Future of Nordic Retail | 1st edition

How to prepare for tomorrow’s challenges today
| 01 Foreword                      | 3 |
| 02 Methodology                  | 4 |
| 03 Introduction                 | 5 |
| 04 Trends shaping the future    | 6 |
| 05 Society and structure (Institutions) | 8 |
| 06 Consumers (Demand)           | 10 |
| 07 Retail (Supply)              | 14 |
| 08 Shopping (Process)           | 18 |
| 09 Roadmap of the future        | 22 |
| 10 Scenarios we may encounter   | 24 |
| 11 How to prepare for the future| 30 |
| 12 Appendix                     | 34 |
| 13 How EY can help              | 35 |
The retail industry is disrupting fast: shopper behavior is evolving and new technologies are creating better ways to do business. To achieve profitable growth, retailers must find the right balance between what worked in the past and what’s needed for the future. In this report, we focus our attention to the future of Nordic retail and what actions retailers need to take to meet the trends that are emerging already today.

EY has initiated this study and Kairos Future – a leading knowledge agency in the Nordic region – has written the report to investigate the key trends shaping the future of retail. From these trends a set of potential future scenarios have been identified, together with recommendations on how to prepare for them.

EY has given input to the report and helped in identifying retail experts to interview and include in expert panels.

As a global firm of 230,000 people, EY looks forward to seize opportunities and shape the future with you. We hope that you will enjoy reading this report, that it will help you question old thinking and turn strategies and tactics into actions that drive your business forward.

Arne Matre
Nordic Consumer Products & Retail Leader, EY
This report is written by Kairos Future, on behalf of EY. The data for the report has been gathered primarily during the time period Oct 2016 - Feb 2017, in three steps:

- Individual interviews with 13 business leaders and experts in the Nordic retail market
- An extensive future retail survey, responded by 80 retail experts in the Nordics
- Workshop with an expert panel consisting of 21 innovative retail profiles in the Nordics

Lists of participants for the different sessions can be found at the end of this report.

This study has been made with extensive research and in cooperation with industry professionals in the Nordics. It does include several estimates and thoughts of the future. These are the result of the study, the interviews and the experience of the team and people involved. The final judgement is made by Kairos Future, and EY does not take responsibility for this.
"What does a CEO get to do? You’ve got to pass judgement on an uncertain future and curate culture."

Satya Nadella
CEO of Microsoft in Fortune Magazine, December 1, 2016

The business leaders we talked to while creating this report seem to agree with Nadella. But there is one thing in the quote worth noting: Nadella assumes the future is uncertain. This is of course always true, but perhaps the future of society is particularly uncertain right now. Retail has entered a transformative era with change unlike anything seen in a long time. Considering the rate of change it is likely the most dramatic development ever. For CEOs and business leaders in general “passing judgement on an uncertain future” may be more difficult and more important than it has been in a long time. In this report we try to draw a map of the future with a focus on how shifts in technology, society and consumers shape the future of retail. We will try to give you a summary of the situation today and the context of tomorrow.

Will we go shopping?
We used to go to work, go shopping, go to the doctor, go to school, and go home. We don’t need to go anywhere anymore. In the modern liquid world we can do everything anywhere. Learning, healthcare, shopping, work and many other activities can take place without needing a particular location. But this does not mean we have stopped moving. On the contrary, we behave like modern nomads, with our personal sphere constantly in transit. The concept of shopping may be different in the future and we might not talk or even think about shopping the same way. We think the expression “go shopping” will be less and less relevant in the future when shopping becomes an ongoing process intertwined with life and hard to define separately.

Will we shop at all?
We don’t need to go anywhere to shop today, and in the future we might not even have to pay, search, select, compare, try on etc. Maybe restocking will be automatic with no action needed by the customer? Identification and payment completely silent, by way of gesture tracking, fingerprints, iris scanning etc. Shopping may involve the actual consumer less and less. We can choose to spend time trying on skirts if we like or not at all, fitting might be unnecessary with the aid of technology and records of past purchases. Or take washing detergent. Will consumers need to bother buying this or will some connected sensor understand that a refill is needed and place an order? Either way the customer will have a smooth shopping process.

Change accelerates or?
“The only real change for consumers and brand builders is that all change is accelerating,” as A.G. Lafley of P&G put it in a speech in 2006.¹ Future thinkers are talking about exponential change, things moving faster every year. In this environment, consumers may actually look for something slow. Businesses need to do the same. There is a need to stop running, take time to reflect and contemplate what paths forward are the most attractive. We hope this report will help you do that.

¹ A.G. Lafley 2006 at ANA’s Annual Conference: The Masters of Marketing
Trends shaping the future

Trends are a key element in future studies. In this context, trends should be understood as long term changes over at least three years. Trends are also meant to be visible today, happening already - not beliefs about what will happen in the future. In this report we will not stop at identifying trends, we will use them to describe likely future scenarios and in the end offer some thoughts on how business leaders should address the future, today. Or in essence: What do we recommend you to do in the next five years in order to be more successful in the next ten to fifteen years?

Four areas

Our trends come in four different categories and in two different forms - Early development trends and Stable growth trends. You find them in the illustration below. The four categories are as follows:

**Society and structure (Institutions)**

Since Johan Naisbitt wrote the book Megatrends in 1982, much of what he predicted has become reality. On the other hand, many of those megatrends may have run their course and new ones become relevant. Society is about to be transformed, with new institutions reshaping the foundations of society.

**Consumers (Demand)**

The people (or the consumers) and their changing behaviors, attitudes and desires shape the future of retailing. Their influence has always been strong but perhaps their way of life, preferences etc. change more quickly these days than before? Retailers and consumer product companies have to be more relevant for consumers now than in the past - otherwise they could lose touch with their customers completely. Knowing where to find them and how to make them come back to you is a big challenge these days.

**Retail (Supply)**

Retail used to be a stable industry. New entrants used to be easy to monitor, since stores take time to build. Now technology is an enabler of alternative forms of retail. Technology has provided us with possibilities we could hardly imagine. In 1999, the visions were ahead of reality. Today it is often the other way around: visions are less futuristic than reality. Our ideas for the future have surprisingly often already happened in another part of the world, or just around the corner.

**Shopping (Process)**

People and technology provide the frame within which retailers, consumer product companies and other parts of the consumption ecosystem evolve. The shopping process has become a web of interactions where the before, during and after shopping processes is very different from in the past.
Society and structure
(Institutions)

The cities’ world
Global friction
Institutional innovation

Circular economy

Shopping (Process)

Buying process polarization
Value chain blur
Trust brands

The offchannel journey
Service economy

Adapted and agile shopping
M2O – Mobile to on & off line

Low cost, low margin

Consumers (Demand)

Unequal consumers
Partsumers
Reversed youth
Cautious consumers

Retailers (Supply)

Early development trends
Stable growth trends
The cities´ world

Urbanization is still ongoing and has many effects on society. While politicians in the Nordics historically have been looking into problems with the rural areas over time, the focus continues to shift to the larger cities. The Copenhagen region is already home to almost a third of the Danish population. Stockholm is also experiencing a rapid growth. The problems and the solutions of the cities are becoming more and more in focus. The citizens of the cities are sometimes called urbanites with distinctive needs and preferences, one being the antithesis rurbanism. Rural desires among urban populations have brought this trend rurbanism to cities, where city farming, rooftop gardens, parkour, farmer’s markets are examples of how the feeling and possibilities of the countryside is embedded into the city.

Cities themselves are seeing their power increase relative to the nation and they have started to become more active in city forums, trying to solve the problems of cities and of society in general with discussions on topics such as democracy, smart cities etc.

The urban world also forms a new context for retail. In the city, resources become even more scarce and over-utilized. Utilities, roads, buildings, air, everything becomes subject to increased use and needs compromises. City planners talk about urban pressure. There is less room for everything. Of course, this includes homes, offices and retail space. Everyone has to make use of space more effectively.

Global friction

Friction in general is seen as the equivalent of red tape, inertia and hurdles. It reduces efficiency and prosperity. However, it is worth noting that friction is also necessary for life. Without friction, we cannot walk. In space, it can be challenging to eat and drink without gravity - gravity, a force keeping things down, has a benefit too.

For a long time, free trade, innovation and openness to new ideas have been leading principles in society. But even as we hold these ideals and values in the abstract, there seems to be a growing skepticism about the benefits of a frictionless society.

One of the reasons is probably the breakneck pace. As Wendy Lieberman put it in a presentation at the NRF BIG show in New York in 2009: “people experience anarchy”. In this context it is quite natural that Norway got worldwide attention for inventing “sakte TV” or “Slow TV”. World famous Danish marketing expert Martin Lindstrom has also predicted the coming of Slow.1 From a business and economics perspective, The Economist has written about the Gated Globe some years ago2 and recently discussed the new context for global business where trade barriers might be more common. The share of revenues coming from abroad for S&P 500 appears to be going down. The estimate from the WTO is that global trade grew at a lower rate than global GDP in 2016 for the first time since 2001 and for the second time since 1982.3

Some nations start to question global legal agreements such as taxation. National self-interest comes first. Growing nationalism, increased difficulties with agreeing on reducing global and regional trade barriers, and the protection of data behind national borders (and controlled by consumer as opposed to companies) are some examples new world leaders have to learn to deal with.

