They predicted home computing. Nothing amazing about that, perhaps – except this was 1954. Even mainframe computers hadn't yet been invented. IBM's first mainframe wouldn't appear for another three years.

Sixty years ago, when only around one in three US households even possessed a (black and white) TV, the RAND team envisaged a day when everyone would have a computer in their home. And they predicted it would fundamentally change the way society operates.

What we're talking about here is change and disruption – how we spot it and what we do about it. Recognizing change is extremely difficult. In fact one of the conundrums for big companies is that the bigger you are, the harder it is to recognize change.

Really insightful people, though, often see it before it happens. The RAND team are a good example.

Acting on their prediction, the RAND scientists built a prototype home computer. Pictures of it show that it was huge but it was how they thought a home computer in 2004 would look.

They saw it as a luxury product beyond the reach of the average home – so they got that wrong. They also failed to see how small it would get and that it would travel everywhere, although they did realize it would require not-yet-invented technology to actually work.

They also missed on the dates. They predicted 2004, but the first home computer appeared in 1978. So they were out by about 25 years. In short, they got a lot more wrong than they got right. This happens all the time.

Take the example of Uber. Outpacing other taxi operations in many of its markets, Uber has taken the world by storm. At last sight it was valued at around $80 billion.

Now, thanks to its involvement in the robotics department at Carnegie Mellon University in Pittsburgh, where researchers are working on driverless cars, Uber is aiming for the day when we have cabs without the cabbies. In fact it has been predicted that as many as 80 percent of Uber's cars could be driverless by 2020.

I make no claims about my own forecasting abilities and I'm no expert in this field but I'm confident analysts' predictions that Uber will be completely driverless by 2020 are wrong. Just a tiny fraction of cars will be. The technology isn't there yet – there are all kinds of safety issues.

Equally, though, I'm sure that by 2060 self-driving cars will have taken over. It won't happen fast, just as the home computer didn't happen overnight.

And that is the real heart of the issue for any company, not just technology-based companies. We are usually wrong about speed of adoption. New innovations are slow to take over in the market. But once they hit a certain level of mass adoption, they're fast.

So it is slower than you think, then faster than you think. And that poses a real strategic challenge to a company. If you move too quickly with technology you risk eating your own business. But if you're too slow, somebody else will eat you instead. Knowing when to transition is very, very difficult.

Let's look at the case of Netflix. In the early 2000s after some early stops and starts, the company settled on a subscription-based operation. For $20 a month customers could rent three DVDs at a time and there were no late penalties.

This was a fundamentally different business model from that of its main competitor, Blockbuster. Blockbuster had some unique advantages, not the least being that 80 percent of US consumers were within a 10-minute drive of one of its stores. And Blockbuster's market research indicated that movie-renting decisions were spontaneous around 75 percent of the time. By contrast, at that time it took a couple of days to deliver a DVD through the mail.

Blockbuster also offered a great selection of films and had agreements with leading studios to get TV shows and movies more quickly than anyone else. It looked as if it was beyond challenge.

So what did Netflix do to defeat Blockbuster? What advantages did Netflix have?

For one thing, Blockbuster stores were local so it was hard to manage inventory. Netflix could manage its inventory nationally. Also, people hate late penalties but Blockbuster still charged them. In fact one of the last things it did before it went bankrupt was to get rid of them. With Netflix's subscription model there were no late fees. In a sense of course there were, because if you kept a Netflix movie beyond 30 days you had to buy it.

Another point was that Netflix worked hard to develop its recommendation engine. You would rate movies and Netflix compared your ratings to other people's. In this way it could offer you a customized list of movies you might enjoy.

Netflix could not match Blockbuster for spontaneity, but through its subscription model and recommendation service it made it more of a planned experience. And with three recommended movies in front of you there was still an element of last-minute choice. While the average Blockbuster store held about 5,000 films, Netflix could offer 100,000.

When we look at financial comparisons we see that while Blockbuster was charging $4 a month per rental Netflix in effect charged $3. And while Blockbuster's operating costs worked out at $2.42 a rental, Netflix's were just over $1. Clearly Netflix was much more efficient.

