Retail Futures Report

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How to read this report

You can, of course, read this report in a linear fashion.

Alternatively, by tracking the icons you can read by individual key theme, trends or focus area, or by opportunities, risks alerts or action plan.

Key themes

- Changing consumer preferences
- New frontiers in technology
- Sustainability and climate change
- Transformation of workforce and people
- Outlook for the future of retail

- Trend
- Case study
- Focus
- Opportunities
- Risk alerts
- Action plan

Objectives and methodology

To understand the risks, mega trends, and strategic issues likely to affect trading for the retail sector over the next 10 years and beyond, WTW partnered with Mack Institute's Collaborative Innovation Program (CIP) at the Wharton School, University of Pennsylvania, and research consultancy forward thinking inc.

The aim of this resulting WTW Retail Futures Report is to analyse the dramatically changing conditions and the retail sector's response, identifying emerging risks, potential opportunities and immediate actions that might protect and grow retail businesses into their futures.

In this report, we feature insight gathered through 21 in-depth interviews conducted by Mack researchers with industry experts, colleagues from within WTW, plus external experts and industry leaders in the U.K. and U.S., plus insight from forward thinking inc which we commissioned to further explore the key trends and risk factors. We also overlaid all the resulting research with further perspectives from WTW retail leaders, as well as expert commentary from a range of WTW's people, risk and capital experts.

Foreword

To thrive into the future, retailers need to get ahead of complex market conditions.

Data from the U.K.'s Office of National Statistics shows retail sales volumes were estimated to have risen by only 0.4% in August 2023 (partially recovering from a fall of 1.1% in the previous month), driven by cost-of-living challenges, real wage contractions and higher mortgage and unsecured debt repayment costs, impacting household budgets and discretionary spending. Against this backdrop, customers' habits are becoming hard to predict, with research indicating they are simultaneously both flocking to value and pivoting to premium and sustainable products.

Sustainability and climate action more broadly are proving increasingly important for long-term growth and resilience, with retailers seeking to unlock value through circular economy strategies and nearshoring (where businesses move operations from distant to closer locations). These moves are also happening as retailers pursue brand and reputational boosts from having clear and consistent approaches to sustainability and wider environmental, social and governance (ESG) agendas.

All of this means while cost remains a significant factor in purchasing decisions, we would argue many retailers looking to future growth should focus on making sustainable products affordable to the average consumer.

Technological disruptions and supply chain fragility persist, with retailers responding with technologies such as blockchain, artificial intelligence (AI), the metaverse and Internet of Things (IoT) to enhance supply chain operations and customer experiences.

Retailers are also integrating physical and digital channels, developing more personalised retail experiences by leveraging data and analytics to meet consumer demand for both seamless omni-channel journeys, new shopping channels, as well as more resonant shopping experiences.

Given the many forces shaping the future of retail, in this report we look to provide some clarity in the context of key themes — changing consumer preferences, emerging technologies, sustainability and climate change and transformation of workforce and people — and associated trends under these thematic headings to reveal the emerging risk and opportunity landscape. We also provide recommended action plans designed to ready your retail business for not only for the next few years, but to thrive over longer time horizons.

In creating this report, we have put ourselves in your shoes, considering questions central to the future resilience and growth of the retail sector, including:

- What risks are on the horizon and how do you make sure your business is prepared?
- Given the growing complexity of the global business environment, what impact will this interconnectivity of risks have on your business?
- How can you ensure your risk management and insurance strategy is right for your future business model?

I'd like to take this opportunity to thank the Mack Institute's Collaborative Innovation Program at the Wharton School, University of Pennsylvania research team: Anshul Garg, Yudi Levi, Alexandra Moore, Sindy Wang, Eric Yi, and forward thinking inc for all their work to help deliver this report, the WTW Research Network who support us in connecting you with the latest research, as well as my WTW retail industry-focused colleagues and subject matter experts.

Teresa Long
WTW Industry Leader for Retail, Leisure and Hospitality for GB Risk and Broking

1. Changing consumer preferences

Social commerce

Bloomberg reports shopping on social media is expected to hit $1.2T by 2025, while a 2022 Sprout Social survey of 1,000 U.S. consumers showed 68% of respondents made at least one purchase from social media in 2021, with 98% planning to make purchases on social media in 2022. Meanwhile PwC's 2023 Global Consumer Insights Pulse Survey of 8,975 consumers in 25 countries showed around 31% of respondents were making purchase decisions through targeted ads, customised ads based on browsing behaviour.

In this section, we explore both the role of social commerce in supporting sales growth and how your retail business can mitigate the potential pitfalls. Specifically, we consider:

- Mobilising younger generations through social media
- Deeper connections and more conversions: Getting the right influencer strategy
- Capitalising on celebrity collaboration
- Virtual influencers
- Livestream shopping
- Social commerce case studies: Prime and M&S
- Social commerce opportunities
- Social commerce risk alerts
- Social commerce action plan.

Mobilising younger generations through social media

Together roughly 90% of Gen Z (the demographic cohort born between 1997 and 2012) and Millennials (those born between 1981 and 1996) in the U.K. have a profile on a social media network. For age groups 45-54 years and 55-64 years, those figures are 86%, falling to 73%, respectively.

Gen Z makes up 40% of global consumers with an aggregate $360B in buying power in the U.S. alone. Digitally savvy, socially conscious, and highly receptive to celebrity and influencer culture, Gen Z and younger demographics' desire to connect with brands represents both a significant disruption and transformative opportunity for those brands able to harness trusted influencers.

Gen Z respondents to Sprout Social's research were likely to make purchases on Instagram, TikTok, and Snapchat, while Gen X research respondents (aged between 41-56 years) and Baby Boomers (aged 57-75 years) tended to make purchases on Pinterest and Facebook. Sprout Social's findings also indicated women tend to purchase more on TikTok and Pinterest when compared to men who preferred Twitch and X (formerly twitter).

According to StudentBeans research, 53% (U.K.) and 60% (U.S.) of Gen Z consumers have bought something after seeing it on Instagram, and 29% (U.K.) and 55% (U.S.) bought a product after seeing it on TikTok.

All of the above suggests that into the future, retailers should continue to segment their social commerce approaches by cohort, and those targeting younger cohorts in particular should continue to invest in smart social commerce strategies.

Deeper connections and more conversions: Getting the right influencer strategy

Arriving at the right influencer strategy is likely to be increasingly vital to delivering on the potential of social commerce opportunities.

Consumers are looking to connect with brands and content creators for richer experiences, recommendations, and unique opportunities to learn from whom they perceive as experts. The likes of The Lobby are seeking to meet this demand by facilitating customers in finding, connecting, and shopping with their favourite influencers, while Curated offers a network of experts who create shopping recommendations for customers, for example, professional players recommending golf clubs.

Parasocial relationships — one-sided engagements between a media user and media persona — have become the typical consumer-influencer relationship, spiking amongst Gen Z, Millennials, and Gen X during the pandemic. This has resulted in younger customers trusting influencers in the same way they trust their friends (in contrast to Baby Boomers who continue extend highest levels of trust to friends and family).

Many influencers commit to cultivating communities of consumers with shared passions and interests, while consumers are looking to influencers for credible recommendations and product reviews, with these parasocial interactions removing friction from the purchase process by saving consumers time and making influencers the go-to experts.

Based on our research interviews with the Head of Startups for Startup CPG, a network focused on consumer-packaged goods, this trend is expected to continue, with further celebrity-attached brands predicted to break through 'the noise,' especially in otherwise crowded consumer categories (see Capitalising on celebrity collaboration section below).