Circular economy

Consumption used to be an end state. Today people see it as something more temporary. Consumption can be followed by others’ consumption. Consumers like to rent, share, resell, borrow, pool, give away etc. Owning, storing, and maintaining things is burdensome and costly, and throwing away waste is a problem. Zero waste is a growing mantra. In the food industry, a zero waste ambition has been growing and spreading among restaurants, retailers and food manufacturers.

Technology helps a circular economy happen. It is easier to find a second user of a car or a sofa than it was 20 years ago, thanks to the Internet and various companies. The need to store DVDs and CDs is going away when streaming or downloading becomes the preferred way to buy. Technology is also lowering the value of ownership. Software is a growing part of business value, or "software is eating the world", as Marc Andreesen put it an article in the Wall Street Journal.4 Owning something becomes less attractive when it has to be upgraded and all the features and all the value is dependent on the software.

At the same time, resources are more limited. Especially space. As it is becoming a constraint in cities, ownership of physical objects gets costlier. Storing and transporting skis to a winter destination can even be more expensive than renting.

---

1 A futurist also explains why we are all about to slow the F*** down, GQ magazine April 27, 2016
2 The gated globe, The Economist, October 12, 2013
3 Global trade is slowing, Bloomberg November 17, 2016
4 Why software is eating the world Wall Street Journal, August 20, 2011
Consumers are also aware that social reforms are needed, and that current politics will not solve society’s problems. Besides an obvious interest in environmental sustainability, consumers are increasingly committed to economic and social sustainability as well. Awareness that we as consumers can make a difference to society is growing. International analysts claim engagement is slowly on its way back after a lull. The age of the activist consumer is coming. However, what we see in our studies is a political engagement of a more intense but temporary kind. Maybe this is better adapted to the project-oriented social media-based society we have today, with consumers voting with their wallets, using both boycotting and “buycotting” (i.e. actively choosing products from responsible brands) to further their ideals.

Institutional innovation

Retail is far from the only industry being transformed today. There seem to be a broad paradigm shift going on in society. Established institutions are challenged to a larger extent than we are used to. Institutions we took for granted are now questioned, like the nation state, the EU, the market, the media, politics, medicine, culture, democracy, money etc. What is perhaps most striking is that the criticism and questioning comes from the inside more often than the outside. Capitalists criticize the market, journalists criticize the media, and politicians criticize politics.

During the 20th century supranational bodies like the UN, IMF, NATO, EU, ASEAN became more important institutions, as did the singular individual. It remains to be seen what institutions will shape the 21st century. People, all over the world, long more and more for reformed and new institutions, new structures to rely on in an uncertain world. We may see cities as one form of institution with increased importance but there will be others too. Consumer tribes may be our new loyalties. Technology titans can become the dominant global institutions.

“61% of millennials are worried about the world situation and feel a personal responsibility to change things.”

Huffington Post 5

---

5 Why millennials are providing the tipping point for impact investment, Huffington Post July 21, 2016
Unequal consumers

The growing asset and income inequalities within nations has been highlighted more and more by the media, during the past five years. The richest 1% of the global population makes about half of the world’s income, and according to Oxfam, the top 8 richest men on the planet own as much as the poorest half of the world. This might have some implications for retailers since extremely rich people’s consumption could be very different and relatively modest in relation to their assets compared to less wealthy people. A given level of GDP growth might not have the same effect on retail as if incomes and assets were more evenly distributed.

More importantly, “unequal consumers” seem to be a trend in several respects. Social media contributes to a fragmented world where consumers are served different content tailored to their own interests and values. This is known as a “filter bubble”, which contributes to a situation where a quarter of the young population can be daily users of a media platform such as KiK, while people over 30 hardly know what it is. It is also likely a reason why election results are often so surprising to many people. The contact with other people’s opinion may be more restricted than before.

Health, education levels, income, digital knowledge etc. may be more unevenly distributed than ever. This may have a lot of
effect on the possibility to target broad groups of consumers, and even understand consumers. These differences may also be more and more visible in the shopping environment. Shopping malls in some areas have become entertainment parks for the poor, since they have less space elsewhere.

**Reversed youth**

The baby boomer generation (born 1945-1964) has been the focus of much recent change in values. They have been called “the first teenagers”. In other words; the first generation to spend free time and money with their friends without major obligations. They were also the first mass consumption generation. They are more individualistic, open-minded, and anti-authoritarian than older generations.

The new young on the other hand, tend to be rebels of a very different kind. They challenge the old generation by being more concerned about stability and basic needs. Finding a job, finding someone to marry, having children and being a good parent are the primary goals in life for them. One example is that alcohol consumption among teenagers has been reduced with 50%, shows several studies in both Finland and Sweden.¹

This prudent and respectful generation has been branded “MYGOA:s” -Millennial Youth Goes Orderly Adults.

Retailers note: going by temperament, the old are the new young and the young are the new old.

**Cautious consumers**

There is a new balancing act among consumers around the world, and the underlying driving forces are connected in a complex and sometimes contradictory way. This new quest for balance is present in many aspects of consumers' lives. It is about balancing private consumption with sustainability. Consumers understand that the current path is not sustainable in the long run, neither for ourselves nor for the planet. Accelerating change, a prolonged economic crisis, increased stress, and “a feeling of living amid broken systems” create increased resistance, risk aversion and a search for anchoring, trust and localism. We see the rise of cautious, hesitating consumers. Even now, as the world economy is recovering and consumption stabilizes, many consumers remain reluctant to open their wallets.

Is there something in play other than just reactions to a lingering economic slump? It seems likely that several trends reinforce each other and that cautious consumers are important to consider onwards. There are more people openly questioning if consumption is a route to happiness. One term for this is "enoughism". People want to take control of their lives and completely or partially adopt a simple lifestyle that involves eschewing consumerism. They want to be smarter in how, why, and what they buy. Consumers use restriction as a strategy when it comes to food, drinks and drugs, but also consumer goods. By saving, using and re-using resources of all kinds, you signal smartness that correlates well with what urban smart living is all about. Kairos Future’s research covering long-term change in young people’s values shows

a recent shift towards more savings. Despite low or even negative interest rates people are saving more. We have since the nineties asked young people what their interests are and found that dance was way more popular than saving money. In 2015 saving is more popular than dancing, by far.

A small, but growing number of consumers are becoming Economistas, talking about the importance of managing your private finances and balancing shopaholism with saveaholism.

The worried well
People of all ages are proactively addressing health in a more sustainable and holistic manner. They are more cautious and more actively looking for smarter, feel-good choices that are better for them and for the world. Main drivers for this health-related caution are increased individual responsibility for managing health, health as a new status marker and the idea that better health helps us cope with stress and release creativity. Active living in an aging society fuels this growth, perhaps surprisingly even for the already healthy. The LOHAS (Lifestyle of Health and Sustainability) is a growing global lifestyle-tribe that puts concern for environment and health in focus. The last couple of years we’ve noticed a shift towards food and health as new markers of status or even a religion/philosophy of life. A growing group of consumers, the “Worried Well” drive demand for clean food and various “free from”-products with the hope of staying healthy, live longer and become smarter.

Partsumers
Of the Nordic industry experts that participated in the survey, 67% believe consumers and celebrities will become more important marketing channels than mass media within five years, and 94% say it will happen within ten years.

Consumers are not only consumers but also prosumers. They contribute to the production of their own consumption goods. They may sometimes only partially consume something before selling it to someone else who can continue the consumption. Consumers are increasingly being partners to the retailers and brands. Or as IKEA puts it: “you do a little, we do a little”.

This is also seen in so-called shared brand ownership. Several brands are beginning to grasp the dynamic model where consumers share brand ownership with marketers or retailers. Trend institutes like PSFK report brands’ “layers of micro-customizations”² create symbiotic relationships where brand and consumer rely on one another for support and collaboration. Some retailers have invited consumers into the innovation process to have conversations about the design of products or stores, and integrate feedback from customers from all channels to help with adjusting displays in the shops or showrooms.

Digitization is having a profound impact on marketing already. Some theorists divide media into four categories:

- Purchased media
- Shared media
- Earned media
- Owned media

² PSFK Future of advertising July 1, 2016
Purchasing media used to be the dominant activity for the marketing department. Now, this is a shrinking part of their work. Consumers increasingly avoid purchased media. If we look at the most popular YouTubers, there are hardly any companies represented. There are some celebrities, but primarily amateurs who do their thing and get people to like them, or at least pay attention to what they are doing. The professionals on YouTube are mostly from the music scene and usually charge people for listening to them in other channels.