It was also earning more dollars per customer because the average Blockbuster customer wasn't renting as often. Yet in a sense the Netflix product was demonstrably worse. You had to wait for it to arrive and it wasn't necessarily the latest and best.

Yes, Netflix had a greater movie selection. But those movies were often cheap, independent and largely unknown. It had a recommendation engine, but this was really to steer customers away from content that was unavailable.

Netflix followed a cost strategy. And, almost always, disruptive innovation challenges incumbents on the cost side of the business. Disruptive innovation is about doing things in ways that allow a 'worse' competitor, with a 'worse' product, brand and technology, to do better than you.

So, in 2004, Netflix's strategy was all about cost. DVDs were delivered by mail in an efficient, low-cost way and the focus was on cheaper and less popular content, using technology that steered customers away from expensive unavailable content.

It was a beautiful business model because it ensured that customers' willingness to pay didn't decline too much and costs were dramatically lower.

Yet it was easy to see how Blockbuster might view Netflix in 2004. 'We do not believe there is enough demand for mail order'

Top: The future, comic book style, as imagined in the 1950s
Photo: Mary Evans Pictures

Above: Uber has changed the face of transportation across the world
Picture: iStock

> "WE ARE USUALLY WRONG ABOUT THE SPEED OF ADOPTION"
>
> IAN LARKIN

was one Blockbuster comment. 'There is not a viable business model there in the long run. Online services are serving a niche market.'

Six years later Blockbuster was bankrupt.

> "THE FIRST LESSON IS TO UNDERSTAND THE STRATEGY OF THE ATTACKER"
>
> IAN LARKIN

We know from the S-curve that initial adoption of any new innovation will appear to be slow. Consumers, for instance, seldom adopt a new technology until relatively late in the cycle. But once adoption starts, it happens extremely quickly.

So Blockbuster was making decisions about how to respond to this upstart, Netflix, at the very low point of the S-curve, when few people had used it.

Sometimes innovations will take off before the incumbent knows how to respond. What makes it even more difficult for incumbents is that for every successful innovation there are 10 unsuccessful ones that get started and then crash. Judging the difference between the two is exceedingly difficult.

Back in 2004, Blockbuster had 40 million members, Netflix two million. Blockbuster was also winning customers more quickly, and appeared to be in the driving seat. So it is hard to criticize the company for not responding.

When we think about innovation and disruption we are usually afraid of new technologies that will be better than ours. We're not worried about less advanced technology. But that is what disruptive innovation is. It challenges incumbents because it is more efficient and its cost structure is lower. So it's the opposite of what we think.

If your business is highly successful and on the high part of the S-curve, you need to worry less about the technologically advanced product that's coming out and more about the upstart who's doing what you're doing but much more cost efficiently.

The first lesson therefore is to understand the strategy of the attacker. Ninety-five percent of the time, the successful attacker will come from below with lower costs and a worse product.

The second lesson is that you have to decide early how to react. Don't wait for the OS ('oh s**t') moment because that is too late. That's what Blockbuster did. It didn't understand its vulnerabilities.

The company did eventually act with new offers, a mail-order option and a free Blu-ray offering. But it didn't work. Blockbuster still had its costliest asset, its stores, and it was now giving things away free.

Pictures: iStock

As the CEO and founder of Netflix said later: 'I'm glad they waited until 2004. If they had done this in 2002 they might have killed us because we weren't yet profitable. By 2004 all it did was kill them many more years before they were going to get killed.'

A further Blockbuster mistake was that it didn't launch a new business line but rather an integrated offering that gave the best of Netflix and the best of Blockbuster for one low price. All this did was give value to consumers.

One strategy sometimes adopted by incumbents is to launch a separate business that focuses on competing with the newcomer. It may be unprofitable but it keeps the competitor engaged. But you have to launch it early.

Another option is the chessmaster strategy of thinking several moves ahead. In business, thinking two moves ahead is difficult enough, but that is what Netflix did. It had no expertise in streaming – it had to go out and build it – but in 2009 it launched its streaming business. As Netflix's founder said, he imagined a day when there would be sufficient bandwidth to offer media over the internet.