The global influencer marketing market size has more than doubled since 2019. In 2023, the market was estimated at a record 21.1 billion U.S. dollars, according to Statista while further research indicates eight out of 10 consumers have purchased something following an influencer recommendation. Between 2016-2021 in the U.K., 'influencer marketing' Google search results grew 400%. Meanwhile, research by CreatorIQ showed 67% of surveyed brands spent more on influencer marketing from September 2021 to August 2022 than they did the previous year.

One of the key advantages of influencer marketing is its potential to reduce customer acquisition costs. By partnering with influencers with highly engaged followers, brands can reach a large audience without significant spend on traditional advertising channels.

There are three key categories of influencers you could prioritise working with to maximise cost-effectivity:

- Micro/nano influencers with 5-50,000 followers to achieve targeted reach
- Mid-tier influencers with 50-500,000 followers to drive broader awareness and leverage cross-platform power to boost conversions
- Longtail influencers who have demonstrably loyal followers and cater to a specific audience.

While larger influencers with more than 1,000,000 followers have significant immediate audiences, according to our qualitative interview with venture capital firm, Gen ZVCs, consumers can perceive them as potentially unrelatable. Focusing on smaller influencers and creators could give your retail business a better chance of building a reputation that resonates, especially amongst young customers. Many retailers are increasingly looking at nano and micro influencers to make up the bulk of their influencer strategy content as a way of building community through products being regularly incorporated into frequent narrative posts, becoming integrated into 'storytelling moments'.

Whichever category of influencer you work with, The State of Influencer Marketing Survey indicates the top benefit is creating authentic content about your brand. Customers acquired via influencers may be more likely to remain loyal if they see them using your products in content that feels authentic, particularly where brands leverage influencers to create a sense of community around their products, which can foster further customer advocacy.

Capitalising on celebrity collaboration

Retailers can expect the continued rise of celebrity brands, following the likes of Kylie Jenner's Kylie Cosmetics, Kim Kardashian SKIMS, Ryan Reynolds' Aviation Gin and Rihanna's Savage x Fenty and Fenty Beauty.

By leveraging a celebrity's existing fanbase and personal brand, collaborations can create strong connections with customers to help drive sales. Celebrities can also provide a level of authenticity and credibility to the products they endorse, building trust with consumers.

Insights from our interview with the CEO of an LA-based talent agency in March 2023 (which is backed by a prominent multi-billion-dollar venture capital firm) suggest creating brands is top of mind for celebrities as they look to extract further value from their popularity. Given fans are craving more regular touchpoints with their favourite celebrities beyond consuming content, products allow consumers to explore parasocial relationships in the same vein as those smaller influencers.

However, an interview for this report with the director of influencer strategy at a global advertising agency highlights how retailers will need to go beyond engagement metrics to understand influencers' activities in cultural and social cause conversations, to be confident their values align (see also section below: Consumer activism).

Virtual influencers

Virtual influencers, computer-generated characters that exist entirely online, are becoming increasingly popular among consumers and have demonstrated the ability to influence purchasing decisions. An Influencer Marketing Factory survey of more than 1,000 U.S. consumers aged over 18 years showed 58% of respondents followed at least one virtual influencer online and 35% purchased products promoted by a virtual influencer. And, according to HypeAuditor, digital influencers have three times more engagement than human ambassadors, which ultimately drives sales conversion and higher revenues.

For example, Lil Miquela, has around three million Instagram followers and is often used to promote products and collaborate with virtual and real-life celebrities. 'She' has also worked with major brands such as Prada and Samsung. In addition, luxury brands including Balmain have deployed virtual influencer Shudu Gram, while sports brands including Adidas have used virtual influencer Imma.

Unlike traditional influencers and celebrities, virtual influencers offer high scalability, potentially lower costs and more flexibility and control over targeting specific demographics or niches of consumers. Given there is less time or resource constraints, retailers can use virtual influencers to create significantly more content for less, and without the geographic or time constraints of a traditional influencer or celebrity, allowing both significantly faster scaling and potentially broader reach.

Some commentators suggest virtual influencers are also seen as a safer alternative to human ambassadors as they can eliminate some reputational risks.

However, given virtual influencers are still relatively novel, there is little data on the success rates of their branded marketing campaigns compared to traditional influencers and celebrities over the long term.

Livestream shopping

Livestream shopping represents a significant global opportunity for retailers, allowing you to engage with audiences in real-time and develop direct relationships with customers, answering their questions, showcasing products, and providing additional, tailored information on-demand.

A survey by The Influencer Marketing Factory suggested one in four U.K. consumer respondents had made a purchase through livestream shopping. U.K. respondents' preferred platforms included TikTok Live (30%), Amazon Live (18%), Facebook Live (17%), and Instagram Live (16%). Retailers already offering livestream shopping include Amazon Live Shopping, Walmart Live and e-commerce company Shopify Live, which allows merchants, brands, and influencers to create and stream their own shopping events.

For retailers yet to experiment with livestream shopping, the advice is similar to other forms of new and developing ways to make purchases, that is, you will need to evaluate the cost of investment against the likely sales volumes and additional revenue.

Case study: Prime

YouTubers Logan Paul and KSI partnered to leverage their combined 40 million social media followers to launch fruit-flavoured sports drink Prime Hydration in 2022. They used their social media channels to create buzz around the drink, with posts generating millions of likes and views, particularly from younger consumers. The pair also created content by going 'undercover' in Walmart, with this content alone generating around 10 million views.

Prime went on to become the official global sports drink of mixed martial arts organisation UFC, with UFC indicating this gives the drink visibility amongst an estimated 900 million TV households in 175 countries receiving its broadcasts. UFC also highlights how Logan Paul and KSI are collaborating on original content that will be distributed through their own social media channels, including YouTube, Instagram, X (formerly twitter), and TikTok. Collectively, UFC, Paul and KSI are said to reach nearly 400 million social media followers worldwide.

While the UFC deal is likely to expand the Prime's reach to wider demographics, it was initially targeted at younger generations with a social commerce strategy that saw the product become a rare commodity, with young fans posting YouTube and TikTok videos of their quests through convenience stores to find it, sometimes at highly marked-up prices. Retailers including Morrison's, Sainsbury's and Tesco, saw shoppers waiting for hours to purchase the drink, which sold out within minutes in some stores.

This demand reflected a marketing strategy that fully harnesses the power of brands understanding its demographic and its social media usage; combing this with limited-edition releases, and digital marketing.

Through various social media channels, the brand regularly shares 'behind the scenes' Prime content, as well as exclusive offers. Fans use the hashtag #DrinkPRIME while sharing their experiences, provide the brand with continued engagement and buzz, helping to deliver a reported $250m from Prime for Paul and KSI and their partner, Congo Brands.

Case study: Marks & Spencer (M&S)

With platforms such as TikTok offering new advertising opportunities, M&S has been keen to use these channels to maintain relevance as an established brand and drive interest from younger users.

In 2021, M&S partnered with three popular TikTok creators for a Valentine's Day campaign. The InFeed, TopView, and Brand Premium ads had embedded links to enabling users to click-through to find out more about its dine-in deal. According to TikTok, the ads generated more than 18.5 million impressions, with an average watch time of more than four seconds and a click-through rate of more than 15%.

While Marks & Spencer continues to use well-known celebrities to front its advertising, the retailer also runs influencer campaigns stemming from its 'Insider' programme, which uses M&S employees such as visual merchandisers and beauty assistants, sharing 'insider' knowledge of how to style and use M&S products.