Most important is perhaps the rising role of influencers – those liked by consumers, with a lot of followers on platforms like Instagram, YouTube or Snapchat. A striking example is Daniel Wellington, a watchmaker who made yearly revenues of 180 million Euros in less than five years.3 What is most unique about their business model is the focus on influencers in their marketing; sending out watches to influential people has been a road to success that many now try to copy.

3 This 33-year-old who couldn’t afford a Rolex has built a $180 million watch empire in less than 5 years, Business Insider June 14, 2016
"Stores will change more over the next twelve years than they have over the past fifty years."

Paco Underhill
CEO and founder Envirosell, in interview 2008

Adapted and agile shopping

With less than four years to go, we can conclude that Paco Underhill was both right and wrong. Physical stores might not have changed that much, but the complementary channels and the shopping process definitely has. If we look into the future there is likely to be even more transformation, including in the physical retail network.

The fixed physical spaces will have to adapt to a faster moving retail arena where the physical has changed into the digital, and the digital into the mobile - from computer systems to consumers’ smartphones, which will control more of the shopping process. New and specialized store formats will become a larger part of retailing. One driver is urbanization, which makes space a constraint and more consumers locally available, offering opportunities for more specialized stores.

This drives for example a growth in vertical retailing to make use of space above and below street level. It also drives store formats with more efficient storage, such as show rooms or stores with fewer products on display and with storage in other locations. Digitalization also opens up for new distribution models such as flash sales, mobile purchases and formats where interaction with digital devices is supported in the buying process. Temporarity is intriguing for consumers in the contemporary shopping landscape where everything is offered in abundance. Temporarity means that campaigns, stores, and opportunities are limited. Pop-up stores have been around for a while but seems to continue to grow.

Of survey respondents in this report, 80% believe that within ten years a majority of online purchases will be sold with an offer of delivery within two hours (perhaps with an additional cost).
Delivery solutions are in general of great interest as an arena for innovation. More retailers use what the Wall Street Journal calls Dropshipping, a phenomenon where retailers route their goods directly from the supplier to the end customer. The phenomenon makes it possible to expand online selection without building stock. ICA has tested delivering directly to your fridge made possible with digital locks of doors, Volvo has developed in-car delivery (where a delivery firm can open the car and put the package into the car). In Finland, companies deliver to certain pick-up locations similar to click and collect, but where the collection point is temporary. Autonomous vehicles will probably trigger a new wave of innovation in distribution solutions.

80% of survey respondents believe that within ten years, temporary sales locations like pop-up outlets will constitute 5% of total physical retail sales

"Forward-thinking retailers will need to find additional ways to make each customer’s experience unique and make all efforts needed to make shopping faster, safer, and more enjoyable for customers.”

Ingårill Ulvdell
Country Merchandising & Marketing Manager, Lindex Sverige

Agility and adaptation in shopping places will increase along with the ability to customize offerings for the users. Stores, marketing, shopping experiences, offerings, deliveries and more will be significantly more adapted to the consumer in the future than they are today.

Low cost, low margin

Low-cost retailers continue to take market share almost everywhere. They are considered a major threat among grocery retailers interviewed in this report, but this may primarily represent a different level of trend maturity. For non-food retailers, the importance of low cost has been evident for many years. There is hardly a retail segment where retailers with below average price perception have not outperformed those with higher price perception. A premium retailer can outperform the market, like Waitrose in the UK, but it is the growing market share of Aldi and Lidl that Tesco and ASDA have to focus more on.

"We have had the same experience (like Wal-Mart): when we made some stores nicer, they sold less.”

Søren Torp Laursen
CEO, TOP-TOY

Consumers seem to have little tolerance for paying more for the same product - even if it is sold in a better looking store. An even more striking thing is that nicer stores may result in lower sales for a particular retailer: While the price perception for a given retailer should be fairly constant, the effect nicer looking stores have on sales tells us something different. If stores give the impression that “we are going to charge you more” there has to be a very good reason for that, otherwise consumers prefer buying the same goods through cheaper channels. In some cases, low-cost stores can also be role models. According to Danish retail expert Bruno Christensen, Lidl’s new store format is now the main inspiration for food retailers in Denmark.

Low-cost retailing contributes to lower margins, but there are even more challenges. Many new entrants seem more

1 http://google-system.blogspot.se/2010/08/eric-schmidt-on-future-of-search.html

Google, August 16, 2010
95% believe the majority of consumers will pay with a mobile phone and not to a cashier in physical stores within the next ten years.

Interested in a growing market share than making a profit. In online sales, the popularity of free shipping is one example. It is quite clear how many online players are happy with growth as long as they do not actively lose money. There are discussions on whether there are any economies of scale – especially since Amazon is not very profitable; Amazon's profit primarily comes from cloud services. On the other hand, there used to be a trade-off between growth and profit margin and it is likely that Amazon could cut their impressive growth in half and make a handsome profit. Low-cost retailing and lower margins seem likely to remain challenges in the future. This may also be true within e-commerce of food.

"In five to ten years’ time there can be a breaking point, e-commerce will match in-store prices and maybe be the low price option in the future.”

Truls Fjeldstad
Director of Marketing and Business Intelligence,
Norgesgruppen

M20 – Mobile to on & off line
Retail professionals used to discuss “webrooming” and “showrooming”. This can be expressed as O2O – “Online to Offline” and vice versa. In the Chinese retail environment this has now shifted to O2M, meaning that regardless of whether consumers are online or offline, they are always with their mobile. In the media industry, we see a similar development reflected as a separation between first and second screen. It is not enough to know if you are on the consumer’s screen. It is very relevant to know if you are first, second, or third screen. Wherever consumers are, they usually have more than one screen, one of them being their mobile phone. The use of mobile is an area where China may be a frontrunner, possibly alongside South Korea.

China’s influence on the future of retail could be much greater than most people expect. In fact, e-commerce is possibly one of the most important channels for Chinese influence on society in general. According to e-marketers, Chinese e-commerce is expected to cover 60% of worldwide e-commerce by 2020. Even further, mobile e-commerce in China is expected to equal all other e-commerce in the world. This will of course drive a lot of innovation and focus attention on mobile and the Chinese market.

Among industry experts in our survey, 95% believe the majority of consumers will pay with a mobile phone and not to a cashier in physical stores within the next ten years.

2 China Eclipses the US to Become the World’s Largest Retail Market, eMarketer August 18, 2016
Trust brands

Several international reports, as the Forrester Report quoted above, emphasize the importance of trust as a dominant driving force for brands' success. In an increasingly complex and rapidly changing business environment, the definition of trust is changing and brands need to understand what expectations the public and consumers have on the brands in order to lead and not only follow. The traditional advertising discipline is gradually losing its power in the digitized and social mediaficated world. The human attention span shortened from 12 seconds in 2000 to 8 seconds in 2015.³ Adblockers increase in numbers and are becoming mainstream.

In the survey conducted for this report, 80% of respondents believe Adblockers will reduce consumers' attention by more than 80% within ten years.

Market research shows that consumers' trust for brands own communication is going down and the things consumers trust are other consumers, their ratings, and to an increasing extent independent influencers or consumers with a demonstrated skill or interest that they write and talk about on social media. Brands are realizing that they have to stop pushing activations onto consumers. Instead, they have to create digital engagement and adapt content, context and channels to be relevant for individuals and communities and always be open for audiences to collaborate and have a dialogue.

For many categories and segments like in the food and groceries sector the public wants traceability, authenticity and locally produced goods in order to build trust. In times of anti-globalization the locally produced might be even more of a trust building factor.

In a world with growing power of media and retail platforms, a trusted brand is almost necessary to get through to consumers.

86% of survey respondents believe that within ten years a majority of consumers will have longer lists of businesses they block advertising and purchases from, than businesses they are willing to buy and receive advertising from.

³ You Now Have a Shorter Attention Span Than a Goldfish Time, May 14, 2015
Buying process polarization

One strategy to counter the threat from online retail has sometimes been to focus on customer experience and service. This strategy can prove helpful but must also be seen in the light of decreasing customer attention, and the fact that many other things are offering better experiences too. Online games offer much better experiences than they used to 20 years ago, and competing with this is not easy. It is interesting to see how some of the major players within retail now move heavily into gaming and e-sports, the purchase of Supercell by Tencent being one of the more bold moves.

At the same time low cost, no friction retail also increase substantially. Fabian Bengtsson, Chairman of electronics retailer NetOnNet, and winner of EY Entrepreneur of the Year 2016, bought the online retailer NetOnNet and rebranded his family’s company Siba into NetOnNet. The stores focus on warehouse atmosphere. In an EY gathering in 2016, Bengtsson said that there were benefits to the concept – closing rate was fantastic since people go there entirely for shopping – not for the experience and not to be entertained.