So while Netflix was building massive distribution centers, it was already working on streaming technology that would make them obsolete. Netflix was disrupting itself – not waiting for a competitor to do it.

Then, in 2011 when the DVD-by-mail business was still several times more profitable than its streaming business, Netflix went to the market and announced it was going to spin-off the DVD operation and focus on streaming. The market thought Netflix was crazy. But the company knew exactly what it was doing.

Here are the lessons about disruption. Competitors will attack from below with 'worse products' that are more efficient. Don't be afraid of competitors with more advanced technology.

Choose the turf on which to compete. If you have a better product, don't compete on price. When you are disrupted, don't compete on their terms.

If you wait until it's clear where the market is moving, you've waited too long.

Finally, know your competitive advantage and how it might need to change. It is extremely rare to turn on a dime as Netflix did, but it is possible.

For Blockbuster, alas, the rest is history.

> "COMPETITORS WILL ATTACK FROM BELOW WITH 'WORSE' PRODUCTS THAT ARE MORE EFFICIENT"
>
> IAN LARKIN

LESSONS ON DISRUPTION: BLOCKBUSTER V NETFLIX

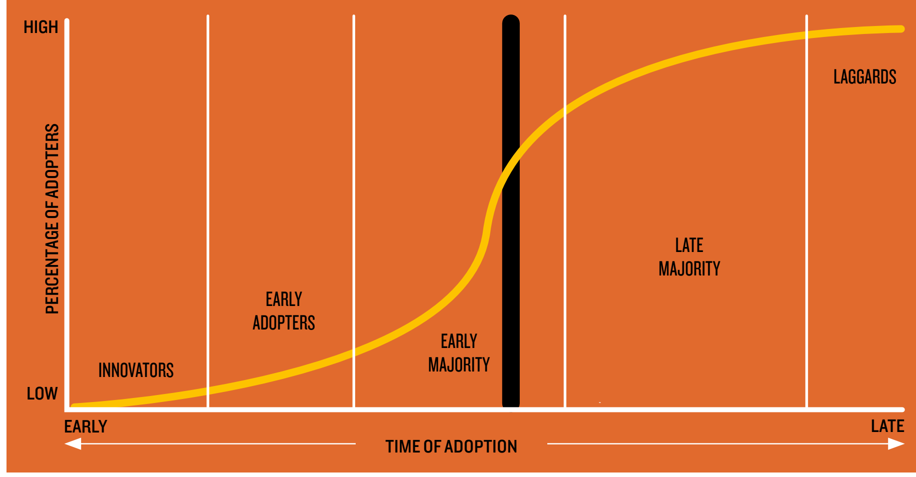
1: CLEARLY UNDERSTAND THE COMPETITOR'S STRATEGY

Netflix's initial strategy

Netflix's strategy is to deliver DVDs by mail in a highly efficient, low cost manner, focusing on the cheaper 'tail' of less popular content, with technology that actively steers consumers away from expensive, unavailable content

Question: **how threatening is that to Blockbuster?**

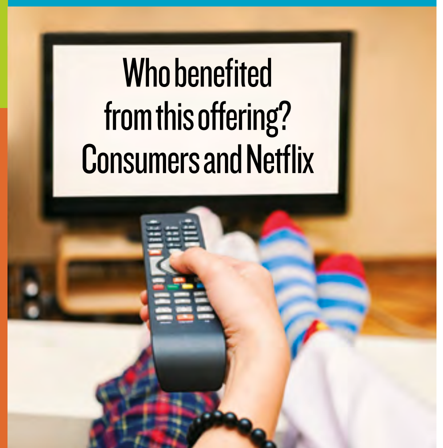
2: DON'T WAIT FOR THE 'OH ****' MOMENT



3: CHOOSE THE TURF ON WHICH YOU COMPETE

Blockbuster Total Access

- Unlimited rentals by mail
- Unlimited in-store exchanges
- Many new releases available 28 days before Netflix and Redbox
- Games and Blu-ray included