The strategy is largely built around small and mid-size influencers with expertise in fashion, beauty, and homeware and who are also M&S employees. According to M&S, the 13-strong Insider group has produced some of the brand's best-performing social content, returning around 30% higher engagement than external influencer programmes.

In October 2022, M&S also launched a virtual influencer, Marks & Spencer, Influencer, Reality, Augmented or Mira. Mira was created as part of M&S' "focus on experimenting with emerging trends and new technologies," with the aim of building a connection with a younger audience. M&S follows the likes of Pretty Little Thing, which launched its own virtual model in early 2022.

Social commerce risk alerts

- Influencer partnerships can ultimately do more harm to your reputation by losing customer trust if they see your chosen influencer as non-relatable or if they are no longer relevant or 'cancelled'.
- Despite the prominence of social media in retail today, retailers should not eliminate marketing and product promotion through traditional channels. The phenomenon of social and livestream shopping is still very new post-pandemic. Only with longer-term research will you be able to determine if these are long-lasting habit changes or short-term responses.
- In terms of insurance and risk transfer, you should consider the impact on directors' and officers' liability when entering new influencer partnerships. You can begin to quantify the risk of a potential partnership by 'scraping' data from a prospective influencer's or brand ambassador's social media accounts to understand their historical commentary and to what extent their values align with yours.

Social commerce opportunities

- Invest in an appropriate influencer marketing to reduce customer acquisition costs and reach specific demographics. Partner with highly engaged influencers with audiences appropriate to your target segments and cohorts, particularly those with whom customers feel connected to in a parasocial way, to build trust and generate conversions and repeat purchases.
- Deepen customer loyalty by creating a sense of community around your products, working with influencers to foster brand loyalty and advocacy among their followers.
- Build out the infrastructure likely to support social retail experiences, such as improved delivery and returns, to support social commerce channels in delivering conversions and repeat purchases.
- Partner with influencers to create shoppable posts or live-streamed events, creating a direct path from social media to purchase, making it easier for customers to buy your products and convert followers into purchasers.
- Consider celebrity brand collaborations to create a strong connection with customers and drive sales. Partner with celebrities who have a loyal fan base and personal brand to endorse your products.

Social commerce action plan

- Take a phased approach if you're looking to diversify your existing marketing strategies by leveraging social media content and influencers for the first time, testing content and influencer partnerships on a smaller scale, before investing more significantly.
- Ensure you have appropriate processes and controls ready to be triggered should your influencer partners expose your retail brand to reputational harm.
- Consider the additional responsibility and data security risks associated with handling customer data when opening new revenue social commerce streams such as livestream shopping channels, ensuring you have robust controls and mitigation strategies in the event of data breaches or interruptions.

Focus: Considering subscription models

We are seeing retailers looking at alternative revenue streams and diversification to complement their core retail offering. To boost revenues and mitigate some of the impact of the cost of living crisis. We expect this to continue in the future, particularly subscription-based models which can create more predictable revenue streams and enable you to more accurately forecast demand, leading to better inventory management and greater supply chain efficiency. Subscriptions can also incentivise customers to make recurring purchases, reducing the costs of acquiring new customers. A Deloitte survey of more than 4,600 respondents from the U.S., the U.K., Australia, Europe, cited flexibility, convenience, and product experience as the main incentives driving retail subscriptions.

We anticipate subscription models to become increasingly integrated in consumers' regular buying patterns and retailers should be ready to integrate subscription offers into their business models to expand your customers bases and maximize value through partnerships and services bundles.

The subscription economy is expected to expand at a CAGR (compound annual growth rate) of 71% between 2023 and 2028. Adopting a subscription-based model can support supply chain efficiency, improving your ability to meet customers' needs faster. Analyse and understand your customer base to determine the best subscription models, such as curated boxes, replenishment boxes, and memberships, based on the demands and pain points of the various segments.

Trend — Consumer activism models

The entry of global e-commerce platforms such as Amazon and Alibaba has drawn sellers into increasingly intense price competition as products and services become increasingly commoditised.

Research suggests younger consumers in particular are choosing products based on their shared values with brands and their perceived missions. According to a McKinsey study, 61% of consumers want brands to act on societal issues, this figure rising to 76% for Millennials and Gen-Z consumers combined. That said, retailers may also need to bear in mind research suggests social issues have no impact on most Baby Boomers. The role of consumer action for your retail business, then, could be in part driven by your customer segmentation.

In this section, we consider how customers' values can deliver value to your retail brand when you address them effectively, typically when aligned with your organisational ESG drivers. Specifically, we examine the following:

- Harnessing values to create value
- Why and how to avoid 'surface-level' activism
- Consumer activism risk alerts
- Consumer activism opportunities
- Consumer activism action plan.

Harnessing values to create value

Consumer activism concerns customers seeking to influence organisations through boycotts and other activities such as social media campaigns. Retailers have long faced a dichotomy in this space, increasingly so as issues such as food air miles and fast fashion potentially undermine both sustainability drives and retailers' chances of meeting consumers' growing expectations around environmental, social and governance (ESG) issues.

As competition rises between brands where quality and price become less powerful differentiators, many retailers are moving towards so-called 'social-cause advertising,' promoting their stand on climate and environmental issues, social justice or diversity and inclusion topics. In a research interview for this report, the head of strategy of a major advertising agency said, "Our clients are increasingly aware of the power of differentiation through social cause messaging. We are no longer operating in an environment where messaging about the products' benefits or features is enough, we need to go beyond that to really connect with our clients' target consumers."

Meanwhile, a survey conducted by international advertising and PR agency Dentsu indicated two-thirds of U.K. consumers will not buy products that have a negative environmental impact or are single use by 2030, with 66% of consumers surveyed believing by this time, organisations' reputations will depend on their action to address climate change.

However, the extent of to which this type of consumer activism is impacting spending is still in contention. Consider fast fashion retailer Shein, which saw significant sales growth from 2020 to 2022, closing out the latter year at $22.7bn in revenue. While the brand faces allegations of poor working conditions, malpractices, quality control issues, material sourcing transparency, that has not stopped it overtaking more established retail brands.

Professor Nikita Garg, marketing professor at The University of New South Wales (also known as UNSW Sydney), has stated: "...more and more, brands are getting involved in taking a stand on societal issues and political issues. This involvement in brand activism can be a little jarring for consumers, especially depending on the issue...what we found in our research was that depending on how aligned a consumer was with the issue, this impacted their willingness to pay for the brand, and their attitudes towards the brand."

Why and how to avoid 'surface-level' activism

If you are looking to leverage consumer interest in social and environmental issues, you should proceed with due care and diligence to avoid 'surface-level' activism to maintain credibility. According to a 2019 Edelman survey of 16,000 respondents across Brazil, China, France, Germany, India, Japan, the U.K. and the U.S., 56% of respondents believe too many brands use societal issues as a marketing ploy to sell more of their product, while 2022 study A Tale of Two 'Ideologies': Differences in Consumer Response to Brand Activism also indicated brands need to ensure any stance they take on environmental and social issues in marketing begins in core policies if you want to avoid alienating consumers with activism that appears superficial.

The CEO and founder of an e-commerce technology company interviewed for this report shared some of the potential challenges around establishing authenticity in the consumer activism space, with specific reference to the role of influencers: “There’s this view that people are advocating for brands because of this moral belief. Our view is that the moral support is related to the amount of money those influencers are getting.”

U.S. retailer Target can be said to be an example of effecting meaningful change through a range of both public campaigns and organisational initiatives. These include its Racial Equity Action and Change (REACH) committee which aims to spend more than $2 billion with black-owned businesses by 2025 and which devoted 5% of its annual media budget of more than $25 million to Black-owned partners in 2022.

