RETAIL AS WE KNOW IT MUST DIE

In 2011, in what has now become retail folklore, Ron Johnson, one of the brains behind the Apple Store, was hired to resuscitate the American department store chain JCPenney. At the time, I was asked to write an article for Advertising Age on whether Johnson would succeed or fail at this herculean task. My feeling at the time was that he would fail – not because he didn't understand what needed to be done and certainly not because he lacked the creativity or knowledge to do it. He would fail, I believed, because customers, shareholders and ultimately the board of JCPenney wouldn't have the stomach for what Johnson would ultimately have to do in order to revive the ailing retailer.

What Johnson understood was that in order for the new JCPenney to be born, the old JCPenney had to die. In order to pump oxygen into an entirely new era of department store retailing, he would have to once and for all turn off the respirator that was keeping this old brand barely alive. And while we can quibble about Johnson's approach to change management, (even he now admits he could have been gentler and more sensitive in his approach) the end result would have been the same. He failed because JCPenney felt more comfortable clinging to the corpse of their brand than working through a messy, uncertain and turbulent resurrection.

It's six years later and a similar malaise poisons the broader retail industry. Everyone is talking about the need for disruption, innovation and change, yet most stop well short of actually doing anything about it. Many retail brands talk about game-changing innovation but what we see are lukewarm iterations of existing concepts and old ideas. Retailers, it seems, lack the will or sense of urgency to effect significant and radical change.

Adding to the numbness is a continuous chorus of bloggers and retail pundits saying the "retail apocalypse" is overblown. They acknowledge that 8,642 retail stores will close in 2017 in North America alone, but somehow always work their way back to telling us the sky isn't falling and we need not be overly concerned. Well, I'm here to tell you that the time for concern has passed. We're well into "shit-yourself" territory.

They say change happens slowly and then suddenly. Here's a glimpse of what suddenly is going to look like. My hope in sharing this is simple; that it may spark new conversations in your organization and initiate the action your business so desperately needs to take. Here we go.

E-commerce will soon drive the majority of sales.

You don't need to multiply a small number by a big number too many times before the result is a huge number. Online retail is currently compounding globally at a rate somewhere between 12 and 35 percent, depending on where you do business. In the US, for example, even if nothing else changes, e-commerce will comprise 25 percent of total retail within 6 short years. In the UK that figure may exceed 30 percent. Perhaps most staggering of all is that within 3 years, three companies — Amazon, Alibaba and eBay — will control 40 percent of planet earth's e-commerce. And this is just a warm-up. Within 15 years, e-commerce will overtake conventional retail sales in developed nations, as a new wave of pervasive technologies take hold.

Products will replenish themselves.

The next profound revolution in e-commerce will come as our connected homes, cars, appliances, product packaging and even the products themselves begin connecting, communicating and transacting on our behalf. The three quarters empty bag of dog food in your home will suddenly have the capability to re-order itself. Using the third-to-last diaper in the carton will trigger the order of 40 new diapers delivered to your door. The light bulb that's going to burn out will order its own replacement, taking into account shipping times from your online provider. Sensors in your running shoes will measure tread depth and trigger a reorder when necessary. These and hundreds of other items will manage their own replenishment. All will be done with minimal intervention from consumers.

Stop thinking 'product' and start thinking productions.

Amazon is already offering free in-home consultations for connected home technology because they know all too well that the company that connects the home owns the consumers that live in it. Whether we opt to subscribe to Amazon, Google, Walmart or some other provider, we will choose a meta-service to manage most of our routine, regular purchases. E-commerce will no longer be something we do but rather something that just is. Within 20 years the idea of pushing a buggy through the centre aisles of a grocery store and lugging toilet tissue home will seem laughable.