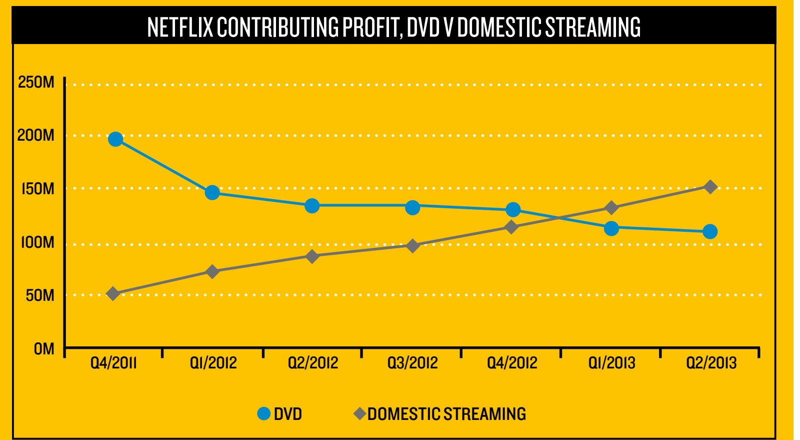
'I am just glad they waited until 2004 to launch Blockbuster Total Access. Any earlier and it might have killed us. But it just ended up killing them many years before we would have'

4: THINK ABOUT THE NEXT CURVE

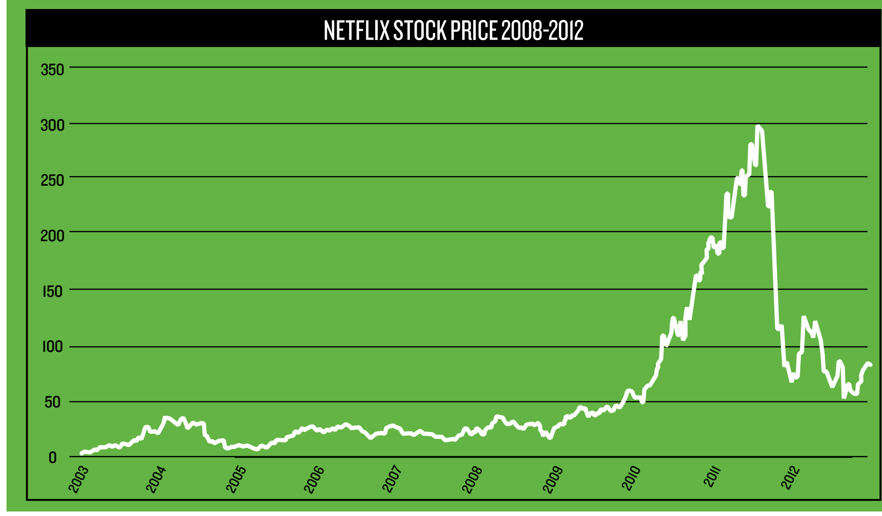
'From the start of Netflix I envisioned a day where there would be sufficient bandwidth to offer media over the internet...

'I always knew the end game would be streaming content. We just needed to wait until the technology was good enough...

'While we were building massive distribution centers, we were also working on streaming technology that would make those distribution centers obsolete'



5: KNOW THAT THE MARKET WILL NOT ALWAYS UNDERSTAND



6: KNOW YOUR COMPETITIVE ADVANTAGE AND HOW IT MIGHT NEED TO CHANGE

How a firm maintains superior performance over time requires that its sources of value-creating difference cannot be easily replicated

VALUABLE	HARD TO REPLICATE
Lowers cost	Barrier to entry
Increases willingness to pay (WTP)	Barrier to imitation

LEADERSHIP UNDER FIRE

When our business hits turbulence how do we respond? In particular, how do we deal with stress? *Stephen A. Miles* examines some of the most common reactions and offers a few tips on crisis management

Stephen A. Miles is CEO of The Miles Group, which develops talent strategies for organizations, teams and individuals, focusing on high performance, world-class leadership

> "PEOPLE TEND TO REVEAL A BINARY RESPONSE UNDER STRESS. SOME PEOPLE ARE ONES, OTHERS ARE ZEROS"
>
> STEPHEN A. MILES

When an oil platform exploded causing the deaths of several workers and injuries to many more, the company's CEO admitted it had badly affected him and wished he could just go home.