Consumer activism risk alerts

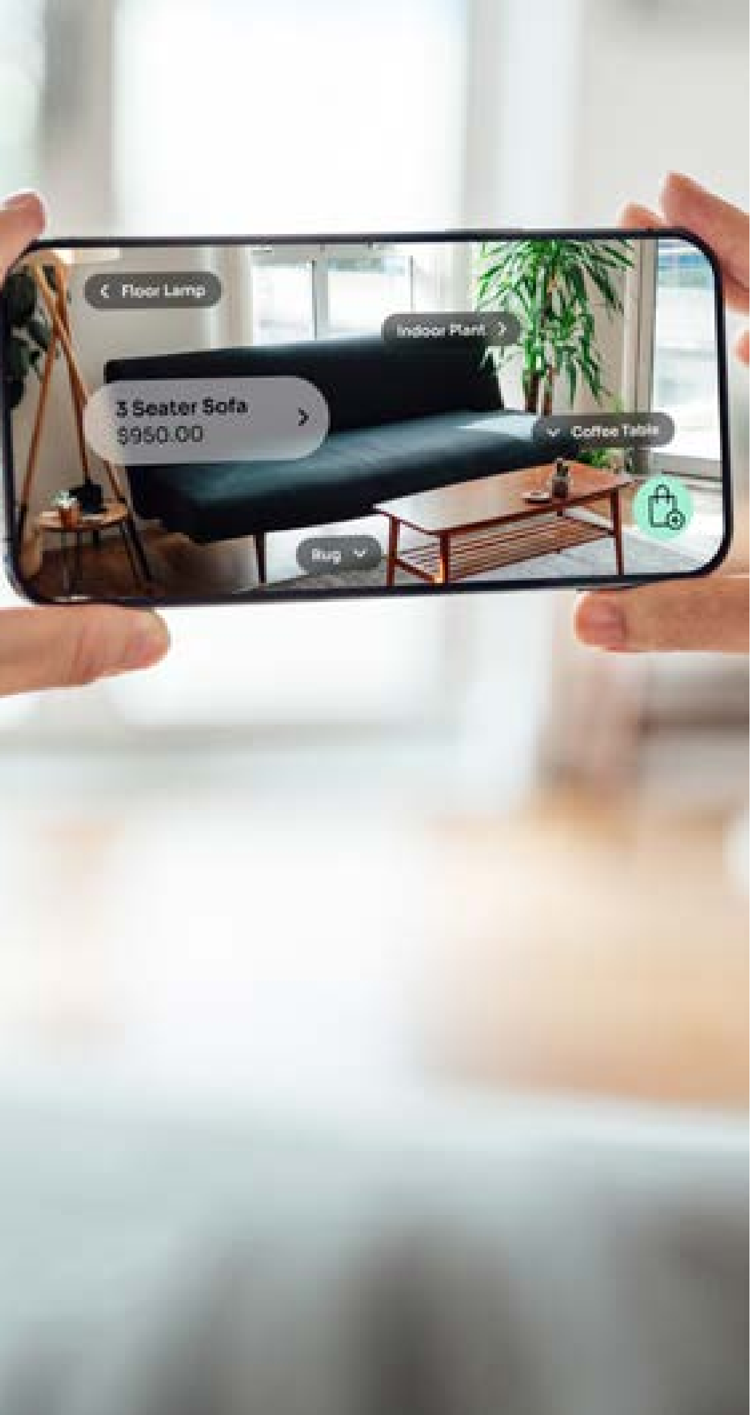
- Misleading campaigns and incorrect reporting on ESG measures can cause reputational damage and may impact revenues. For example, if you were marketing your diversity, equity and inclusion (DE&I) values, you must ensure you are also fully reflecting this in your hiring processes. You may also need to identify where diversity could be unwittingly impacted by AI applications.
- Aligning with influencers that go on to undermine your brand values, campaign missions or your wider ESG approach can impact brand authenticity and cause reputational damage.

Consumer activism opportunities

- Be more proactive in sharing your stance on activism and ESG issues. Consumers want to see how retail brands are tackling the issues that matter to them. Where you have confidence your organizational evidence can back up a stance on a social cause, consider going public.
- By having a clear understanding of your brand values and approach to ESG, you can then work to understand your customers' values to identify both alignment and any gaps you may need to address to bolster longer-term reputational resilience. You will also be well-placed to be appropriately visible in relevant conversations on social media you know will resonate with your target consumers.
- Be prepared for both positive and negative responses to taking a stand. You can minimise the downside risks by implementing firm guidelines around communications around environmental and social issues, as well as undertaking due diligence to ensure any public stand you take on a topic are aligned with the realities of the business.
- Understand consumer activism is an ongoing effort not a 'one-and-done' concern; continue to build out both internal and external initiatives to ingrain the activism values into the company culture and risk governance.

Consumer activism action plan

- Understand your organisation's progress on ESG measures and how you compare to sector peers to help determine your priorities for action, get ahead of activism against your brand and ensure you offer your customers an authentic voice on social issues that's meaningful and worthy of their trust.
- Avoid allegations of greenwashing and wellbeing washing (where organisations' approaches to the environmental and social issues around worker wellbeing do not match the reality) through effective ESG monitoring and data-driven progress plans. This can also encourage collaboration across business functions and with the c-suite.



2. New frontiers in technology

Trend — Omni-channel and consumer shopping experience

Technology is driving more immersive shopping experiences, with retailers continuing to redefine customer interactions with their brand in light of heightened expectations around digital support throughout their entire customer journey, from awareness, research, purchase, fulfilment and returns. Increasingly, this is about integrating physical and digital channels, hyper-personalisation of retail experiences, leveraging data and analytics, investment in 5g infrastructure, and an increased value chain agility and transparency that enables retailers' responsiveness to changing consumer expectations.

While we would argue the 'death of the high street' is not as simple as some headlines may suggest, in-person retail interactions have dramatically changed or been supplanted by digital engagement. This shift, which was only accelerated by COVID-19 lockdowns, is likely to endure into the longer term. Adapting to new customer behaviours and preferences means evaluating your current omni-channel offerings and finding opportunities to innovate to fill gaps, then aligning these innovations with emerging customer needs and integrating all of this with existing channels to support a consistent experience, backed-up by agile supply chains.

In this section we look more closely at the following:

- Bringing the in-store experience online
- Understanding the resilience of physical stores in future omni-channel networks
- Emerging approaches to making the high street deliver
- Omni-channel and consumer shopping experience risks alerts
- Omni-channel and consumer shopping experience opportunities
- Omni-channel and consumer shopping experience action plan.

Bringing in-store experience online

McKinsey research indicates some retailers are simulating the in-store experience and better engaging with customers online by replacing personalised in-store interactions with virtual appointments, using video-conferencing platforms to offer individualised attention to customers. During these appointments, sales associates may help customers find products suited their specific needs while also learning how to improve their online customer service.

Retailers are also utilising livestreaming to interact with customers (see also Livestream shopping trend section above), share experiential content, while developing alternative means of engagement to de-risk digital-purchasing decisions. For example, one of the main impediments to online fashion purchasing has been the inability for customers to see how items would look on them. Some retailers are using virtual try-on, which uses augmented reality (AR), machine learning (ML) and computer-vision techniques to bridge the gaps in shopping experience between online and physical stores.

Walmart launched virtual-try-on on more than 270,000 women's apparel items, developing Be Your Own Model to bring the in-store fitting room experience to online shoppers. The retailer's virtual try-on technology scans the consumer image in selfie mode, allowing them to 'try' clothes, as well as experiment with makeup looks.

