

## Retail and consumer goods industry profile

### The rise of AI and the conscious customer

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#### **Building a strong digital strategy and improving sustainability are now fundamental to retail and consumer goods companies' brands and broader organizational value.**

As the retail and consumer goods industry continues to explore the best way to engage consumers, it can categorize the current era as one of transformation. The first component of the transformation is continued digitization, whereby organizations explore new and innovative ways to use technology to manage operations and sell and market goods. The second is a transformation towards a more environmentally conscious consumer, where individual decision-makers become increasingly aware of the environmental impact of their consumption choices. In the era of transformation, consumer companies are attempting to shore up both value and resilience as they navigate the risks and opportunities that come with these digital and sustainability transformations.

#### **Increased interconnectedness: a tale of risk and reward**

The once-hailed phenomenon of globalization was called into question as the global pandemic caused significant supply-chain disruption across industries. Martin Reeves, chair of the BCG Henderson Institute, says that the economy is currently in a "protracted state of multi-dimensional uncertainty", arguing that

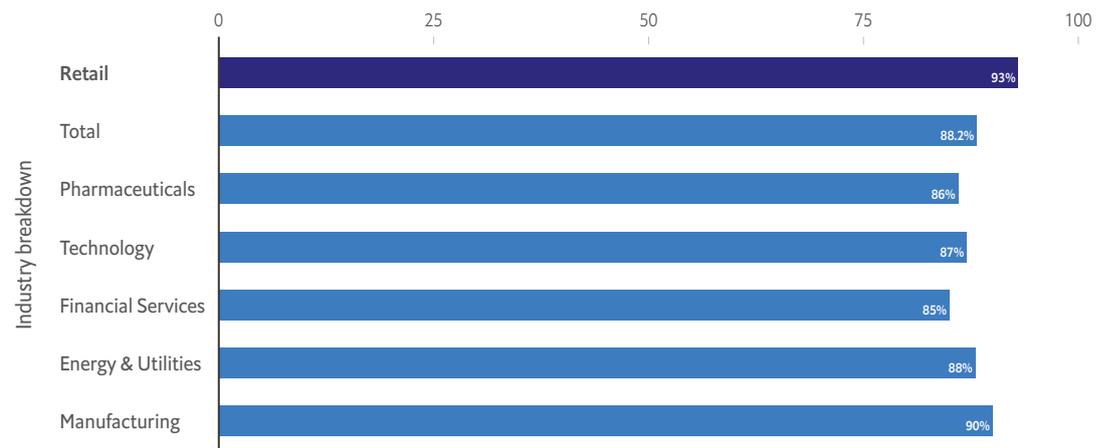
the previous notion of the global economy alternating between short periods of crisis and longer stability is no longer valid.

In an Economist Impact survey of companies across six industries in North America, Europe and Asia Pacific, 18% of retail respondents said that they feel that future global pandemics will have a negative overall impact on their organization's ability to thrive in the next three years. Comparatively, only 12% of respondents in the tech industry and 14% of respondents in financial services feel that future global pandemics would negatively impact their business over the same timeframe, while 19% of retail respondents feel that economic instability will also have a negative impact on their organization.

Looking ahead, though, there is hope. "Smart companies sync up on real time intelligence to understand what it is they are adapting to, then, because they already have the diversity in their portfolio, [they can shift] resource allocation to adapt," says Mr. Reeves. Compared to their peers in other industries, 93% of retail respondents use "real-time data to inform decision-making". "[When a company] like Dell sees that more people starting to work from home is leading to more laptop sales, it captures and makes sense of the change and addresses the new pattern of demand - [rather than] waiting until there is definitive proof that the anomaly has become a well-established trend known to all," says Mr. Reeves.

**Figure 1: A larger proportion of retail respondents feels that their organization uses real-time data to inform decision-making**

% agree that their organization uses real-time data to inform decision-making



Source: Economist Impact (Question 16: To what extent do you agree or disagree with the following?)

