

Ben Hart, Analyst 10/05/2017

Disruption is rapidly accelerating within the retail industry, making traditional models of business obsolete and creating new competitors in a market once dominated by long-standing giants. This presents a major opportunity for retailers to embed sustainability into the core of new strategies; adopting leaner and smarter operational practices. Nevertheless, present and future disruption in the retail sector will prove to be a challenge and a major test of agility.

Trends driving this disruption are varied and numerous. Technological developments such as the growth of ecommerce and the increasing use of mobile devices have undoubtedly played a leading role in rapidly disrupting brick-and-mortar retail. Driven by convenience, this has come at the expense of the traditional high street brick and mortar outlet. Latest statistics show a 19.5% year-on-year growth in UK online retail sales, according to the [Office for National Statistics](#). At the same time, a report by The Local Data Company reported [896 store closures](#) in town centres in 2016. Whilst digital disruption presents itself as a threat to retail, if correctly harnessed it presents a major sustainable business opportunity. New developments in automation and the adoption of technologies such as RFID, autonomous vehicles, blockchain and 3D printing are all likely to change our current conception of retail just as fundamentally. However, all pose sustainability challenges as well as opportunity.

Despite the growing percentage of retail transactions taking place in the digital space, the physical high-street store does still retain value. This is evidenced by the rise of e-commerce giants, such as Amazon, [opening physical outlets](#). However, they will need to adapt in order to and adopt a multi-channel approach to capitalise on their high-street position. Retailers are thus increasingly focusing on providing interactive and educational experiences to encourage shoppers to visit their stores. Retailers risk becoming history, if they simply display products in windows like museum pieces, and expect this alone to entice consumers. Connecting sustainability stories into these experiences going forwards could provide a unique avenue through which retailers could attract the increasingly important, ethically conscious millennial/Gen-X consumer segment.

Automation, whilst enabling leaner production processes leading to a reduced product lifecycle footprint, pose demanding questions surrounding [forecasted impacts](#) on employment within the economy – with the retail sector likely to be one of the most affected. For business, the long-standing social and community value offered by the high-street retailer of offering good, stable jobs will increasingly become threatened. Demands for cost-savings in an increasingly competitive market will lead to the adoption of technologies to automate processes previously undertaken by employees. There is an opportunity for retailers to make efforts to replace this lost social value, whilst remaining central to communities in using their high-street presence to tackle societal challenges. Marks & Spencer are a good example here, having recently launched their [‘Frazzled Cafés’](#) initiative to contribute to reducing the social stigma associated with mental health. This initiative encourages conversation and community support surrounding the issue.

The way in which consumers demand products is likely to be disrupted, as traditional take-make-dispose business models become increasingly obsolete as a result of volatile input costs - and a growth in demand for products as services. A 2016 report found that [four out of five Britons subscribe](#) to a product as service offering, with two in five saying they use more subscription services than five years ago. Such models allow the collection of critical customer data, which can be used to enhance customer loyalty in an increasingly competitive market.

This growth of consumer data available to retailers, permitted by technological developments listed above offers great opportunity for retail personalisation – another key trend. With consumers feeling increasingly [“time-poor”](#), retail personalisation can be used to market and communicate products and stories of most interest to them. Corporate sustainability for many retailers has, to this point, focussed on incremental efficiency gains. In the most part, these have been driven an awareness of the business case for operating more efficiently with regard to waste, water and energy. However, this has often come at the expense of communicating the sustainability benefits of a product in a localised context to the individual consumer.

Retail Disruption: How the Technology is Redefining the Retail Landscape

The opportunity to embed compelling sustainability narratives into product lines, and communicate these individualistically to consumers in a consumer centric manner, is a key area where retailers can focus to scale up their sustainability impact.

An increased interest in the provenance of products, driven by concerns relating to resource scarcity and new legislation, such as the Modern Slavery Act, are contributing to a deeper focus on transparency within supply chains. The aforementioned blockchain could help answer these demands for transparency. Blockchain is a shared ledger which allows the digital recording, safe storage and tracking of transactions. Blockchain allows suppliers, producers, retailers and consumers with a means of tracing a good's lifecycle. Exciting blockchain start-up Provenance is already piloting with supermarket The Co-op. Provenance uses blockchain to allow greater traceability for retailers whilst offering a "gateway to information about the people, places, processes and materials behind the products" to consumers. Going forwards, increasing transparency in the supply chain will demystify complexity leading to easier identification of more efficient process. This demystification will permit greater inter and intra-industries collaboration, as whole system inputs and outputs become clearer - potentially paving the way to more circular business models.

Further collaboration within the sector to scale sustainability impacts is likely to occur in any case; this being a major outcome of the Consumer Goods Forum's (CGF) first Sustainable Retail Summit which took place in Paris in October of last year. The Speakers at the Forum included representatives from major retailers including Tesco, Sainsbury's and Marks & Spencer. Collective action on tackling issues of forced labour in supply chains, food waste and in providing products and services which delivered healthier communities were all discussed as areas where collaboration could take place. Discussion and outcomes from 2017's Summit in Montreal should certainly be followed with interest.

Collaboration between industry agents and emerging start-ups will also feature prominently in the years to come, as growth becomes increasingly harder to come by. John Lewis and Waitrose's JLAB is a fine example of a retailer offering its resource to promote the innovative ideas of retail start-ups; using collaboration to harness their disruptive

capabilities. JLAB offers fledging start-ups a platform for growth, whilst simultaneously allowing the companies to discover emerging technologies that could go on to shape the future of the sector. John Lewis and Waitrose invite entry from disruptors creating immersive and seamless shopping experience technologies for consumers, to those which increase efficiency on supply chains, to ideas which encourage consumers to pursue healthier lifestyles.

The ability to remain nimble in thought, with an adaptability and openness to adopt different ways of doing business - even if they challenge institutionalised norms. The ability to work alongside competitors in a non-competitive space to innovate and find solutions which scale sustainability impact. The ability to test, fail and learn in order to innovate better solutions. These are what is demanded of today's retailers if they are to navigate an increasingly volatile, uncertain, complex, disrupted & ambiguous world; and if we are to expect them to be fixtures of the high streets of 2025.

Contact

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Sancroft is a sustainability consultancy with offices in London and Washington DC.

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