Understanding the resilience of physical stores in future omni-channel networks

Despite growing digitization, any expectations of the wholesale demise of bricks-and-mortar stores have proved unfounded. Although e-commerce shopping continues to grow rapidly, physical stores are still performing in some retail areas.

A report by eMarketer suggests non e-commerce retail sales rebounded far more quickly than expected in 2021, exceeding pre-pandemic levels two years earlier than originally projected. In the U.K., according to the Local Data Company report, from 2021 to 2022 2,375 stores closed and only 2,162 opened. Even though the gap between store openings and closures decreased from the prior year, the 48,694 openings over the course of the year marked a 5% decline in new physical stores, reflecting the effects of the U.K.'s continued political and economic unrest, supply chain problems, and rising prices.

2,375

Stores closed and only **2,162** opened from 2021 to 2022 though the gap between store openings and closures decreased from the prior year

5%

Decline in new physical stores, reflecting the effects of the U.K.'s continued political and economic unrest, supply chain problems, and rising prices

Out-of-town retail parks achieved a net increase in occupied units of 0.4% for the period, with U.K. retail park vacancies dropping to 9% in 2022, a 2.3% improvement in rates, and the closest to pre-pandemic levels. The major boost was in retail park health and beauty stores, which jumped net 36 units in the period, up from a net decrease the previous year.

Shopping centres also enjoyed a stronger year, finishing with a flat net change in retail units for the period, driven by fewer administrations among fashion and department store brands, a factor that had marred previous years, leading to closures declining by 138 in 2022 compared to 801 in 2021.

Globally, in-store sales rebounded by 8.2% in 2021, to $21.1 trillion, surpassing 2019 levels. Brick-and-mortar sales are now expected to grow between 2.6% and 3.4% through 2025.

8.2%

In-store sales rebounded globally in 2021

BETWEEN 2.6%-3.4%

Bricks-and-mortar sales are expected to grow through 2025

As a Grand View Research report indicates global department stores' market size was valued at $117.2 billion in 2021 and is expected to expand at a compound annual growth rate (CAGR) of 5.1% over 2022 to 2028.

Retailers are increasingly adapting unified retail, enabling them bring together all aspects of their brand, product and marketing under a single platform. Store apps support this unification drive, with customers growing more comfortable using apps and appreciating the personalised discounts and promotions they afford. The John Lewis app, for example, accounted for a quarter of all online sales last year, with consumers using the app before shopping in-store.

Retail media networks (comprising of a retailer's website, mobile app, along with in-store advertising, digital out of home (OOH) screens and connected TV) are also becoming increasingly crucial sources of advertising for brands and a revenue stream for retailers. According to Reuters report, retailers ranging from Amazon, Target and Walmart Inc to Sainsbury's are actively focused on attracting big advertisers to their websites, with Amazon disclosing $11.6 billion in revenue from its ad business in Q4 2022. In the U.K., Sainsbury's has created Nectar360, which combines its loyalty scheme with marketing services. The company is working with 700 brands, and expects more than £90 million of additional profit from the business by 2026.

Retailers are increasingly investing in digital signage, interactive kiosks, and other forms of in-store advertising to engage customers and drive sales and are continuing to experiment with the most effective ways to display digital ads to consumers closer to the point of sale. Retailers can more easily adapt these ads to reflect latest product updates and upcoming sports events, for example, to boost sales. You can also deploy this channel alongside those customers access through digital devices, with customer journeys involving research and comparison online before completing purchases in-store, with digital signage or interactive kiosks supporting conversions.

Emerging approaches to making the high street deliver

Shop closures are encouraging retailers to take more creative approaches to the high street by delivering more immersive experiences, or responding to broader external trends, such as higher levels of home working (which have seen some retailers introduce alternative working hubs in their physical outlets) and shifts in other sectors, such financial services (with some retailers establishing banking hubs in the wake of bank closures). Other retailers are offering multifunctional stores providing complimentary products and services, for example, Holland and Barrett's wellness hubs, or they may be looking to use their physical stores as 'dark' outlets specifically to support click-and-collect purchases.

Where physical stores may still have a role to play in your omni-channel network, the optimal store configuration will be specific to your own business model. Research from McKinsey indicates three archetypes of stores in an omni-channel network. One store type simply layers on online customers picking-up purchases and retains the current layout, another configuration type repurposes a part of the layout for online orders, while a 'full transformation' layout sees the entire physical space reconfigured to reflect a 'dark' outlet approach.

When it comes to designing stores to deliver best value in the context of your omni-channel network, the key questions you should consider, include:

- **What are your customers' in-store shopping behaviors and preferences?**

  Analysing this will help you understand how much in-store floor space you need for shopping and trying products, versus what you can use for order collection, returns, or fulfilment and distribution

- **What selection of products should you feature online and in-store to maximise sales?**

  By analysing data on customer preferences, shopping behaviour and sales trends, you can optimise the product lines you offer across both online and offline channels. This may mean offering divergent ranges in different store locations based on local demand and expectations, and how far customers need to interact with a product before purchasing.

Omni-channel and consumer shopping experience risk alerts

- Gathering greater volumes of consumer data to drive personalised experiences requires effective data and cyber security. Not addressing cyber exposures and having adequate cyber cover can cause reputational damage and pose regulatory risks. It can also lead to the material loss of proprietary product information and innovation/design concepts.
- Developing effective omni-channel experiences may incur heavy costs that may not be viable for some retailers in the ongoing macroeconomic situation.

Omni-channel and consumer shopping experience opportunities

- The future of retail will continue to converge online and offline channels. By plugging gaps that prevent you from delivering seamless omni-channel experiences now — whether that's in-store technology to enable you to identify and connect with customers or investment in in-store hardware for store staff — you can position the business for longer-term growth.
- Advanced data analytics technologies such as AI and ML can help you optimise processes, freeing up talent for more creative and innovative work.
- Deploying AI/ML can also deepen your ability to offer enhanced personalisation to differentiate your retail experience from competitors'.
- The foundation of seamless omni-channel experience is supply chain transformation that builds a robust yet flexible system to support 'anywhere and anytime' order requests. Deploying AI/ML technology can improve efficiency, visibility and transparency around inventory, order status and other supply chain metrics, while supply chain analytics can help you identify both vulnerabilities and the most efficient means of mitigating these risks.
- By building an agile business model that lends itself for continued transformation, you can continue to customers' expectations as they rapidly evolve in the context of omni-channel experiences.

Omni-channel and consumer shopping experience action plan

- Establish a clear understanding of your revenue streams as they relate to your omni-channel network to ensure your insurance and risk mitigation strategies are appropriate. You risk and insurance strategies should reflect how, for example, traditional business interruption cover does not trigger following an online or cyber event.
- Consider using supply chain mapping technology that offers a more accurate picture of your supply chain, identifying pinch points and driving refined risk transfer solutions that match the complexity of modern supply chains and delivering effective omni-channel experiences.

Case study: Cooler Screens

Cooler Screens provides a digital shopping experience in the freezer and refrigerator aisles of grocery, drug, and convenience stores. The Cooler Screens platform detects a person's presence (though not their individual identity) when they are in front of the screen on the freezer cabinet door, the dwell time in front of a screen, and how many times the door is opened, using the data to display relevant product information on-screen, gathering product and campaign performance insight. When a consumer approaches the screen, the view flips to show the products behind the freezer cabinet door, including relevant promotions and pricing.