Contrast that with the executive of an airline that suffered a plane crash. He remained calm and cool, absorbed the emotion around him, stepped back and put a plan in place with the help of key executives. He led from the front and accepted personal responsibility and accountability for the errors that had occurred.

As leaders, how we respond to stress – whether minor or catastrophic – is central to success. A key element of leadership is the ability to remain effective when there is stress in the system.

People tend to reveal a binary response under stress. Some people are ones, others zeros.

Ones, for instance, turn outward under stress. They have a 'can do' attitudes. They leverage their teams, seek and take advice, and make decisions with the available information. They communicate, bring people with them and take the uncertainty out of the situation. They absorb rather than amplify stress.

Zeros, on the other hand, turn inward and micro-manage. Rigid and inflexible, they become over-reliant on processes and unable or unwilling to take advice. They fail to leverage their teams and remain aloof, and paralysis enters the decision-making. And by amplifying instead of absorbing stress, they make things worse.

Naturally we want ones, not zeros, in our businesses. As leaders, it's important to know how our teams behave under stress. Before we assess them, however, we need to assess ourselves.

How we handle ourselves and lead our company when business is good and running smoothly is one thing. When we hit turbulence it is quite another matter, and may demand a different style.

A frequent tendency is to start questioning everything and making changes, which can lead to a company chasing too many things – wrong things – and exacerbating the problems. The sense of panic that ensues can lead executives to 'activate' when they should be diagnosing and triangulating – measuring against other situations, taking other views