### Transformation through AI

This increased interconnectedness, among other benefits, has been facilitated by the acceleration of digitization. Respondents in the retail industry prioritized digital assets most for their business strategy. Relatedly, they chose the (ongoing) transition to digitized products and processes as one of the most significant opportunities to create value for their organization in the next three years. This illustrates that digital trends such as data collection and quick commerce are expected to continue to have positive effects in the industry.<sup>1</sup>

In addition, 43% of retail respondents said they feel that artificial intelligence (AI) would have a “very positive impact” on their organization’s ability to thrive in the next three years, more than their peers in pharmaceuticals, technology and manufacturing. The retail industry has a lot

to gain from continuing to incorporate AI into the value chain, including optimizing supply chains by alerting stores when stock is reaching a critically low level and providing insights into patterns of consumer demand.<sup>2</sup> Generative AI could also add between US\$150-275bn to the apparel, fashion and luxury sectors, through codesigning, speeding content development processes, and using unstructured data to identify and predict trends to improve targeted marketing.<sup>3</sup>

James Rogers, director of sustainability at The RealReal, a luxury resale marketplace, gives the example of allowing consumers to use their smartphones to create a body-type profile for themselves to determine clothing fit for online shopping.

The digital value proposition is also reflected in survey results. When selecting their top three

<sup>1</sup> Wertz J. Digitization is impacting the retail industry online and offline. Forbes. February 2022. Available from: <https://www.forbes.com/sites/jjawertz/2022/02/26/digitization-is-impacting-the-retail-industry-online-and-offline/?sh=52c0a0206e16>

<sup>2</sup> World Economic Forum. Artificial intelligence can support retail chains and increase customer satisfaction. January 2023. Available from: <https://www.weforum.org/agenda/2023/01/here-s-how-artificial-intelligence-benefit-retail-sector-davos2023/#:~:text=Artificial%20intelligence%20can%20support%20retail,chains%20and%20increase%20customer%20satisfaction>

<sup>3</sup> McKinsey. Generative AI: Unlocking the future of digital fashion. March 2023. Available from: <https://www.mckinsey.com/industries/retail/our-insights/generative-ai-unlocking-the-future-of-fashion>

resilience priorities, 52% of retail respondents said that technological resilience—safeguarding the organization’s data, complying with data localization requirements, and protecting its IT/OT systems and digital assets—is “prioritized most” by their organizations. Retail respondents also told us that identification of physical security risks that impact digital assets should be one of their organization’s top three aspects of digital asset management.

Data comprise another important aspect of retail’s digital value strategy, as the industry relies on consumer trust as well as efficient supply-chain management. Compared to those in the pharmaceuticals, tech and manufacturing sectors, a higher percentage of respondents in the retail industry said that they believe that their organizations should make data loss prevention a priority for digital assets. Retail also seems to be putting in the effort to stay ahead of any policies and regulations regarding data collection and privacy—93% of retail respondents said that their organizations are prepared to respond to data privacy regulations

in the next three years, a higher percentage than seen among respondents in manufacturing, tech and pharmaceuticals. This confidence was also expressed consistently on a regional level by executives in North America, Europe and Asia.<sup>4</sup>

### Striving towards sustainability

As data collection methods get more sophisticated and continue to improve, retail companies are able to tap into a multitude of insights about their consumers. For example, the younger that consumers are, the more likely it is that they are conscious of the environmental impact of their consumption choices. “The younger consumer is actually more open to buying something used versus buying it new, but we are continually educating both the younger and the older consumer about the benefits,” says Mr. Rogers. “We have a proprietary sustainability calculator on the individual product page, telling you how much carbon and water could be saved if that item was purchased. And for consigners, they can see how much carbon and water they have saved by consigning their items on The RealReal.”