The book Köprevolutionen (The buying revolution) discussed the different needs of different purchases. Some purchases are seen mostly as hassles, adding problems to people’s lives. Consumers need to do them, but do not find them joyful. On the other hand, shopping is also one of the world’s most common leisure activities, perhaps the most common. For these purchases, consumers are ready to invest their time and energy. Sometimes it can even be fun to stand in line and wait for a concert for example. It is important to note that most categories have a fair share of pleasure purchases.

The report Nöjesplånboken from Svenska Spel (The Swedish...
state gambling company) from 2011 estimated Swedes’ pleasure consumption to 48% of sports equipment, 40% of clothes, and 16% of food as an example.

We call these two kinds of purchases ‘need purchases’ and ‘pleasure purchases’. Need purchases are purchases consumers have little interest spending time with. The consumer wants to minimize these buying processes. Pleasure purchases on the other hand can take time, involve other people, many touch points, experiences etc.

**Need purchases**
Frictionless life and shopping is still in demand and more is coming. Amazon launched its thumb-sized Dash button in 2015 and is increasing its effort. More items will be ordered with a push from various places in your home. If toothpaste, pampers, coffee or washing powder is missing, push the button in the bathroom, on the espresso machine or the washing machine. Until now, the purchasing has been based on one physical click of a button. Now even that physical obstacle is taken away and the button is digital. Looking to shrink the time between ‘want’ and ‘buy,’ the e-commerce giant has taken the liberty of stuffing your browser with plenty of dash buttons that reflect your most recent purchases.

We are also seeing the emergence of “silent shopping” where the purchasing process become even more frictionless. Dishwashers, washing machines, home printers etc. will soon order refills automatically with integration to Amazon Dash. Consumer products start to know when they need an upgrade or a refill. Your car demands service, your washing machine tells you it needs refill. In the near future, they will do the refill and services without your involvement. Maybe your clothes purchases too...

**Pleasure purchases**
The pleasure purchase is a process where the consumer wants to invest time, energy and money. All of a sudden, one starts to get interested in brands, ads and other parts of an expanding buying process. When we focus on a typical pleasure purchase, today’s consumers are more experience driven and interested in a brand’s or product’s contextual settings, what is around and beyond the actual product. In fact, more consumers are willing to pay more for an enhanced “brand experience”. More brands need to experiment more and on a higher level in order to create the right wow-effect. Premium brands might be more experimental and offer exciting services that create an added dimension and inspiration to the purchase. In our research, and in discussions with the expert panel, we have found that the physical manifestation of the brand is ever more important in an ever more digitized world. Surveys are pointing out that Millennials are more loyal to brands that offer experiences and they want interactivity and memorable entertaining experiences most of all. They love to learn something new at the same time. It could be wise to implement entertaining play moments and gamification into product offerings and communication.

Pleasure purchases should not be confused with intense, nightlife experiences only. In Tokyo, so called Silent Cafés are becoming popular and Fangsuo bookstore is one example. Many traditional shopping centers like West Field is focusing on creating oases of mindfulness in the midst of all shopping activity. Augmented Reality is used in more places and environments as a way to create green and natural spaces. GlobeTrotter have successfully used this technique in their shopping environment. Sonos’ flagship Store in New York is a great and successful example of trying to create a homey and “cosy” type of shopping experience.

“Retail is not dead, the old way of doing it just has to make room for new “kick ass” experience platforms that involve all your senses and add more value than just “products”, since products are generic. Faster, better, smarter, funnier and more tailored for every individual’s need is key.”

Anton Granlund
CEO, Global retail
The offchannel journey

When we talk to Jonas Ogvall, Head of Swedish Digital Retail, he says that in general 80% of durable goods sales are Googled. While retailers have been oriented towards an omnichannel strategy it is important to know that this perspective is usually focused on coordinating owned channels.

From a consumer perspective it might be more relevant to talk about a liquid shopping experience, an experience where the process of buying goods and services increasingly takes place outside the retailer’s owned channels. Discussions, searches, rating sites, price comparison sites, social media, meta search, and more, there are now an increasing number of intermediaries, channels, and touch points that become part of the buying process to a greater extent than in the past.

The more visible part of this development is that consumers do not need to go to the store anymore. Car dealers throughout Europe talk about foot-fall dropping as much as 75%. Some business users make car purchases over the phone nowadays. Visiting the car dealer, test-driving etc. is not necessary any more. This is perhaps an extreme example, but the trend is similar in retail in general. Consumers can be influenced and make their customer journey outside of the retailers’ owned channels to a much larger extent than before.

"I've been reflecting upon us being introvert still. Omnichannel is discussed from the standpoint of our own channels. Consumers are doing other things than being in our channels."

Ann Carlsson
CEO, Apoteket

One fairly new innovation in some categories is to simply send the products to the consumers upfront, also known as Box selling. The customer then chooses what items to keep from the box and returns the rest. This can be interpreted as one way to circumvent the fact that getting consumers into your channels is so difficult these days. Sending the offers directly to their homes, minimize the effort to make the consumer consider the products. A proposed benefit in the long run claimed by these firms, is that over time they will learn what you like and what you do not like. With that data, the box seller can adapt the content of the box to the preferences, previous purchases, correlation with other consumers etc. In the end, the selection of items in the box may become amazingly attractive and relevant for the consumer.
Value chain blur

In a survey among marketing managers in Sweden 2015², more than half thought that media and retail would have merged before 2025. In this Nordic survey, 72% of respondents said that business leaders within the industry will find it hard to differentiate consumer products companies and retailers before 2025. There seems to be a blurring line between a consumer product company, a media company, and a retailer, when most of them become all these three things to some extent.

Large retailers are increasingly launching private labels and become brands. This goes for both food retailers and non-food. Some of the more successful “retailers” in the Nordics such as H&M and IKEA are just as much brands since they almost exclusive sell their own products. Within food, the trend towards more private labels has been going on for a long time. Now the emerging private labels of companies such as Amazon, is putting brands in a more challenging position.

In both Finland and Denmark, food retailers have joined forces to try to create a platform for purchases. This can be seen as an effort to reduce the impact from retailers launching more and more private labels.

Google is an obvious example of a company, which only used to be seen as a media platform, and is becoming increasingly important. Now they are not only a monopoly in their category, but increasingly act more and more as a meta search engine trying to be the first point of searching for any item or retailer. If you look for a trip from Helsinki to Amsterdam, Google can give you the different travel agents’ prices right away. The same goes for shopping. If you look for a washing machine or a perfume, Google will provide you with the alternative shopping channel. This contributes to the pressure on margins already seen by retailers and force them to think of launching their own products and media channels.

“Service economy

In some segments of the market, the growth lies outside of the core competence. Sports retailers have been successful at moving into apparel. Now apparel retailers are moving into sports fashion to counter this development.

In the grocery sector there is a very long term trend of increasing share of the food market within hotels, restaurants and cafés. It is very natural that ICA has a strong focus on serving these consumer needs and not lose them to other channels.

Pharmacies are also expanding their range of products and even moving into services. Ann Carlsson, CEO of Apoteket, also mentions the challenge of being paid for services. Consumers seem to like them, but they do not want to pay for them. For Apoteket it is clear that they have to calculate the benefit for other offers such as extra sales of products in the store to find a business rationale for the services.

It is important to note that there are differences to what we regard as a service. Electronics retailers may make a majority of their profits from insurance and financing, these are also called services. However, paying personnel to do something for you seems more difficult, at least outside of personal care.

An increasing number of consumers are experiencing the benefits of not owning but accessing. Subscription services such as Spotify, streaming movies over Netflix or car sharing opens the eyes of consumers to these benefits. Newspapers, online gaming, razors, computer software, food bags, gym clubs, beauty care boxes like Birchbox, apparel boxes etc., the number of categories sold as subscriptions are increasing.

Therefore, as an economy and a culture, we are rapidly moving away from owning tangible goods. When we go from wanting to own an object to simply wanting to use it, the business model for products and retail changes. Consumers want to pay for conceptual solutions and experiences which save them time and energy, rather than owning a physical object. In relation to this development, the subscription economy is the new model where retail solutions are transformed from product distribution systems to package deals addressing a consumer need with a 360 degrees solution.

"All consumer product companies are looking at selling direct.”

Robert S Holston
Partner, EY

"Digitalization, discount and convenience (including convenience formats as well as ready to eat, restaurants and cafés) are the three main trends I’m looking at.”

Liv Forhaug
Chief Strategy Officer, ICA Gruppen

We have summarized the future predictions made by our industry expert respondents in the Nordic survey, in a timeline.