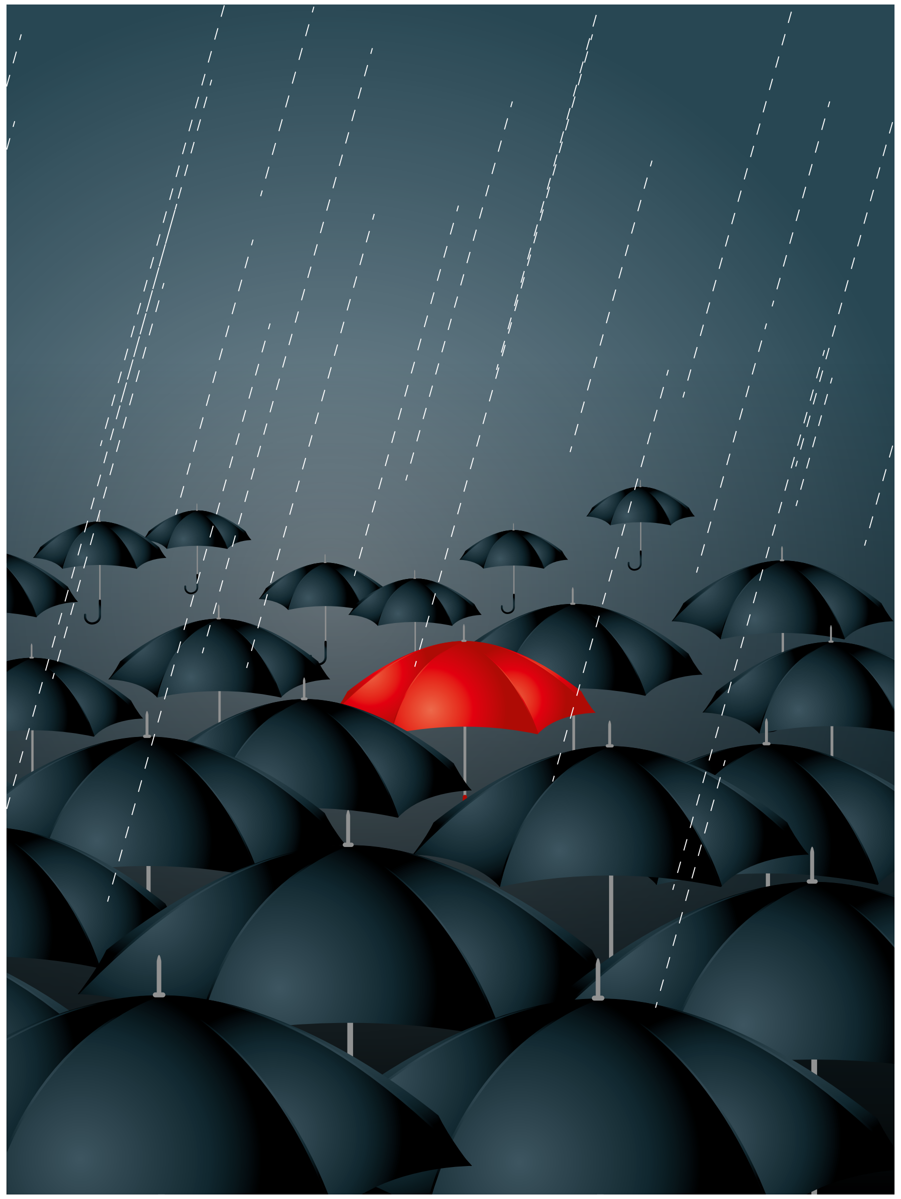


Illustration: iStock

and steering a course accordingly.

By going into diagnostic mode you are working to understand the cause of the problem so that you can fix it, rather than treating the numerous symptoms you are experiencing. By contrast, moving into activation mode may feel good because people are busy doing things – and that sense of activity is itself stress-reducing – but you may be activating on many of the wrong things and changing things that do not need to be changed, creating even more problems for the business.

Stressful environments tend to reveal character rather than build it. Some people are highly effective, others completely ineffective. To be effective, you need to be the absorber and focuser – cool, calm and collected because that's the person your team will want to follow – and able to redirect that energy to enable the team to focus on the facts, supporting data and proposed solutions.

A good process will help lead to a good outcome. Make sure your underlying process and leadership is fact-based. It is important to 'go slow to go fast' – step back, diagnose and then act. Keep the organization ruthlessly focused on the correct things rather than chasing everything. To do this effectively, you need to stay fact-based and data-driven. If you are someone who does things by instinct, make sure someone is collecting the data and validating or refuting your 'gut instinct'.

If you have to lead your business through a crisis, here are a few further tips:

1. Face reality and formulate a crisis plan
2. Act promptly, not hurriedly – You can act with deliberateness as well as speed. It's your job to assess the size and scope of the crisis, but acting hurriedly only makes people nervous
3. Select the most appropriate spokesperson – Make sure you are spending your time where you will have the most impact
4. Communicate through the medium that reaches all stakeholders
5. Listen to and thank your team – Bring in different views and seek the best advice before making decisions
6. Be aggressive in the marketplace – Create a platform for change. A crisis offers an opportunity to change the game in your favor.

> "A GOOD PROCESS WILL HELP LEAD TO A GOOD OUTCOME"
>
> STEPHEN A. MILES

FOOD FOR THOUGHT

How do retailers view the future? In a Summit discussion led by CCRRC Research Director *Michael Sansolo*, they offered their thoughts

Michael Sansolo, left, led the session supported by Stephen A. Miles and Ian Larkin

WHAT ARE OUR STRENGTHS?

WE'RE WELL ESTABLISHED

Most of us have a large customer base or a strong customer connection, and some of us are well established in our local communities. We have known values, and established brands and supplier relationships.

So, we have established business ecosystems encompassing our suppliers, customers, regulators and everything else that goes with running a business.

We also have a lot of information available to us. Whether we've been collecting it or using it properly is another matter, but it's there. And we have access to funds that we can apply in this new world.

A RICH CUSTOMER EXPERIENCE

We can inspire our customers when they come into our stores. We can provide a very rich customer experience. We have direct contact with them – we can talk to them directly and know how they're feeling.

THEY'RE OUR GUESTS

The longevity of our management people and the relationship with our customers – 'we call them guests', said one delegate – is a real strength. Our local ties are good. Another strong point is the fact that we are able to seek, and appreciate, the ideas and feedback from our staff.

BENEFITING FROM YOUR STRENGTHS

Stephen A. Miles: People often don't value their strengths the way they should. One of the most important things about being successful is to leverage your strengths to get the maximum benefit from them.

