

Retail's Wheels Are Falling Off

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Retail Mindsteps (def): Key developments that have caused dramatic and irreversible changes to paradigms and world views in the fast moving consumer goods retail industry.

Retail Mindsteps INNOVATION BRIEF



Gary Hawkins has lived his career ahead of the curve, putting him in the right place at the right time to lead the fast moving consumer goods retail industry into the future during a time of exponential technology growth using never-before-available capabilities to innovate the future of shopping.

His expansive industry view and early insight into disruptive technology makes him a sought-after keynote speaker at conferences in the U.S. and around the world. Hawkins is the author of *Building the Customer Specific Retail Enterprise*; *Customer Intelligence*; *Retail in the Age of I*, and *Bionic Retail*, along with the *Retail Mindsteps Innovation Briefs* and *White Papers*. Hawkins lives in Colorado with his wife Heather, and Remington, their Bernese Mountain Dog..

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A multi-billion dollar regional retailer's IT team fully committed for the next year, can't take time to even talk about new capabilities.

A Top 10 supermarket retailer consumed with multiple projects, unable to begin focusing on new game-changing transformative technologies for months.

Another major retailer in the throes of transformation, consumed with updating core systems, no bandwidth for shopper-focused innovation.

A major wholesaler, their teams consumed with major internal system initiatives, unable to focus on what's needed for their retailers.

Independent retailers are simply overwhelmed; lacking resources, skill sets, and access to transformative technologies.

The Problem

Companies like those above are doing the best they can. Growing IT budgets, hiring more development resources, and trying to move faster... but to little or no avail. Retailers are increasingly overwhelmed by the pace and breadth of transformation as new innovative capabilities flood into the industry. Today's retail organizations are simply not built for this kind of accelerating change.

But that's the world we are living in. We are moving past the inflection point on Ray Kurzweil's exponential growth curve of computer processing power. Indeed, the processing power of a \$1,000 computer is today comparable to a human brain. Within the next 25 or so years that same computer will have processing power comparable to the combined brains of every human being on the planet earth, a projected 9 billion people.

We are rapidly approaching a point where traditional retail cannot keep up with ever-faster disruptive innovation, new digital native competitors, and rapidly shifting shopper expectations. Like the proverbial car accelerating past its mechanical limits, **retail's wheels are starting to come off and a growing number of FMCG retailers are headed for a crash.**

Imagine going out for a walk at a normal 20 minute per mile pace. Completing the first mile you now must double your pace, doing the next mile in 10 minutes, a slow run. Then you must do the next mile in 5 minutes, a flat-out sprint. But then you have to speed up even more. The next mile in 2.5 minutes... not humanly possible. But it doesn't stop there. The mile

after that calls for a minute and a quarter pace. And then 37.5 seconds. Then less than 20 seconds. You can see this gets ugly fast. And you see that the demands rapidly outpace human ability.

That's just the journey the retail industry is on. That \$1,000 computer had processing power comparable to the brain of a lowly mouse just 5-7 years ago. Think about all the change that we've experienced in just the last few years. And things are just getting started.

Traditional retail's challenge to keep pace has already moved from the theoretical to the real world. Computer vision platforms - the technology used in Amazon's Go stores - is game-changing due to the myriad advantages that accrue from digitalizing the physical store. Benefits like labor reduction, 24x7 monitoring of out-of-stocks and aisle hazards, scheduling optimization, improved merchandising performance, and more, can add up to an estimated \$75m performance gain for every \$1b in sales. (*Computer Vision Platforms: Seeing the Future of Retail*)

Amazon recently announced it is closing the company's bookstores and other retail formats to concentrate on grocery and its Just Walk Out technology. This, as Amazon has scaled the technology from its first Go store four years ago (1,800 square feet) to a just opened Whole Foods store (20,000+ square feet).

Where are conventional retailers? A select few have begun to pilot similar technology in small footprint convenience stores, a few other retailers are *considering* pilots. Meanwhile, Amazon forges ahead, planning to open a 37,000 square foot Whole Foods store later this year.

Amazon has linked exponentially growing technology to its business strategy. As the company continues to scale computer vision tech into more and ever-larger stores while reaping the financial benefits, Amazon opens up a growing performance gap vs slower moving grocery retailers. And this is an example of just one disruptive technology.

It's enough to make you file for early retirement.

Retail's response to ever-faster, ever-broader tech-fueled innovation has been to try and do more, faster. But like our ever-accelerating walker, there comes a point where demands simply outpace existing capability. Legacy systems and processes, organizational structure and culture, all constrain retailers from doing things radically different. To move beyond those constraints, retail must look to more fundamental change.

What to do

Some, perhaps many, executives will throw in the towel, figuring it's easier just to ride out the next couple years until retirement and not have to grapple with the gut-wrenching change that's required to survive - let alone thrive - in the coming years.