**Click and collect constitutes 5% of total retail sales**
Avg. guess: **Within 3 years**

**A majority of consumers have longer lists of businesses they block advertising and purchases from than businesses they are willing to buy and receive advertising from**
Avg. guess: **Within 3 years**

**The majority of physical/store retailers have integrated their information and data offline and online**
Avg. guess: **Within 3 years**

**The majority of consumers pay by smartphone and not at a cashier in a physical retail store**
Avg. guess: **Within 4 years**

**Temporary sales locations, such as pop-up retail outlets, constitute 5% of total physical retail sales**
Avg. guess: **Within 4 years**

**Retail sales is more affected by social media boycotts than by legislative changes**
Avg. guess: **Within 3 years**

**Adblockers reduce consumers’ attention to advertising by more than 80%**
Avg. guess: **Within 4 years**

**The majority of consumers use social media as their main information source for shopping**
Avg. guess: **Within 4 years**

**The majority of retailers find data analytics to be an important skill for in-store personnel**
Avg. guess: **Within 5 years**

**Temporary sales locations, such as pop-up retail outlets, constitute 5% of total physical retail sales**
Avg. guess: **Within 4 years**

**The majority of physical/store retailers have integrated their information and data offline and online**
Avg. guess: **Within 3 years**

**The majority of consumers’ online purchases are sold with an offer of delivery within 2 hours (maybe for an additional cost)**
Avg. guess: **Within 7 years**

**The majority of durable goods will be sold as a service/leased/rented**
Avg. guess: **Within 12 years**

**The majority of durable goods will order own maintenance in an optimal way**
Avg. guess: **Within 9 years**

**The majority of consumer purchases will be triggered by a digital assistant recommending or automatically ordering a product**
Avg. guess: **Within 9 years**

**The majority of consumer purchases will take place without an active involvement of the consumer**
Avg. guess: **Within 20 years**

**The majority of new products sold in categories such as refrigerators, washing machines, lawn movers etc. will order refills automatically**
Avg. guess: **Within 10 years**

**The majority of consumer goods deliveries are made by autonomous vehicles like self-driving cars, drones etc**
Avg. guess: **Within 12 years**

**5% of retail stores have a physical shopping robot helping customers shop in-store**
Avg. guess: **Within 9 years**

**Click and collect constitutes 5% of total retail sales**
Avg. guess: **Within 3 years**

**A majority of consumers have longer lists of businesses they block advertising and purchases from than businesses they are willing to buy and receive advertising from**
Avg. guess: **Within 3 years**

**The majority of physical/store retailers have integrated their information and data offline and online**
Avg. guess: **Within 3 years**

**The majority of consumers pay by smartphone and not at a cashier in a physical retail store**
Avg. guess: **Within 4 years**

**Temporary sales locations, such as pop-up retail outlets, constitute 5% of total physical retail sales**
Avg. guess: **Within 4 years**

**Retail sales is more affected by social media boycotts than by legislative changes**
Avg. guess: **Within 3 years**

**Adblockers reduce consumers’ attention to advertising by more than 80%**
Avg. guess: **Within 4 years**

**The majority of consumers use social media as their main information source for shopping**
Avg. guess: **Within 4 years**

**The majority of retailers find data analytics to be an important skill for in-store personnel**
Avg. guess: **Within 5 years**

**The majority of retailers in your country perceive global IT-companies, such as Google, Apple, Facebook, Amazon, Tencent, and Alibaba, to be their main competitors**
Avg. guess: **Within 5 years**

**The majority of consumers’ online purchases are sold with an offer of delivery within 2 hours (maybe for an additional cost)**
Avg. guess: **Within 7 years**

**The majority of durable goods will be sold as a service/leased/rented**
Avg. guess: **Within 12 years**

**The majority of durable goods will order own maintenance in an optimal way**
Avg. guess: **Within 9 years**

**The majority of durable goods will be sold as a service/leased/rented**
Avg. guess: **Within 12 years**

**The majority of consumer purchases will be triggered by a digital assistant recommending or automatically ordering a product**
Avg. guess: **Within 9 years**

**The majority of consumer purchases will take place without an active involvement of the consumer**
Avg. guess: **Within 20 years**

**The majority of new products sold in categories such as refrigerators, washing machines, lawn movers etc. will order refills automatically**
Avg. guess: **Within 10 years**

**The majority of consumer goods deliveries are made by autonomous vehicles like self-driving cars, drones etc**
Avg. guess: **Within 12 years**

**5% of retail stores have a physical shopping robot helping customers shop in-store**
Avg. guess: **Within 9 years**

**The majority of consumer purchases will take place without an active involvement of the consumer**
Avg. guess: **Within 20 years**

**The majority of new products sold in categories such as refrigerators, washing machines, lawn movers etc. will order refills automatically**
Avg. guess: **Within 10 years**
5% of retail stores have a physical shopping robot helping customers shop in-store
Avg. guess: **Within 9 years**

The majority of consumer purchases will be triggered by a digital assistant recommending or automatically ordering a product
Avg. guess: **Within 9 years**

The majority of durable goods will order own maintenance in an optimal way
Avg. guess: **Within 9 years**

Physical digital assistants like Siri, Echo etc. will constitute 5% of total retail sales
Avg. guess: **Within 8 years**

The majority of consumers get a personalized in-store experience
Avg. guess: **Within 8 years**

The majority of today’s store space is used for other things than storing products for sales
Avg. guess: **Within 10 years**

Inside home or fridge delivery, (by personnel who opens the door themselves) constitute 5% of total retail sales
Avg. guess: **Within 10 years**

Additive manufacturing/3D printing (the possibility to make customization, repairs, etc.) will be a feature for 5% of total retail sales
Avg. guess: **Within 10 years**

The majority of new products sold in categories such as refrigerators, washing machines, lawn movers etc. will order refills automatically
Avg. guess: **Within 10 years**

The majority of consumer goods deliveries are made by autonomous vehicles like self-driving cars, drones etc
Avg. guess: **Within 12 years**

The majority of durable goods will be sold as a service/leased/rented
Avg. guess: **Within 12 years**

The majority of consumer purchases will take place without an active involvement of the consumer
Avg. guess: **Within 20 years**

Adblockers reduce consumers’ attention to advertising by more than 80%  
Avg. guess: **Within 4 years**

Temporary sales locations, such as pop-up retail outlets, constitute 5% of total physical retail sales
Avg. guess: **Within 4 years**

The majority of consumers pay by smartphone and not at a cashier in a physical retail store
Avg. guess: **Within 4 years**

The difference between a consumer products company and a retailer is hard to differentiate for most business leaders in the industry
Avg. guess: **Within 6 years**

The majority of consumers have longer lists of businesses they block advertising and purchases from than businesses they are willing to buy and receive advertising from

A vg. guess: **Within 3 years**

Consumers and celebrities have become more important than mass media as an advertising channel

A vg. guess: **Within 3 years**

Retail sales is more affected by social media boycotts than by legislative changes

A vg. guess: **Within 3 years**

The majority of consumers use social media as their main information source for shopping

A vg. guess: **Within 4 years**

The majority of retailers in your country perceive global IT-companies, such as Google, Apple, Facebook, Amazon, Tencent, and Alibaba, to be their main competitors

A vg. guess: **Within 5 years**

The majority of durable goods will order own maintenance in an optimal way

A vg. guess: **Within 9 years**

Physical digital assistants like Siri, Echo etc. will constitute 5% of total retail sales
Avg. guess: **Within 8 years**

The majority of consumers get a personalized in-store experience
Avg. guess: **Within 8 years**

The majority of durable goods will be sold as a service/leased/rented
Avg. guess: **Within 12 years**

The majority of consumer goods deliveries are made by autonomous vehicles like self-driving cars, drones etc
Avg. guess: **Within 12 years**

The majority of new products sold in categories such as refrigerators, washing machines, lawn movers etc. will order refills automatically
Avg. guess: **Within 10 years**

The majority of today’s store space is used for other things than storing products for sales
Avg. guess: **Within 10 years**

Inside home or fridge delivery, (by personnel who opens the door themselves) constitute 5% of total retail sales
Avg. guess: **Within 10 years**

Additive manufacturing/3D printing (the possibility to make customization, repairs, etc.) will be a feature for 5% of total retail sales
Avg. guess: **Within 10 years**

The majority of consumer purchases will take place without an active involvement of the consumer
Avg. guess: **Within 20 years**
Based on the trends and the framing of the emerging society and the retail industry, we can outline different scenarios that we may encounter in the near future. When we consider this development and try to get a better understanding of where it will lead us, we can outline six potential scenarios that we may encounter in the near future. Many of these findings are results from the interviews made with leading industry professionals and the survey made in the project.

### E-commerce entering phase 4

One thing that many business leaders are requesting is a projection of the share of e-commerce in the future. First, it may be important to separate food from non-food. Since food has a much lower share of e-commerce, it is somewhat irrelevant to group them together when calculating e-commerce share.

Interestingly, the prospect for food seems to differ quite a lot. Norwegian Retail magazine refers to Odd Gisholdt as one of the most knowledgeable people within retail in Norway and Gisholdt predicts food retail will be only 3% of the total market in Norway by 2025.1 When we talk with Liv Forhaug, Chief Strategy Officer at ICA, her estimate of the share of online food retail is around 7-10% in 5 to 7 years’ time. She finds it hard to predict beyond that time frame, as entirely new technologies for e.g. distribution could have emerged by then. While estimates within food may differ for different experts and between the Nordic countries, the growth rate and size of e-commerce within non-food seems more consistent. A growth rate of around or slightly above 15% is expected.