When I coach executives they'll say 'I don't do this or that very well'. I say: 'Let's start with what you do do well and let's get the maximum from it.' Really good leaders know their weaknesses and have people around them who compensate for them.

Ian Larkin: Blockbuster would have identified a similar set of strengths but didn't understand how to leverage those strengths against the threat [of Netflix]. So they reacted in exactly the wrong way. By throwing the baby out with the bathwater and competing on Netflix's terms, their greatest strength became their greatest weakness.

WHAT ARE OUR WEAKNESSES?

IT'S DIFFICULT TO CHANGE

The first weakness is legacy. Even though it's a strength in some ways, our legacy is also a weakness because it makes it difficult for us to change, especially for a traditional business with a traditional mindset.

Next come assets. We are heavy on assets and the cost of them makes it difficult to entertain new business propositions.

Then there's our price orientation. We're heavily focused on price when it comes to value creation. Price comes first, second and third whenever we react to the market and our competitors.

DIGITAL CHALLENGES

We struggle to integrate digital into our traditional business. We have incomplete or inadequate know-how and it is difficult to gain that knowledge as rapidly as we'd like.

Many of us are also transaction oriented more than customer oriented. This takes up a lot of the effort that we could be putting into our customer relationship management.

FEAR OF FAILURE

Fear of failure because of fiscal responsibility is huge in a traditional retailer. It makes people resistant to change. The organization pushes back rather than venturing forward. There's great pressure to be reliable.

CREATURES OF HABIT

As a successful business, we're always looking to make small leaps rather than quantum leaps. [Playing safe] is a big weakness in our industry.

We're also creatures of habit, so caught up in routine that we don't always see the opportunities for future development. Instead we just see processes.

ONE STEP AT A TIME

Ian Larkin: The best way to learn is to take one small step at a time – learn by doing. If you are making small incremental innovations, you're learning. Even if an idea fails, you are still going to learn from it. Making those small innovations leads you to making the big ones.

Stephen A. Miles: I think it's hard to fail, in fact. As human beings we're designed not to fail, or at least to try not to fail. Part of innovation is teaching yourself through experimentation.

As a CEO, you want to dedicate time and resources to the green shoots. You want to nurture them. A lot of amazing innovation goes on in the biggest companies.

They understand the notion of green shoots, and they also know they are not too big to fail.

ENACTUS

Five students from universities in Rio and São Paulo described at the Global Retail Summit how they are helping improve the lives of disadvantaged people.

The five are members of Enactus, a voluntary organization of students and academics supported by business people, who use their entrepreneurial and business skills to launch local community projects around the world.

With more than 69,000 students, Enactus operates in 36 countries and is estimated to have helped transform more than one million people's lives.

SUMMARY

THE SHAPE OF THINGS TO COME?

TEN KEY POINTS FROM THE GLOBAL RETAIL SUMMIT

1 External social and economic factors are driving change in worldwide retailing:

- Growing urbanization
- Expanding middle class
- Massive adoption of mobile digital technology
- Online shopping
- Powerful youth culture
- Longer life expectancy

2 By 2030 teens will comprise 26 percent of the world's population. Millennials will represent a further 25 percent. True 'digital natives', they take mobile technology for granted and make it work for them. It is central to their lives

3 Teens and millennials expect honesty and transparency from our businesses and believe in sustainability. They judge us online and are less dedicated to brands

4 Physical stores will remain important but we will need technology-led stores too

5 The advent of a fourth (G4) generation, real-time retail, will see consolidation among market places, intermediaries and software specialists

6 The value chain of the future places the consumer right at its heart, reflecting modern shopper demands – and it opens the door to new retailer opportunities

7 For retail managers, one challenge will be to blend traditional skill-based teams with data and digital expertise, in step with the increasingly data-driven nature of retailing

8 A further challenge for leadership teams is to recognize change in their markets – whether influenced by traditional competitors or new external influences – and respond quickly, preferably before it even happens

9 Change means disruption. Staying one step ahead is essential to a smooth and successful transition

10 How leaders respond to stress in business is central to success. It is one thing to lead when business is good; quite another when business hits turbulence and a different approach may be required

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