Amazon will become the Sears catalogue of the future

The days of pointing and clicking at pictures on a screen will come to an end within a decade. Amazon already knows this, hence its push to develop its Alexa Voice Services platform and Echo devices. But while seemingly invincible today, Amazon, likes Sears before it, will eventually be overtaken by new platforms that completely redefine what shopping is. Technologies like Magic Leap's mixed reality (in which Alibaba is a major investor) will open a new chapter in experiential e-commerce. We will meet with designers in the virtual world who will style and fit us with clothes that we can see and feel. Fitting will be achieved with almost perfect accuracy as zettabytes of manufacturer data feed sophisticated fitting algorithms. We will "travel" to virtual places where we can contextually and viscerally trial the products we're looking for. We will not buy from online "stores," as we do today, but rather from within online experiences that are exciting, entertaining and fun. If you're a retailer struggling to keep pace with Amazon, you're going to have a hell of a time with the company that puts them out of business.

Physical retail will no longer be a channel for buying

With the vast majority of our daily and weekly needs simply coming to us as necessary, the role and purpose of retail space will no longer be principally to sell products. Rather, these spaces will act as living, breathing physical portals into brand and product experiences. They will become places we go to learn, be inspired, see and try new things, experiment and co-create. Beyond mere consumption, we'll go to these spaces for entertainment, education, connection and community. This is not to suggest that there will be no products for sale in these physical spaces, only that the emphasis will not be sales but rather on catalysing a relationship with the consumer that transcends the store. The way these spaces are planned, built, staffed, managed and measured will look and act nothing like the retail operations of today. My advice to retailers is to stop thinking "stores" and start thinking stories. Stop thinking "product" and start thinking productions.

There will be a retail refugee crisis.

Nearly 4.6 million Americans work in retail, making it the country's number one employer. Indeed, in many developed countries retail represents one of the most, if not the most populous of industries. Amazon has already proven that it can build a store without cashiers. And cashiers are just the beginning. Robotic customer service staff, fully automated warehouses, bot-staffed call centres, driverless delivery trucks and even the displacement of store management by artificial intelligence are all clear and present realities. Any human being that doesn't generate added value, either through creativity, expertise or intuition will be expendable. We can debate the morality and ethics of this endlessly but the certainty remains that retail workers will become the blacksmiths of their era.

As a retailer you need to decide now which side of this line you're going to stand on. If it's with the robots, start investing in the technology now. If you choose people, prepare to pay for the very best in the market. There will be no alternative between the two.

The economic model for retail will implode

If you're fortunate enough to sell something no one else on earth sells you might dodge this bullet. If not, you better find a new way of making money. This is because the wholesale-to-retail model is coming to an inglorious end. Firstly, brands are fleeing the confines of wholesale distribution in unprecedented numbers, largely because they can and secondly because it just makes business sense to do so. Technology has advanced to the point where the ability for brands to reach consumers directly is not only possible, it's preferable. Through vertical integration brands cannot only better manage their margins but also their brand image and customer experience.

This will put retailers in a position where the brands they call "vendors" are also competitors for the same shopper. In essence, even if they win, they lose. By selling more products they only feed the enemy's war chest. This sets up an untenable situation that private labelling can only partially remedy. Simply, the economic model for retail will require a complete reimagining.

Some smart retail start-ups are already doing precisely this. California-based electronics retailer b8ta treats retail as data and sells consumer engagement analytics back to the brands they represent, offering insights they wouldn't otherwise get, and giving b8ta a unique and recurring revenue stream. New York's Story sells experiences, working with brands to curate and produce beautifully executed, in-store events and they're paid handsomely to do so. These are the sorts of pioneers that I feel will lead an entirely new class of experiential retailers over the next decade; retailers that use their physical stores not to sell products but to sell experiences that involve products. These new experiential merchants will be intensely creative masters of retail stagecraft, and experts at executing and measuring consumer experiences.

The physical store will become the most powerful and measurable media channel available to a brand, and the customer experiences that take place there will be the most profitable product a retailer can sell.

So, it's true that retail may not be dead. But therein lies exactly the problem. Until we let go of the old era we can never fully move forward into a bright new age. If we really want to save retail, we've got to let it die.

Doug Stephens is a retail industry futurist, founder of Retail Prophet and author of 'Reengineering Retail: The Future of Selling in a Post-Digital World