<table>
<thead>
<tr>
<th>E-commerce development</th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
<th>Phase 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High growth rate</td>
<td>Medium growth rate</td>
<td>Medium growth</td>
<td>Medium growth rate</td>
<td>Medium growth rate</td>
<td></td>
</tr>
<tr>
<td>• Insignificant volume</td>
<td>Insignificant volume</td>
<td>Notable share of volume</td>
<td>Significant share of volume growth</td>
<td>Comparable volume</td>
<td></td>
</tr>
<tr>
<td>• Insignificant share of volume growth</td>
<td>Notable share of volume</td>
<td>Significant share of volume growth</td>
<td>All growth in volume</td>
<td>More than all growth in volume</td>
<td></td>
</tr>
</tbody>
</table>

1 Slik blir norsk retail i 2026, Retailmagasinet December 14, 2016

Perhaps the focus on e-commerce should be more on the effect on growth and profitability. We believe that e-commerce can be described in five phases and that e-commerce in the Nordics is now moving into phase 4.

1. In the first phase, e-commerce had a very low volume and new entrants got a lot of buzz but little impact on total sales.

2. In the second phase, growth started to decline for e-commerce. The range of retailers were limited, the services and technology not very developed and the integration with distribution and stores underdeveloped.

3. In the third phase, growth starts to become more significant and incumbents start to provide e-commerce. When the large bricks and mortar retailer starts with e-commerce growth rate actually increases in those categories. The share of total growth of retailing starts to become significant.

4. In the fourth phase, e-commerce becomes sizable enough to take a considerable share of the total volume. This has an impact on the share of growth, which becomes very significant. But more importantly, the growth rate of physical retailing starts to decline because of the volume taken by e-commerce. A reduction of volumes of 10% hit profits even more and physical stores are starting to close at the same or higher rate as new ones are opened. By this point in time all growth is seen in e-commerce.

5. In the fifth phase, e-commerce continues to grow but now as much from store closures as from a drive to e-commerce. E-commerce does not have to take market share from bricks and mortar stores, bricks and mortar stores are closing and giving market share to e-commerce. E-commerce actually starts to get a higher share than total growth in the market. Bricks and mortar retail is being reduced. This is not to say that e-commerce retailers will have an easy success, far from that. The largest volume will be sold through physical retail even in this stage for most retail segments.
Consumers closing the window

If one thing is clear from the survey, it is the end of media as we know it. Getting in contact with consumers in the future will be anything but easy. Consumers constantly get better tools to avoid advertisement from organizations and brands they do not like or care for. Adblockers is just an example, getting into the lives of consumers is proving more of a challenge. Harvard Business Review concluded that only three of the 500 most subscribed YouTube channels were companies - the majority amateurs and celebrities. In such an environment, purely knowing where consumers are does not let you into the mind of the consumer. Even if you start a successful YouTube channel, you are very unlikely to get any attention. Retailers and shopping places alike all think of driving traffic - foot-fall in the physical world and direct connections in the online world, i.e. organic search instead of paid search for example. Declining foot-fall is a major challenge for most physical store retailers.

"We have a good conversion rate for people coming into the stores, and the basket size is good, but we wouldn't mind having them come more often."

Søren Torp Laursen
CEO, TOP-TOY

---

2. Branding in the Age of Social Media, HBR March 2016
The platforms’ war of dominance

The idea of being a vertical or a portal was present already in the late 90’s. Few really succeeded with the ambition, but now this has changed. Platforms are essentially the sweet spot for many businesses these days. One reason platforms excel is that they now have data and the tools to analyze that data.

Data is seen as the core of many emerging technology companies. The fast-growing FinTech company iZettle started as a payment company with a cheap hardware for credit cards. Now they try to transform the company into a data driven company, which can benefit from this knowledge. Their core segment of small retailers is for example underserved with credit. Based on their frequent payment data they can make qualified credit scoring and automate lending. If they succeed they transform the company to a data driven platform business.

Former Head of Innovation at Spotify, Sofie Lindblom, claimed that data was their core competence. They had been in the business for long and this gave them a unique early mover advantage to build from.

When we asked the survey respondents to pick their top competitors, mass retailers and marketplaces like Alibaba and Amazon topped the list.

One inspirational example for many companies nowadays is Tencent and the app WeChat. WeChat has managed to become an Internet in itself. The app is like a combination of WhatsApp, Tinder, PayPal, Instagram, Maps and much more like health care, taxi ordering, food deliveries etc. As a user, you do not have to leave the app, since everything is in there. This is a dream scenario even for Facebook, which now tries to copy some of the functionalities.

A future possibility is that communication platforms like Facebook and distribution platforms like Uber might be competing even more with the retail sector within a short time. Facebook has already passed Google as the most important advertising channel for retailers according to the study e-Barometern. It might not take long before they are seen as a larger threat than Google as well.

---

### Top competitors

<table>
<thead>
<tr>
<th>Top competitors</th>
<th>Respondents mentioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon/online mass-market retailers</td>
<td>67%</td>
</tr>
<tr>
<td>Alibaba/ market places/retail platforms</td>
<td>48%</td>
</tr>
<tr>
<td>Google/Alphabet/search companies</td>
<td>38%</td>
</tr>
<tr>
<td>Lidl/Aldi/ discount retailers</td>
<td>33%</td>
</tr>
<tr>
<td>MySupermarket/meta search/price comparison of basket of items</td>
<td>31%</td>
</tr>
<tr>
<td>Facebook/social media companies</td>
<td>17%</td>
</tr>
<tr>
<td>Uber/distribution networks of people and products</td>
<td>14%</td>
</tr>
<tr>
<td>Instacart/third party pick and resell form others</td>
<td>14%</td>
</tr>
<tr>
<td>Apple/mobile technology companies</td>
<td>12%</td>
</tr>
<tr>
<td>Skoda/low cost brands</td>
<td>10%</td>
</tr>
<tr>
<td>Microsoft/Business IT companies</td>
<td>5%</td>
</tr>
<tr>
<td>Nike/strong brands</td>
<td>5%</td>
</tr>
</tbody>
</table>

---

“In the future every business is a platform business.”

Anni Ronkainen
Chief Digital Officer, Kesko

---

3  Facebook viktigare än Google för e-handelarna, Uppkopplat.se February 25, 2017
Self-driving cars are now expected to be so convenient that people will go more often by car. They will always be around for you to take a trip. This may make the time spent in cars, not driving them, a major arena for shopping. On top of that, not only people will spend more time in cars but products as well. Instead of stores, vehicles might be stuffed with to serve as pop-ups and drive to the buyer if needed. The owner of the largest distribution network may get network effects and lower costs, faster deliveries and more customers. In a world where there is full transparency of the cost of a product at any retailer, the company with the cheapest and most convenient distribution will have a serious advantage.

"Every company that comes in between us and the consumer may become our competitor."

Truls Fjeldstad
Director of Marketing and Business Intelligence, NorgesGruppen

"When I look at the large investments car manufacturers are making in autonomous vehicles, I think change will come faster than most people understand."

Hans-Olav Høidahl
Executive Vice President Scandinavia, Circle K

Data a new currency

Data is increasingly seen as a currency. This is already the case in media where customer data is traded as a currency, not least in the growing areas RTB (Real Time Bidding) and Programmatic. In these areas of advertising, consumer targeting and purchasing of media can be all the more personalized and optimized with data analytics. The data collected within retail is massive, but currently the offline world has not been as successful at realizing the returns of using this knowledge.

When we ask the business leaders in the industry of an investment they would make if there was no restriction on budget or short term profit, big data and analytics is the most common answer. Big data is now seen as a major opportunity for the future among many experts.

If the goal is to become a platform business, data is essential. iZettle, mentioned in previous chapter, used to focus on payments for the smallest retailers. These have had problems paying for the existing credit card terminals. Having expanded quite rapidly they are now looking into becoming a lender to these clients. These small firms also have problems getting loans from banks. Payments are interesting because of their frequency. The large number of transactions create a lot of data that can be used to make credit ratings. In general, payments, mobile services and food retail are all categories that attract a lot of interest from venture capitalists among others. Part of the reason for this interest is the user frequency of all these categories, since frequency means valuable data.

"In 2025 the internet infrastructure has been upgraded to a level where the data isn´t limited to speed as today, which has changed the very foundation of how consumer experiences can be created in all channels."

Moon-Suck Song
CEO, Panagora
The lower foot-fall in stores is a problem for today’s retailers and has to be compensated for with a higher frequency in interaction, if physical stores are to compete with the data collected in online retail. In the survey, we asked the respondents about the number of touchpoints retailers expect to have with their customers today and in ten years. There is an increased estimate of touchpoints but will this be enough to compete with the emerging data driven companies?

