

Customer
first
thinking.



The Future of Retail

An Interview with Doug Stephens, Founder and President, Retail Prophet

Doug Stephens:

Doug Stephens is the Founder and President of Retail Prophet, a retail consultancy, and bestselling author of several books, including his latest called Resurrecting Retail.



For some time now traditional retailers have been staring down a gun barrel. The pandemic killed off the weakest retailers in the herd, while pushing consumers who were ecommerce holdouts into the welcoming arms of Amazon. But even prior to this calamity, stores had been shutting down everywhere due to changing shopping habits – pressure on profit margins – the closing down of shopping malls – and blind adherence to an industrial age model that was too reliant on foot traffic.

The future of traditional retail looks bleak. Many more stores are expected to close as online shopping continues its sharp ascent, expected to account for 20% of total retail sales just three years from now. Much of that spending will be soaked up by Amazon and an expanding galaxy of online merchants. Infinite aisles and same-day delivery have become the bullets in the gun, aimed at the heart of any conventional-thinking retailer whose imagination fails them.

The old retail model is defunct. The question, of course, is what takes its place. Do retailers look to China for answers, where

shopping and buying have become a truly seamless experience due to the convergence of online and offline channels? Or is there a hybrid model better suited to North America where the end-to-end shopping experience involves many multiple channels and a more decentralized value chain? Either way, retailers who want to stay solvent better share the same mindset as Jeff Bezos who once said: “If you lean away from the future, the future wins every time”.

Brick-and-mortar stores are unlikely to go away anytime soon. There is still a large role for them to play as the face-to-face stage of the shopping journey. But the mundane store experience of today will need to improve dramatically to draw people away from their screens. Store shopping can still be an enjoyable way to pass the time – still be a gateway to discovery – still be the best way to experience a product first-hand – if retailers begin to think differently about what brings shoppers joy and value.

One of the industry oracles retailers can turn to for help in reimagining their business model is Doug Stephens who is a master at predicting consumer and retail trends. The author of several highly readable and provocative books on the state of retail, he offers retailers a clear prescription for survival, warning them of the even more disruptive changes ahead, while providing hope in the form of an alternate vision rooted in the idea of putting customers first.

SS

Stephen Shaw (SS): Is this a good or bad time to be a retail futurist?

DS

Doug Stephens (DS): I don't think there's ever a bad time to be focused on the future. You always have to have someone in the crow's nest looking out at the horizon. For example, people think the pandemic was a black

swan - that no one could ever have anticipated it happening. Well, there were organizations that did anticipate it - Intel being one of them. After the SARS epidemic in 2002, Intel established a pandemic committee. And ever since, they've been building contingencies in the event of another pandemic. This pandemic was foreseeable - so planning for the future should be important in every organization.

SS Is that why you started Retail Prophet?

DS Absolutely. After having spent 20 odd years in retail, I knew firsthand how short-sighted this industry was, and how they operated quarter to quarter. What they don't realize is that decisions they make today are going to impact their future success, not just next quarter, but five to ten years from now.

SS You make the point in your latest book that this pandemic is a catalyst for change. Is this an extinction event that wipes out mediocre retailers?

DS Yeah, I think so. Somebody asked me the other day, "Who do you see being the winners and losers coming out of the pandemic?". Who's going to survive this crisis? Frankly, it depends on what their view of retail is. I think there are two camps. There are those for whom retail remains an industrial occupation: it's all about sourcing a product and getting it into the hands of the consumer - pretty much retail as we've known it forever. And then there's another, more enlightened camp which accepts that society has fully moved into the digital era. Our primary concern as consumers is no longer, "Will I be able to find the things I want?". In fact, we now live in a world where we can have anything we want. What we want in the digital era is inspiration; what we want is information; what we want is a fusion of commerce and entertainment.

SS Coming out of this pandemic, many people have a changed outlook on life. What are the ramifications for retail? One stream of thought is that shopping may no longer be seen as a pastime. Will we see a so-called "new normal" where shopping is less of an obsession?

DS Oftentimes, we have to look to the past in order to understand the future. After the SARS pandemic, China's retail economy was completely reinvented. Companies like JD.com, now one of the largest retailers in the world, were

born out of the SARS pandemic. So, is it likely that we are now going to spend a disproportionate amount of our spending online? Yes, it's quite likely. We may use stores very differently going forward. I don't think that stores are going to become less important. But I do think that we are going to use them very differently than we do today.

SS You also describe in your book a fairly apocalyptic vision of the retail future. On one hand, you've got "apex predators", as you call them - like Amazon and Walmart; on the other, competing retail giants playing catch-up, creating their own online marketplaces. How does that battle play out?