This technology has reportedly contributed to a 6% sales lift in stores where Cooler Screens installed compared to those without, with specific products advertised on a Cooler Screen seeing sales lifts between 2% and 10%.

Trend — Wider deployment of AI

According to Statista, the global market for AI use in retail was valued about at $4.84 billion in 2021, at $6 billion in 2022, and is estimated to reach $31.18 billion by 2028.

$4.84 BILLION

The value for the global market for AI use in retail in 2021.

$6 BILLION

in 2022, and is estimated to reach **$31.18** billion by 2028.

AI has the potential to transform retailers' capabilities in a range of key activities. In this section we look at how you can deploy AI in the following areas:

- Personalisation
- Automation of inventory
- Loss prevention and self-checkout innovation
- Sustainability
- Wider deployment of AI risks alerts
- Wider deployment of AI opportunities
- Wider deployment of AI action plan
- Wider deployment of AI case study: Ulta Beauty and Haut.AI

Personalisation

AI can deliver personalised recommendations based on customers' order history, online or in store behaviour. For example, Sephora's Color IQ scans a customer's face and provides personalised recommendations for foundation and concealer shades, while Lip IQ does the same to recommend shades of lipstick. With Olay's Skin Advisor, customers take a selfie and the app uses AI to age their skin, evaluate skin health and makes personalised product recommendations.

AI can also help you deliver seamless, consistent and personalised shopping experiences capable of creating long-term relationships with key customers based on data about their preferences, also referred to as 'clienteling'. AI can support clienteling through analysing online shopping behaviour and connecting these insights to in-store staff and call centres, leading to more tailored experiences and recommendations in physical stores, as well as online.

Automation of inventory

AI can play a significant role in automating human tasks around inventory by analysing high data volumes on customer behaviour, sales and market trends to identify patterns and predict future demand.

Automated inventory management systems can track and manage stock levels, while robotic systems can handle tasks such as packing and sorting products. For example, Lowes created a LoweBot to helps customers find their way around the store and get the items they need. LoweBots also monitor inventory, so the store knows what items it needs to restocked.

AI can also analyse consumer purchasing history and alert when top-selling goods are at risk of hitting low levels before a shortage occurs, identify seasonal item trends and forecast peak demand periods for certain products. For example, Walgreens uses data on anti-viral prescriptions at more than 8,000 locations to track the spread of the flu, which also supports it in managing flu-related products inventory.

AI-enabled sentiment analysis, meanwhile and as used by the likes of H&M, allows you to analyse store receipts and returns to evaluate what items to promote or stock more of in certain locations.

Loss prevention and self-checkout innovation

You can deploy AI-based video analytics at point-of-sale and self-checkout terminals, plus sensory heat maps, cash automation technology, and autonomous security robots to reduce theft. Amazon Go stores demonstrate how retailers can offer 'just walk out' self-checkout, using sensors and cameras throughout the store to track customer purchases, charging their accounts as they leave the store.

Sustainability

AI forecasting tools can help retailers transition to net zero by monitoring emissions and reduce waste by managing areas such as inventory and energy usage more efficiently. A case study published by Pacific Coast Food Waste Commitment, showed how two large retailers used AI to improve their order accuracy, leading to an average reduction in food waste per store of around 15%. Walmart, meanwhile, uses a stock management system that includes a 'freshness algorithm' and machine learning to reduce waste.

Wider deployment of AI risk alerts

- An IDC survey suggests some retailers are facing barriers to adopting AI, including the cost of solutions and a shortage of skilled staff.
- Because retailers need to design solutions in accordance with each unique use case, deploying AI demands a significant investment in research and development. An Element AI paper suggests many retailers remain at an experimental stage of AI, attempting to understand its value through test and learn processes that enable measurable results.
- AI and ML talent shortages could thwart progress. Research by SAS indicates the global artificial intelligence market is predicted to increase from $387 billion in 2022 to more than $1.4 trillion by 2029, but without the requisite specialist skills to implement AI and ML-enabled technologies, retailers may struggle to take advantage.
- Implementing AI and automation can also result in job losses, according to a U.K. government report, suggesting up to 15-20% net employment reductions in wholesale and retail in next five years, which could potentially open reputational risk and impact the wellbeing of current employees.
- AI technologies can leave you vulnerable to AI attack, threats enabled by inherent limitations in the underlying AI algorithms that cannot be fixed currently. Cyber attackers can weaponise data in novel ways through AI attacks, so retailers need to ensure your cyber risk management is up to date, reflecting the latest AI-enabled threat intelligence.
- Poor data quality is a problem for all systems including AI/ML systems, as it may limit the system's capacity to learn and may even have an adverse effect on how it makes future inferences and judgements.
- While regulating how retailers access and use data for AI is critical in protecting user-privacy, it can impede AI development. The AI Act in Europe is scheduled to come into force in 2024 and classifies AI use cases as 'unacceptable risk', 'high risk', 'limited risk', and 'minimal risk'. The regulations means you may need to operate AI systems with human oversight, depending on the risk level.
- You may need to establish an AI risk management framework to list all AI systems you use, mitigation strategies around these, and a specific AI risk governance structure.
- AI driving unfairly biased outcomes, a lack of clarity regarding consumer data-privacy settings, data captured without consent, or using this data for targeted marketing/advertising can all potentially create reputational risk for retailers.

Wider deployment of AI opportunities

- You can use AI/ML to predict demand drivers across geographies and at product detail level, such as colour, brand, promotion schedule, e-commerce traffic statistics, and other variables to set budgets and create forecasts. For example, Lowe's balances its stock keeping unit with store-level forecasts using Google's Vertex AI.
- AI, AR and VR can transform in-store and online experiences through smart shelves and virtual clothing and respond to consumer behaviour while shoppers are inside your store and using this data to configure physical stores in ways most likely to support purchases. For example, Sam's Club Now is an AI-powered store, where customers shop without having to go through a traditional checkout line, supporting by an app mapping the most efficient route through the store to get everything on their shopping lists.
- A McKinsey study indicates AI and machine learning can improve forecast accuracy by 10-20%, reduce inventory levels by 20-50%, and increase on-time delivery by 10-20%. This can result in cost savings of up to 5-10% of total supply chain costs.
- You can use AI-enabled object detection to analyse the foot traffic to reveal consumer preferences and insight on in-store behaviour.
- AI and ML can reduce costs and increase efficiencies across supply chains, deploying algorithmic tools to run multiple scenarios rapidly, allowing planners to be the decision-makers and not the ones producing the scenarios, so increasing efficiency and reducing costs across the supply chain, logistics planning, reducing cost.

Wider deployment of AI action plan

- Achieve effective clienteling by investing in capabilities that allow you to view the entire customer profile data in real time, backing this with a segmentation strategy to deliver the right experience to the right group at the right time. For example, if 80% of your revenue comes from 20% of your customers, AI can help you create targeted clienteling strategies and campaigns, and make personalised recommendations more likely to boost sales.
- Attract the AI talent you need to grow into an AI-driven future by switching from attempting to fill predefined IT roles to compiling lists of skills required for your AI transformation journey.
- Extend your strategy timelines, thinking less in terms of one to five years and more in terms of 10 to 20 years to identify emerging threats and opportunities more effectively, mitigating risks that could have a significant impact on business viability.
- Review your insurance program to get a balance between spending on property versus cyber insurance. "As the move from physical to online continues, why insure a building for full business interruption for lost revenue when you are confident you can still trade?" says Karl Sawyer, WTW Associate Director, Industries, adding that retailers can look for contingent coverage for key suppliers within their tech platforms to get more value from their total spend.
- Mitigate now around potential AI bias risk. Sam Haslam WTW Risk Management ERM subject matter expert says, "Machine learning systems can be subject to errors, omissions or oversights in coding that can build in bias to their decision making for example accidental bias on the basis of attributes such as age, gender, ethnicity, sexuality and other factors may be possible unless very carefully managed by organisations. This could prove a highly emotive topic, one which could do serious damage to brands in the future. An ERM review can help organisations to find a way of comparing, analysing and prioritising a response to all the different risks they face."