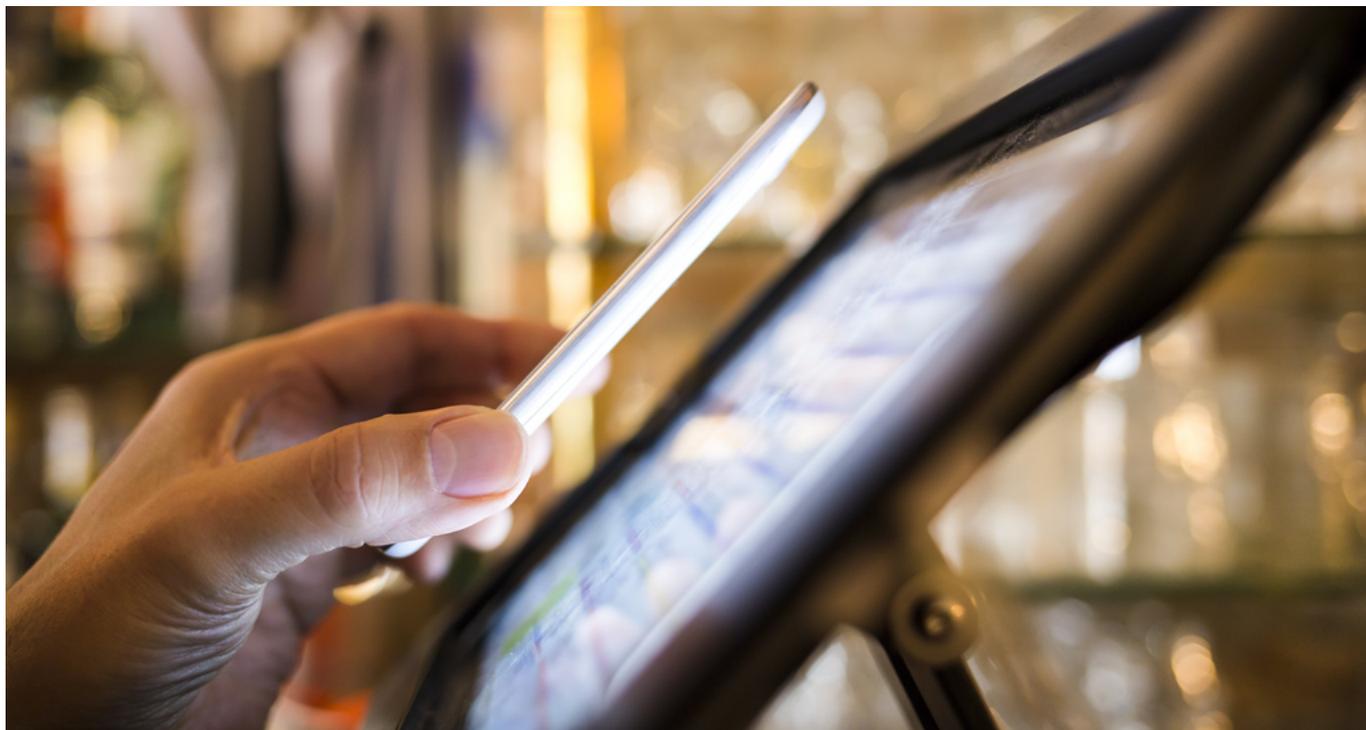
**Figure 2: Retail respondents prioritize the identification of physical security risks that impact digital assets more than their peers in tech, energy and utilities, and manufacturing**

% agree that their organization uses real-time data to inform decision-making



Source: Economist Impact (Question 22: Which of the following are aspects of your organization’s approach to managing its digital assets (that is, data, website and IT/OT platforms)? Please select all that apply.)

<sup>4</sup> Ninety-two percent of respondents in North America, 91.5% of respondents in Europe and 89.5% of respondents in Asia felt that their organizations are prepared to respond to data privacy regulations in the next three years.



The survey data corroborate The RealReal's business plan. Seventy-four percent of survey retail respondents said that they expect ESG to have a positive impact on their organization's ability to thrive in the next three years,<sup>5</sup> and 43% think that the most significant opportunity to create value in the same timeframe is increased adoption of ESG policies, a higher percentage than among respondents in the pharmaceutical, tech and manufacturing industries.

But the retail industry struggles with sustainability—the clothing and textile sector alone is responsible for 2-8% of the world's greenhouse gas emissions.<sup>6</sup> A separate Economist Impact study from 2020 found that industry-wide transformation will not be driven by one single factor—the interplay between consumer demand, brand leadership and policymaker support will create the conditions needed for the retail industry to become more sustainable.<sup>7</sup>

This shift in strategy is important in attracting consumers to a brand. Survey respondents in the retail industry said that managing an ESG communications strategy is a top aspect of their brand management strategy, along with building and measuring brand awareness and loyalty. They also said that managing an ESG communications strategy is something that they believe their organization should prioritize most for its brands.

Overall, retail companies are posed with a unique value opportunity and challenge— attracting and retaining online, environmentally-conscious and global consumers while remaining profitable and sustainable. To do so, organizations are looking for ways to strengthen their resilience to future shocks by adapting their global supply chain, and to capture and build value through the creation of both digital and ESG business strategies. This way, they can remain competitive and resilient to what lies ahead for the industry.

<sup>5</sup> Exact phrasing of answer choice was "external focus on ESG".

<sup>6</sup> UN Alliance for Sustainable Fashion. <https://unfashionalliance.org/>

<sup>7</sup> The Economist Intelligence Unit. Is Sustainability in Fashion? 2020.

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