DS Yeah. It's an interesting question, and this is the reason I reject the idea that everything we're seeing is simply an acceleration of what would have happened anyway. I don't see it that way at all. I think that the pandemic has not just accelerated the future of retail, but altered it completely. Here's the interesting thing: Amazon actually lost market share in global ecommerce. And the reason was simple: the rest of the world was catching up once and for all. This is now going to motivate companies like Amazon to move into other sectors of the economy that are vulnerable to disruption and incredibly lucrative. Like education. Like banking, a huge opportunity. In fact, Alibaba owns Ant Financial, which is the 15th largest bank in the world. Insurance is another sector open to attack - same with healthcare. Amazon has launched nine concerted efforts over the last three years to break into the health care market, consummating with an online pharmacy. So, imagine five years from now: you're not just ordering running shoes and electronics from Amazon - they're your child's education platform; they're your health insurer, your bank. Everybody gets one bill every month, and it's payable to Amazon and it covers virtually every aspect of your life. So, if you're a retailer, now you have to ask yourself, "How on earth do we compete with that? How on earth do we draw that consumer out of that ecosystem and get them to our website?". And so, large international retailers like Costco, Target, Kroger, are feeling the heat too and are building third party marketplaces just to try and keep up with this expansion of Amazon and Walmart.

SS Hudson Bay announced that it was creating its own marketplace.

DS

A third party marketplace gives you the ability to scale up your offering very, very quickly, with virtually no capital investment. And sales through third party marketplaces can actually be more lucrative than selling that same product in your own stores. Retailers are realizing it's not good enough anymore to just be a grocery store, or just be a building material store - they have to build out a mini-marketplace of their own in order to give consumers new reasons to shop with them.

SS

You use the term 'habitats' to describe these ecosystems. Does retail eventually become a battle of the habitats?

DS

Yeah, it's a good question. Every morning, I read some article that talks about retailers trying to become "omni-channel". In fact, omni-channel is a zombie concept. Omni-channel was a recognition that most retail companies had these two divisions: nerds who worked over in ecommerce and retail people who worked over on the physical side of the business. They didn't talk to one another, they didn't share data, and they certainly didn't have a single view of customer. Omni-channel at its inception was an effort to knit together those two parts of the business. It was never about reinventing the shopping experience. And then in 2016, Jack Ma, who is now the chairman of Alibaba, came up with a term called "New Retail". What Ma was saying is that we, as consumers, don't operate in channels. We don't say to ourselves, "I'm going to go online and do some shopping." We are shopping now in the moment. So I watch a video on TikTok and that becomes a shopping experience. I read a post on Facebook and that becomes a shopping experience. I connect to a QR code in a magazine to get some information and that becomes a shopping experience. Ma recognized that consumers bounce from moment to moment in their life. And at various moments, retailers need to be available to serve those needs. And at the same time, we need to build what my friend Michael Zakkour¹ calls "power sources". These are new delivery systems, new technologies, to allow for new retail formats and experiences. And what we see now is Amazon starting to take pages from Alibaba's playbook.

SS

Some people say that the future is already on display in China.

DS

Yeah, absolutely. And the rails of commerce are incredibly well oiled in China. There's very little friction in terms of one's ability to shop and in particular to buy and pay for things in the moment, because so much of that activity is centralized across very few channels. WeChat is one of the primary avenues for commerce. Everything that you need is there: you can hail a taxi, order your meal, buy a few things, pay your rent, buy an airline ticket, all without ever leaving WeChat. So, it is a system that has been designed without even thinking about conventional retail channels, or conventional methods of payment. It's a model that was created for the digital age. And so to your point, yes, I think that if we want to divine the future five years from now in North America, we should be looking at China.

SS

The other aspect of it that strikes me is how important social commerce is in China. And of course, we're seeing moves by Facebook now to take advantage of, as you put it, shoppable media, using social channels to buy things, connect with influencers, and during a live streaming event, buy stuff in real time. It's quite a futuristic picture you draw.

DS

It is indeed. What we've seen in the Chinese market is a complete collapse of the boundaries between entertainment and commerce. So much of the entertainment landscape has commerce built into it. Opportunities for consumers to connect with, as you say, key opinion leaders or influencers in the market - to connect with specific products that may be embedded within a movie or a television series. Again, Alibaba is a great example because they have this ecosystem that's made up of video production, shipping, commerce, banking, and payments. All of these things are stitched together very elegantly, so that consumers can watch a TV show that's produced by Alibaba - they can shop that TV show while they're enjoying that entertainment - and they can pay for it all, using Alipay. It's a complete ecosystem.

SS

With more and more streetside stores shuttering, the retail industry is in need of "remodeling", as you put it. The answer, you say, is for retailers to adopt what you call a new "store archetype" and deliver something that the apex predators cannot. Is that a fair summation?