Case study: Ulta Beauty and Haut.AI

U.S. retailer Ulta Beauty sells both high-and-low-end beauty products and has grown both revenue and headcount four times within ten years in part by integrating customer-facing tools.

The brand partnered with Haut.AI, which specialises in AI tools for the beauty industry, to provide skin analysis technology for shoppers using enriched data, algorithms, and digital simulations and an AI engine that tailors recommendations to individual preference across such skincare product features such as texture, smell, as well as brand features such as sustainability and organic offerings.

Ulta Beauty also seeks to enrich Haut.AI's recommendation engine by inputting its own consumer insights and product preferences.

Trend — Harnessing the metaverse

McKinsey estimates investment in the metaverse in 2022 was at $120 billion, predicting it to grow to $5 trillion in value by 2030, with e-commerce accounting for the largest share.

$120 BILLION

is the estimated investment in the metaverse in 2022. predicting it to grow to **$5 trillion** in value by 2030, with ecommerce accounting for the largest share.

Retailers are experimenting with the metaverse to tell brand stories, engage customers, expand their reach and deepen loyalty through immersive shopping experiences on the metaverse, and experimenting with marketing campaigns. Forever 21 and Mattel, for example, launched a new ‘phygital’ capsule collection inspired by Barbie, featuring 76 pieces across a range of apparel categories on its mobile app and e-commerce site, as well as at select stores and virtually on the Roblox immersive gaming platform.

Consumers surveyed by McKinsey preferred using the metaverse for shopping (79%). This is followed by socialising (78%), such as attending virtual events/games, fitness (76%), dating (73%) and education (72%). Consumer, apparel, footwear and luxury, and retail are near leaders dedicating significant shares of their digital budgets to the metaverse.

In this section, we take a closer look at the emerging picture of retailers’ presence on the metaverse. Specifically, we look at:

- Using digital twins and NFTs
- Uncertainty over the immediate future of the metaverse
- Harnessing the metaverse risk alerts
- Harnessing the metaverse opportunities
- Harnessing the metaverse action plan
- Focus: How retailers can stay ahead of evolving cyber threats now.

Using digital twins and NFTs

Retailers are harnessing the metaverse to produce digital twins of goods, virtual replicas of physical goods that share data with the original physical object, storing details about a product's ownership, legitimacy and history for both physical and digital goods. Amongst other benefits, this helps to prevent counterfeiting.

The interaction with the purchased physical item goes beyond the life cycle of the physical product through its digital twin. Nike, for example, has generated $185M of revenue from selling digital versions of its sneakers in NFT form, with a significant portion of this revenue arising from secondary markets. Nike collected $93 million in royalties from the use of its 'swoosh' in secondary sales.

We believe retailers harnessing the potential of the metaverse need to create shopping concepts distinct from traditional bricks-and-mortar experiences. Examples of this include Boson Protocol's virtual mall in Decentraland which allows users to explore digital items and buy an NFT voucher they can redeem for the physical item in the real world. Decentraland's Metaverse Fashion Week saw the involvement of brands including Dolce & Gabbana, Estée Lauder, and Etro. The event was blockchain-based, built on 'land' sold as NFTs, and featured digital clothing that could be purchased and worn using NFTs.

Uncertainty over the immediate future of the metaverse

While there are examples of both significant investment and the metaverse generating value for retailers and brands, there remains a lack of clarity on the long-term role of the metaverse in retailers' business models.

The underlying technologies the metaverse leverages, such as AR, VR, web3 are still developing, while research indicates funding to start-ups in the metaverse space (companies in VR, AR and virtual world industries) has dropped 77% from the final quarter of 2021 to the first quarter of 2023.

Notably, Microsoft shut down its Altspace VR platform with plans to shift focus to support immersive experiences powered by Microsoft Mesh, a platform aimed at bringing social VR to the workplace. At the same time, Apple has launched its Vision Pro mixed-reality headset and is betting on the AR/VR space with 'wearable communication platform' headset specialist Mira Reality.

While this summer saw widespread reporting of Meta's $40 billion loss on 'betting on the metaverse', the company appears committed to staying the distance and continuing to invest. Retailers may need to be more circumspect, depending on what your data tells you on the likelihood of engaging would-be customers and converting them into repeat purchasers in the metaverse.

Harnessing the metaverse risk alerts

- The metaverse is comprised of multiple worlds, such as Meta's Horizon Worlds, Decentraland, and The Sandbox. There is not yet true interoperability between these digital worlds and it's unclear whether the users will be to travel between these worlds and, therefore, where retailers might best make investments. Transferring sensitive data between platforms poses a risk to data security that retailers must factor in when considering operating in the metaverse.
- The metaverse introduces emerging categories of identity-linked personal information, such as environment mapping, eye tracking, and sensor data, potentially opening new frontiers around data privacy.
- Metaverse platforms lack credential verification processes. The absence of these checks, in particular for avatar manifestations, can put consumers, and your retail brand at risk.
- Security lapses, identity theft, or denial of service in the metaverse can have an impact on the actual world, damaging reputations and hurting revenues.
- Aspects of the metaverse today can feel clunky, with low quality graphics that could cause some consumers to lose interest quickly. Failing to create enhanced customer experiences may hamper the growth prospects and threaten the profitability of your metaverse presence.
- Scaling-up metaverse deployment is capital-intensive. Only larger retailers with significant budgets may feel able to make the initial investment in metaverse technologies.
- The metaverse runs on relatively new technology and the limited capability of the existing computing infrastructure before overload, which could restrict users numbers.
- Most consumers don't have full access to the more advanced technology and services they need to run a metaverse environment. Lagging makes video/audio slow while socialising or gaming on the metaverse, with a lack of bandwidth making it difficult for users to obtain content quickly, leading to disappointing consumer experiences.
- There is a shortage of talent with technical skills to create 3D environments and design, deploy and maintain blockchain implementations, moderate content, and user experiences on the metaverse. Having the right talent to create, manage, and support experiences in the metaverse needs to be at the forefront of your talent and people strategy if you are committed to leveraged metaverse channels most effectively.

Harnessing the metaverse opportunities

- Favourable metaverse experiences could improve your organization's real-world operations.
- The metaverse and its underlying technologies give you access to deeper knowledge about consumer behaviour, preferences and interactions at every step of the journey. You can use these insights to enhance the customer experience and create more effective purchasing journeys.
- You can now leverage VR/AR to offer a new level of immersive experience which is 3-D, navigable, and allows customers to experience and buy virtual or physical goods, enable customers to try out products not available in store or try before they buy. For example, Dyson, launched a digital store accessible through a VR headset allowing customers to 'walk' through and test its products virtually.
- You can use NFTs to drive customer interaction and loyalty by building exclusive communities of owners. By attaching rewards or experiences, you can interact with your customers in novel ways.