For those retailers who are ready to forge ahead, there are three things to do to prepare yourself and your company for an ever-changing, ever-faster future.

#1: Change the Way You Think

The first thing that has to change is ourselves, how we as human beings - and business executives - think.

Thousands of generations of people have lived their lives in a local-linear world. Each day we wake up we expect today to be much like yesterday and tomorrow to be much like today. Except in a world of exponentially growing technological capability that is no longer true.

Physicist Albert Bartlett stated nearly fifty years ago that "The greatest shortcoming of the human race is man's inability to understand the exponential function." **Retail executives who fail to understand the exponential growth of tech-fueled innovation and incorporate that understanding into how they manage their businesses are destined to fail in the time ahead. Full stop.**

Peter Diamandis, entrepreneur, futurist, and co-founder of Singularity University, describes four ways to embrace an exponential mindset.

- Always seek to take advantage of disruptive technology, or otherwise risk becoming disrupted by it.
- Be bold in your thinking—don't let past constraints dictate your future plans.
- Use exponential tools, like crowdsourcing.
- Incentivize idea generation—even if there's an obvious solution right in front of you, it might not be the best solution. Ostensibly crazy ideas can be the best way to harness exponential growth.

Realize that there is a fundamental difference between how traditional business executives think about business improvement and how executives in the digital realm think about success. Retail executives think in terms of small incremental improvements, whether it be to sales and margin increases or cost decreases; a 3% sales increase is significant.

Digital native executives though think differently, they have an exponential mindset as Mark Bonachek explains in a Harvard Business Review article. "The incremental mindset focuses on making something better, while the exponential mindset is to make something different. Incremental is satisfied with 10%. Exponential is out for 10X."

Traditional retail executives must understand that their digital native competitors are thinking exponentially, out to make something different, out for 10X change.

#2: Embrace (Process) Automation

Automation of physical activity is well-established in distribution centers and automation of order fulfillment grows as retailers seek eCommerce profitability. Physical automation confers many benefits to the retailer, primarily greater efficiency and improved accuracy. But there's another kind of automation that's game-changing.

Business process automation is growing fast, increasingly enabled by sophisticated AI expert systems. And it is here that retailers can realize significant performance gains; not just in cost reduction as AI systems replace people, but in *better decisions made faster*. Business process automation, applied to areas like merchandising decisions and marketing personalization, is transformative.

Done properly, business process automation can help a retailer navigate changing needs much faster and more efficiently than establishing and documenting new processes, training and supporting people, and monitoring and managing outcomes. Modifying AI models and algorithms can be done more quickly, reducing cycle time and improving decision making as conditions change.

#3: Change your Strategy

FMCG retailers have a long history of being 'followers', letting someone else test out some new marketing idea, tech capability, or process. And for decades that strategy served retailers well, protecting limited resources and thin profit margins. But no longer.

In a world of exponentially growing innovation, retailers need to filter the countless new solution providers coming into the market. *One way to do that is by assessing the performance gains offered by the technology*. Many solutions provide a smaller, incremental gain; other solutions like computer vision platforms and business process automation promise out-sized gain if not disruptive capabilities.

Many of the disruptive capabilities coming into the market are powered by AI and machine learning. AI models often need to be tweaked to the environment in which they're operating, machine learning systems need constant data to do their thing. All this points to a learning curve, time needed to adjust and optimize AI to its task.

The learning curve calls for a need to invest in game-changing capabilities early. This is just what Amazon has done with computer vision technology; the company invested early, learned how to best utilize the capability, and is now scaling the technology. *Amazon has created a flywheel of growing performance gains as it moves up and out the exponential growth curve of the technology*. Traditional grocers following are already four years behind

the learning curve. Four years in a time of exponential technology growth can mean the difference between survival and shutting the doors.

CLOSE

Retail, especially grocery retail, suffers from the inertia caused by decades of slow change, exacerbated by a 'follower' mentality. That retail is a very tactical, hands-on, operational business makes the situation even worse. Retail executives, no matter the size of the company, are consumed every day with fighting brushfires that inevitably arise, demanding attention. In this environment it is difficult to step back and take an objective view of the world, the challenge made even harder when it is a world foreign to us.

And yet that is what must happen. **The danger - and growing risk - of not understanding the exponential growth of technology is, in my mind, the largest single risk confronting retail executives today.**

It is too easy to fall back into the comfort zone of more linear, slow paced change that has been our lives to date. But we can no longer indulge that sense of complacency. *Executives who have responsibility for guiding their companies must awaken each day and consider that the day ahead is no longer going to resemble yesterday.*

It is only with the realization that disruptive change is going to happen far faster than we expect - exponential thinking - that retailers can adopt the changes necessary to forge ahead. Automation, restructuring organizations, changing cultures, transforming business strategy, and creating innovation processes, all can follow but without adopting an exponential mindset those changes will not be enough.