### Analytics the core competence

While data is good, analytics makes the difference. Only companies, which can make use of their data in an efficient way gain any help from collecting or buying it. This includes people working in the stores. Retail has been run very effectively by competent local staff and country managers with a team of people offering the right products to sell, mainly based on intuition and experience. Now analyzing the need of a consumer and of a retail category needs to be made in cooperation with the analytical tools available. People who can understand data and the analysis therein will make the difference in the future.

76% of survey respondents believe data analytics to be an important skill for in-store personnel within ten years. Hence, this competence will not only be needed at the retailers’ headquarters, but in each store.

<table>
<thead>
<tr>
<th>Touchpoints per purchase</th>
<th>Share of respondents today</th>
<th>Share of respondents 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 times</td>
<td>32%</td>
<td>32%</td>
</tr>
<tr>
<td>4-5 times</td>
<td>32%</td>
<td>21%</td>
</tr>
<tr>
<td>6-9 times</td>
<td>26%</td>
<td>13%</td>
</tr>
<tr>
<td>10+ times</td>
<td>11%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Analytics also involves prioritization. Successful companies will collect smart, actionable data – i.e. only data they can use and only have loyalty programs where they can use the data. Financial services and retail have had lots of data for a long time, but despite all this data, new entrants have emerged with smaller sets of relevant data which they are able to understand and use effectively. When data is used in more effective ways, we may not be far from the situation where we base our purchases on recommendations from machines.

“Culture is the ERP system of strategy.”

Anni Ronkainen
Chief Digital Officer, Kesko

### Culture – the ERP system

There is an old saying that “culture eats strategy for breakfast”. We think Anni Ronkainen made the point better. Culture is the infrastructure through which strategy can be executed.

Many retailers who have been in the business for decades have a strong culture. This may be an asset but it may also create inertia. Strategists who plan IT-systems, distribution, and business models changes need to take care of culture in a timely manner. When you need a new culture it will not be there in one or two years. And without an appropriate culture you may not be able to execute the strategy or implement any changes. And looking at the answers of the business leaders, many different organizational changes seem to be quite urgent. So be careful with starting change without thinking of culture first.

“"In 2025 a large portion of customers’ groceries will be ordered through detailed AI supported analytics, rendering in machine to machine e-commerce, with only a click for order acknowledgment”.

Martin Engberg
Chief Digital Officer, Mekonomen

76% of survey respondents believe data analytics to be an important skill for in-store personnel within ten years
Diverging engagement shopping

Too many retail managers are talking about the retail experience as the only thing you need to succeed with. This may be true for certain categories of consumer purchases but for others it certainly is not. We believe there will be a greater difference between the pleasure purchases and need purchases. While pleasure and experience goes hand in hand, some purchases may diverge further away from a classical view of experience. For toothpaste, the best experience may be when you do not have to bother with shopping it at all. Future retailers will offer frictionless shopping of the items you do not want to spend time buying. Certainly, no consumers perceive a particular product the same. For some it is enjoyable and for some not. Successful retailers will decide when they are to engage and delight the consumers, and when they should simply make life easier for them.

New tech on the horizon

Many new technologies have now entered our lives, providing the promise of a very different and exciting future. Some notable examples are:

- Internet of Things (IoT), Virtual Reality (VR), Augmented Reality (AR), Artificial Intelligence (AI), Radio Frequency Identification (RFID), Blockchain, Cloud computing, 3D-printing, robotization, and autonomous vehicles.

We think that the revolutionizing aspects of these technologies have some more years before they get realized. Seen one by one, they will not have a huge impact on retail within the next five years and in most cases not the next ten years either. But, put together they contribute to a retail landscape becoming more uncertain and more difficult to navigate.

Primarily there will be more and more professional uses of these technologies, but before we see any major change of the entire retail landscape, uses for the masses will be needed and most of these developments will take more than five years to become part of the market.

The main changes of these technologies will likely be seen on the back-end and within business to business. The use of bots instead of people within customer service will likely become substantial. The use of robots within logistics will likely grow significantly. Robots will also be put up in stores like Nestlé, which is now installing 1000 humanoid robots in stores throughout Japan, that take orders and communicate with the consumers. The effect on retail from robots in stores will on the other hand be rather limited compared to many other trends described.

VR will likely help architects and city planners in their work to a larger extent, and consumers will also get the possibility to view their home or kitchen prior to production. But on the other hand, Mark Zuckerberg has said that he believes VR will take time to broaden and Tim Cook has said that you get sick from using it. Alibaba or Amazon could push the technology, like Amazon did with Kindle and is about to do with Echo, but VR is more expensive and in the Nordics there is no such dominant retailer. In other words, there are reasons to believe that it will be some years before everyone shop behind glasses. In the case of AI, the question is more of a wording. The use of structured and unstructured data, analytics, and the making of bots will likely increase dramatically but whether this is to be called AI is not certain.

When we look at the aforementioned technologies and their impact, we believe in the old saying that you tend to overestimate the change in five years and underestimate the change in ten years. The big impact in the short term is that they add to complexity and change simply by the large number of technologies and the bold visions they provide to the market.

---

<table>
<thead>
<tr>
<th>How long will you stay profitable with your current technology?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical platform</td>
</tr>
<tr>
<td>Organizational culture</td>
</tr>
<tr>
<td>Sales channels</td>
</tr>
<tr>
<td>Business model</td>
</tr>
</tbody>
</table>

---

4 Tim Cook thinks augmented reality is a ‘big idea like the smartphone’, Mashable February 11, 2017
One surprising result from the survey is the answers we received to this question:

“When you think of opportunities to grow revenue and profitability, what are the key areas/words that comes to mind?”

The surprising thing is the variety of answers. The respondents are professionals from the industry and despite this, the consistency of the suggestions is very low. Given the many challenges identified in the survey, through the interviews, and at the expert meeting, we interpret this as an expression of uncertainty. There are no given roads to success and this is probably true for consumer products companies as well as for retailers given that these are also represented in the study.

With such diversity in the answers among industry professionals, general recommendations are difficult to give. However, five recommendations stand out as key focus areas.
Revise your KPI:s

There is an old management saying: “if you can't measure you can't manage”. This is particularly true now that the competitive landscape is being changed, value chains are becoming blurred, and new business ecosystems are formed.

If the KPIs of the internal and the external business are not aligned with overall performance, other competitors may become more successful. One example is that in many large organizations, comparisons are made between internal business units, rather than compared with the external environment. If a store manager is incentivized more when other stores within the same organization have lower performance, there is a problem. This is even more evident when e-commerce, shared customer service, temporary channels etc. become more important. Setting up the appropriate KPIs and profit sharing to support online sales that are influenced from the physical stores, and the other way around is becoming increasingly important. How do retailers value the service of returning online purchases in physical stores? Landlords may get rents based on turnover in the stores, but if stores receive returns from online purchases, can that be reduced from store sales? These problems are usually aggravated in a franchising business model.

It is important to note that it is not only KPIs that should be managed, but the transaction costs related to managing and monitoring these KPIs and the business, that are important to keep at the right level. Within franchising, the transaction costs often increase when distribution becomes complex.

KPIs must also be considered for the ecosystem. If an electronics product is sold at a large rebate from one retailer – that may dramatically reduce the opportunity to sell that product at full price later for all retailers. It may even dilute the brand somewhat. For the electronics retailer this is bad, but for the manufacturer it can be devastating. If the ecosystem does not manage to compete with other ecosystems where these kinds of failures are less common, both the retailer and the manufacturer may actually lose.

Søren Torp Laursen, now CEO at TOP TOY, was previously president of LEGO Americas. When being interviewed for this report, he says that one reason for setting up a LEGO concept store at Rockefeller center in New York City, was to show that you can sell LEGO at full price. The idea was of course very much questioned by Toys”R”Us, which has a large store at Times Square. The result was however very beneficial for both LEGO and Toys”R”Us. This is an example where LEGO made a benefit to the ecosystem of their business, which benefited retailers like Toys”R”Us too since they could sell more LEGO at higher prices.
“You don’t need a digital strategy. You need a business strategy for the digital age.”

Judy Goldberg
former Executive Director, Sony Pictures

Prepare culture for strategic shifts

Change is around the corner. On average, the industry experts we talked to believe that their business model, culture and technology will survive for a few years. Among the challenges mentioned in the survey findings, the right competencies and changing culture are among top three. There is little time to wait.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Share of respondents who agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finding the right competencies to lead the company into the future</td>
<td>80%</td>
</tr>
<tr>
<td>Making consumers more loyal</td>
<td>78%</td>
</tr>
<tr>
<td>Changing the culture of our business to a more digital industry</td>
<td>78%</td>
</tr>
<tr>
<td>Finding areas of revenue growth</td>
<td>73%</td>
</tr>
<tr>
<td>Keeping up profit margins</td>
<td>71%</td>
</tr>
<tr>
<td>Competition from suppliers or customers</td>
<td>68%</td>
</tr>
<tr>
<td>Keep control of costs</td>
<td>45%</td>
</tr>
</tbody>
</table>

Many industries have looked at alternative business models and neglected their impact as long as they have below 5% market share. Some of them are now realizing that when these competitors reach 10% market share, the need to challenge the new entrant may prove costly, very difficult, and wipe out 50% of profits. Examples are online brokerage, online media, low cost airlines, VoIP calling etc.