DS

That's a very good summation. I don't believe there's room anymore for mediocre brands. There's no surplus market share for them to subsist on. What every retail brand needs to do now is define its purpose in this new world. Purpose is the new positioning. But I don't mean positioning from the traditional standpoint, like luxury or discount. What I mean is a pretty simple litmus test. And the test is this question: if your brand is the answer, what's the question? That sounds like a pretty simple question. But I've asked it of executives at Fortune 500 companies and oftentimes you don't get a clear answer. And so, I provide in the book 10 retail archetypes that retailers can choose from. They are divided into four categories. One is culture: brands that can tell interesting stories, and turn those stories into movements. And so here you find brands like Nike, a real storytelling brand, or Patagonia, a brand that espouses environmental responsibility. The next quadrant is entertainment. What brands do here is surround their products with a theatrical and entertaining experience. The next quadrant is expertise where you offer the deepest knowledge in your category. And the final quadrant is product, where it's the product itself that is the differentiator.

SS

What's a good example of a retailer getting their model right?

DS

Go back to Patagonia, an activist brand which puts environmental causes right at the center of its business. They offer differentiated products by virtue of their recyclability, and the fact they're made from recycled materials. They also offer a differentiation in their expertise. They hire people who are enthusiasts - who absolutely love the outdoors. Everything Patagonia does is aligned with its environmental positioning. It's a brand with a strong position as an activist. And they enable it with people who are enthusiastic about the things they sell.

SS

I happen to be wearing a Patagonia shirt today. You also give another example in the book of a camera store in New York City.

DS

It's called B&H Photo Video. If you're a photography buff, you pretty quickly hear the name B&H talked about online. They have a tremendous reputation for knowledge. Unlike what you find on the Best Buy web site - a stock image of a bunch of people in blue polo shirts called the "Geek

Squad" - on the B&H site you see individual bios of all of their resident experts. And these are people who have spent decades as professional photographers, videographers, sound technicians. And so, is expertise a commodity that can be delivered by any trained store associate? Or do you actually hire experts? Photographers from around the world will order things from B&H which they would never dream of buying from Best Buy. So, identify what your strength is, and go really deep so that Amazon will never ever dream of chasing you down that rabbit hole. It's just not worth their time or effort.

SS

As far as Canada goes, there are two companies that have done very well through this pandemic. One is Shopify, now Canada's most valuable company. Scott Galloway² calls them the anti-Amazon. And then on the other side of that digital divide, you have Canadian Tire, which has had a fabulous year, and yet is very brick-and-mortar based. How do you see those companies evolving?

DS

Shopify is a remarkable company, for sure. They're now the second largest marketplace in North America, just behind Amazon. The gross merchandise volume pumped through the Shopify platform is pretty staggering. But I believe their next move should be to provide a cohesive shopping experience across all of their merchants. Make it a shoppable marketplace where you discover brands that you can't find on Amazon. Canadian Tire has done very well through the pandemic, largely because they've been allowed to stay open, whereas so many other merchants have not. But the challenge for Canadian Tire is overcoming resistance from franchisees to support a uniform level of online sales and delivery. I don't dispute that Canadian Tire has evolved to a point where they now provide ecommerce and logistics services to consumers to a greater extent certainly than they could even five years ago. But it's not up to the level that it needs to be. And frankly, service levels in their stores are not, in my opinion, where they need to be either - just go online and look at their online reviews. Canadian Tire has thrived because it did a very good job decades ago of putting stores in close proximity to consumers. Over the long term, they are going to have to make some very significant changes to both their in-store experience and their online capabilities in order to withstand the kind of change that is coming.

SS

Recently you wrote that “discovery is dying”. What did you mean by that?

DS

I was thinking about iTunes and the degree to which it was a catalyst for how we consume everything today. In the good old days, you’d buy an album because you had a favorite song on it that you might have heard on the radio. But of course, you were paying for all the other songs on the album along with it. And oftentimes, it was listening to those other songs that gave you an appreciation for the artist or the band. Your musical sensibilities were broadened. Today I am deluged by algorithms, feeding me more of the same products that I already like. What I’m losing is serendipitous discovery. And so, it opens up a massive opportunity for retailers to provide consumers with the occasional surprise. Even in this post-pandemic world I think we’re still hungry for discovery.

1. A China retail specialist and author of “New Retail Born in China Going Global”.

2. Scott Galloway is an adjunct professor of marketing at the New York University Stern School of Business, and popular author and speaker.



Stephen Shaw is the chief strategy officer of Kenna, a marketing solutions provider specializing in customer experience management. He is also the host of a regular podcast called Customer First Thinking. Stephen can be reached via e-mail at sshaw@kenna.ca.