Lidl now has 10% of the market in Finland. To handle the threat from losing more market share, S Group is now more aggressive in reducing their prices, but this also takes away a substantial share of profits. Business leaders need to prepare for the future business environment today - tomorrow may be too late. In particular, culture needs to be considered early on. When change is needed it is far too late to change culture.

Digital first

In a global EY retail expert study from 2015, 97% of retailers believed they need an omnichannel strategy, but only 40% said their execution was effective.¹

The digital development is now challenging most industries. One industry that has already been completely transformed is the media industry. Almost ten years ago a CEO in the Nordic media industry claimed that the most important employees were the search engine optimizers. This competence was largely unheard of for many of the people in the industry at that time.

Business leaders have had a tendency to work too much with the people and competencies they already have. Digital is not a separate strategy, digital is part of the agenda in all matters. A manager at L’Oreal recently decided to take away all titles and roles including the word “digital”. Not because it was not important anymore but rather because the titles made others feel it was not their responsibility. If a marketing director today feels comfortable with delegating all things digital, then there is a problem. If a marketing manager cannot do digital he or she cannot do marketing. Digital cannot be delegated any longer.

For many organizations, online sales started as a project, became a department, and in the end was incorporated all over. This has to be reflected in the organization too. VG, the large Norwegian daily newspaper, decided to put the management team within the digital channel instead of the paper-based newspaper. This was one way to show understanding of the digital shift and to be better prepared for the future.

If there is such a large agreement that omnichannel is needed, but execution is ineffective, maybe it is time to start changing the organization at the top.

¹ Re-engineering the supply chain for the omni-channel of tomorrow EY February 2015

“The physical stores will be our main business for the next five years, maybe ten. But our focus is already omnichannel, we need to be where the customer wants to find us. Making the shift to new channels and services and still perform in the existing business is a key challenge.”

Ann Carlsson
CEO, Apoteket
Build loyalty through relevance

Tomorrow you only have loyal customers. Prospects and disloyal customers may be gone or completely dependent on the loyal customers as a channel or influencer. In the short term, maybe you can buy influencers, but most likely that window of opportunity will not last for long either.

60% of the respondents in our survey say their customer loyalty has been challenged by other companies with the same business model.

79% of the respondents in our survey say their customer loyalty has been challenged by companies with different business models.

If you do not have loyal customers and ambassadors for your offering and brand, you need to have a very specific business model with distinct exit barriers, or something close to a monopoly. In some cases there are no alternatives to the platform businesses available like WeChat or Spotify, but as soon as there is, only loyal customers are kept.

To create loyalty, more relevance is needed. Being in touch with consumers and letting them co-create and personalize the offer will be necessary in the future. Or as one of the groups in the expert meeting put it: “relevance is formed through three things - co-creation, customization, and curation.”

Curate growth and innovation

Reallocation of resources is a key issue in this turbulent marketplace. There seems to be a great and growing uncertainty about the future retail landscape, but growth opportunities seem to be plentiful too. Whichever strategy is chosen, curation is a word that may help. Growth and innovation is built on people with drive and passion, who need to be curated rather than managed. Here are some examples:

Some of the most regulated and conservative industries, like pharmaceuticals and finance, have realized they have to make some radical changes. There are a number of firms in these sectors who now set up accelerator programs and incubators only to make contact with entrepreneurs. Astra Zeneca, for example, has even opened up for competing start-ups at their premises. Barclays have worked with accelerator programs within FinTech for many years and this is starting to come to the financial services sector in the Nordics as well.

At the expert meeting held for this survey, there was a discussion of whether companies should set up specific innovation centers or if innovation and new ideas should be encouraged within the whole organization. Probably the most important thing is to make sure that neither is discouraged. Starting an innovation center where bold decisions can be evaluated is important, but innovation should also be in focus at different levels within the organization rather than choking those efforts and enthusiasm.

For the large players in the field, acquisitions is of course also an option. Cisco has been a master of buying companies for long. Google is a more recent example. Despite Google’s reputation as an innovator, many of its successes are purchases; YouTube, Android, AlphaGo, to name a few. Also Facebook has been active with the tremendously successful purchase of Instagram and the somewhat more defensive and expensive purchase of WhatsApp. Wal-Mart bought Jet.com, Komplett has been an active buyer in the Nordics, Axel Johnson seems to increase focus on purchases and digital with the new CEO Mia Brunell Livfors from Kinnevik, a large investor in digital retailing.

Success in these efforts will likely depend on the ability to curate people and culture in a new corporate context.
Lists of people who have contributed to this report.

**Interviews**
- Andrew Cosgrove, Global Knowledge Leader Consumer Products & Retail, EY
- Ann Carlsson, CEO, Apoteket
- Anni Ronkainen, Chief Digital Officer, Kesko
- Bruno Christensen, Retail consultant
- Hans-Olav Høidahl, Executive Vice President Scandinavia, Circle K
- Jonas Ogvall, CEO, Svensk Digital Handel
- Joshua E Chernoff, Partner, EY
- Liv Forhaug, Chief Strategy Officer, ICA Gruppen
- Moon-Suck Song, CEO, Panagora
- Ole Robert Reitan, CEO, Rema 1000
- Robert S Holston, Partner, EY
- Søren Torp Laursen, CEO, TOP-TOY
- Truls Fjeldstad, Director of Marketing and Business Intelligence, Norgesgruppen

**Survey**
500 industry experts and top managers have been selected in the Nordics. 80 of them have answered the survey.

**Authors**
- Magnus Kempe, Director Retail and Finance, Kairos Future
- Jörgen Jedbratt, Senior Partner, Kairos Future

**Expert meeting panel**
- Anne Nahkala, Partner Advisory, EY
- Annika Jerveland, CMO, Linas Matkasse
- Ann-Sofie Isaksson, Marketing and communication specialist, Inter IKEA Systems
- Anton Granlund, CEO, Global retail
- Arne Matre, Nordic Consumer Products & Retail Leader, EY
- Charles Larsson, Retail & Real Estate Advisor, Retailex
- Charlotte Elgh, Global e-commerce Strategist, IKEA of Sweden
- Erik Richard Haagensen, Partner Transcations, EY
- Ingalill Ulvdell, Country Merchandising & Marketing Manager, Lindex Sverige
- Jennifer Rock-Baley, Partner Assurance, EY
- Jens Nordfält, Dean, Nordic School of Retail management
- Kristina Lukes, Director Marketing and R&D, Paulig
- Lars-Åke Tollemark, CEO, Unibail Rodamco Nordics
- Magnus Zingmark, CFO, Nordstan
- Marika Waern, CEO, Nordic Council of Shopping Centers
- Martin Engberg, Chief Digital Officer, Mekonomen
- Moon-Suck Song, CEO, Panagora
- Søren Næsborg Jensen, Partner Tax, EY
- Tom Bernerskog, Nordic Marketing manager, EY
- Ulrika Güransson, Business development manager, Clas Ohlson
- Åsa Josell, Head of innovation, Atria Scandinavia
How EY can help

Our Nordic Consumer Products & Retail (CPR) sector professionals operate under one highly integrated global organization. This allows us to offer a broader range of services, skills, and experiences to all our CPR clients. Besides your dedicated account team at EY, you are always welcome to reach out to our Nordic CPR contacts as well.

Meet our team

- **Arne Matre**
  - Nordic Consumer Products & Retail Leader
  - arne.matre@no.ey.com
  - +47 481 68 880

- **Anne Nahkala**
  - Advisory Services
  - anne.nahkala@fi.ey.com
  - +358 40 7605811

- **Erik Haagensen**
  - Transaction Advisory Services
  - erik.haagensen@no.ey.com
  - +47 905 66 778

- **Jennifer Rock-Baley**
  - Assurance
  - jennifer.rock-baley@se.ey.com
  - +46 70 318 90 64

- **Micael Carlsson**
  - Transactions Advisory Services
  - micael.carlsson@se.ey.com
  - +46 73 085 94 32

- **Sofie Mannerstråle**
  - Advisory Services
  - sofie.mannerstrale@se.ey.com
  - +46 70 318 98 69

- **Søren Næsborg Jensen**
  - Tax
  - soeren.n.jensen@dk.ey.com
  - +45 25 29 45 61
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

The views of third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

© 2017 EYGM Limited.
All Rights Reserved.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com