Harnessing the metaverse action plan

- Adopt an alternative view of risk. Given the risks associated in virtual worlds are different to those of the physical world, and the combination of both in a customer journey can blur the division, your approach to managing risk needs to reflect this perspective. For example, what will cause an interruption to your business; a fire; cyberattack? How should you address these different risks, and how can your customer journey continue if one part of the 'phygital' journey fails?
- Evaluate the impact on your insurance cover of metaverse expansion. If you are already invested or looking to invest in more digitalisation — either on the metaverse, as well as in-store, across the supply chain, in distribution centre controls or online sales — you need to assess the business impact as well as likely recovery within insurance policies. For example, will there be recovery for lost revenue as a result of failures on the metaverse? Do you have cover for lost revenue due to network interruption? You should factor these and other scenarios specific to your business model into your risk management and transfer strategy.

Focus: Staying ahead of cyber threats

WTW cyber risk expert Matt Fowler provides an overview of the cyber-related issues for retailers.

With tech-enabled retail innovation and opportunities come new risks and new ways of targeting your business. Effective cybersecurity today means considering it within every aspect of your business objectives and operations.

While this is wide-reaching activity, your approach does not have to be over-complicated; your strategy for cyber security must consider two key principles: proportionality and context.

How to determine a proportionate approach to cyber security

A 'gold standard' cyber controls environment is likely very expensive to build and maintain, meaning you need to establish what's proportionate by considering four key areas:

- **What do you need to protect?** What assets, including data, systems and devices, are most critical to business delivery and continuity? Determine what is most important and base your strategy around the protection of these assets as a priority
- **Do you have any cyber gaps or exposures?** How good is current cyber security? A gap analysis will provide you with the knowledge of where hackers may look to target your business. Comparing these gaps against your findings from understanding what you need to protect will give you greater understanding of where to start with your cyber security strategy
- **How will you address your gaps and the associated risks?** Will you treat the risk via controls or processes, tolerate the risk or transfer elements of it via cyber insurance placement?
- **How will you undertake ongoing management, review, and update processes for cyber security?** Recognising that cyber security is a constantly evolving journey demanding responsive and flexible approaches.

People and culture to manage cyber risk

Defensive controls and processes don't develop or configure themselves. The cyber security around launching new products and services, implementing new technologies and innovation, strategic objectives and plans for growth are all underpinned by your people and culture.

Because of this, cyber attackers have studied the way humans interact within cyberspace; they know we sometimes lack training or lose focus, that we are prone to clicking on links for 'free stuff', and for this reason the human is and will always be the first and last line of defence against cyber threats.

So, how good is your 'human firewall'? Do your employees have the tools and awareness to effectively detect and report a potential cyber incident? If they cannot, then simply doing nothing is likely to heighten your probability of experiencing a cyber security incident.

So where should you start with assessing and then mitigating people-related cyber risk? It starts with intelligence and communication; in building an effective and responsive cyber security strategy, your organisation must engage with your people to understand their opinions and perceptions on cyber security.

Begin by communicating with colleagues across all functions, levels and seniorities to identify knowledge gaps and potential problem areas. From here, you can build your strategy from a position of knowledge and strength, armed with real-time insights and measurable metrics. It's also worth remembering that AI is based on historical data being used to predict the consumers interactions and behaviours as of now. Relying on historical data when retail is often about predicting for future trends could result in a delayed positive and progressive customer experience or an inability to make 'in time' adjustments due to societal developments that sit outside of the data ecosystem.

Getting ready for AI regulation

To prepare for the likely enforcement of the AI Act in Europe retailers should assess the risk to your AI systems, enhance transparency, implement robust monitoring and reporting ensuring compliance with the regulatory requirements.

You should also look to quantify specific risks using data including loss/claims scenarios. Only then can you establish the most appropriate insurance programme be put in place to provide that financial backstop if you were to experience a cyber incident.

Trend — Increased operational and supply chain efficiency

In this section, we look at a number of technological and associated drivers impacting operational and supply chain efficiency, specifically:

- The impact of AI on supply chain management
- Autonomous and electric vehicles
- Subscription models
- Increased operational and supply chain efficiency risk alerts
- Increased operational and supply chain efficiency opportunities
- Increased operational and supply chain efficiency action plan.

The impact of AI on supply chain management

By analysing consumer behaviour, shipping patterns, and inventory levels, AI can make accurate predictions about future demand, allowing you to optimize your supply chains and avoid stockouts or overstocking.

Retailers are already using AI and ML to optimise supply chain operations, for example, Walmart's deployment of AI to manage its inventory. Sam's club, owned by Walmart uses floor scrubbers to keep the track of the inventory and capture images of every item in the store. The AI trained algorithms use these pictures to alert stock room when a product gets to a pre-determined level so that the item is always available.

Tools like AutoGPT and ChatGPT can eliminate human intervention in processes and decision making to make supply chains more efficient. AutoGPT is an open-source platform that seeks to make ChatGPT (GPT-4) entirely self-governing. AutoGPT has the capability to utilize GPT-4 in developing and managing businesses independently, analysing market data, identify profitable business opportunities, and taking related actions. Supply chain visibility platform project44 launched Movement GPT, offering an AI assistant for supply chains.

Autonomous and electric vehicles

Autonomous and electric vehicles (EVs) have the potential to revolutionize the supply chains by reducing delivery times and costs. Self-driving trucks, for example, can operate 24/7, allowing you to fulfil customer orders quickly, even during off-hours, meeting customers' needs faster and at a lower cost. Startup Zipline uses drone technology to deliver medicine and food to remote areas in countries like Rwanda and Ghana, with drones able to make 80-mile round trips and make deliveries in as little as 15 minutes. Similarly, FedEx has partnered with Elroy Air to develop uncrewed aerial vehicles for commercial cargo delivery. The Chaparral aircraft can carry up to 300 pounds of cargo, including packages, over 300 miles.

While autonomous and electric vehicles offer potential supply chain efficiencies, drones and EVs require significant new infrastructure such as charging stations, and existing infrastructure needs to be updated to optimise the technology. For example, Google Maps, which currently provides directions in 2D, may need to be replaced with 3D maps with GPS to navigate across supply chains, including within warehouses and distribution facilities.

Increased operational and supply chain efficiency risk alerts

- Supply chain disruption may become more challenging. Data indicates supply chain disruptions were up 32% year-on-year in 2022, with factory fires being the primary reason. Wars, escalating trade tensions, and labour strikes are likely to cause significant disruptions to the supply chain looking ahead, while sanctions and labour laws like Uyghur Forced Labor Prevention Act (UFLPA) in the U.S. can make importing and exporting even more challenging as it prohibits importation of goods into the United States manufactured wholly or in part with forced labour in the People's Republic of China, especially from the Xinjiang Uyghur Autonomous Region, or Xinjiang. Where you have low visibility or a lack of contracts with Tier 2, Tier 3, and Tier trading partners this can make it harder to identify and mitigate further risks of disruption.
- Geopolitical tensions are likely to impact key supply chain and continue to challenge offshoring trends. For example, the retail sector is heavily impacted by the semiconductor industry, which is critical to producing smartphones, computers, and automotive electronics. The U.S. and China have been engaged in a so-called 'chip war' recently, with companies like ASML facing pressure from the U.S. government to restrict sales to China and U.S. companies including Intel and Apple investing in domestic semiconductor production to reduce their reliance on foreign suppliers. This geopolitical tension is working to reverse long-term offshoring trends and means retailers could face challenges obtaining enough inventory to meet consumer demand, resulting in delays, product shortages, and potentially higher prices for consumers.
- Using autonomous vehicles and EVs introduces new risk frontiers related to the substantial infrastructure investment and regulatory challenges around ensuring the safety of autonomous cars.
- Implementing AI tools like AutoGPT and ChatGPT requires investment in software development and training data, as well as ongoing maintenance and updates.

Increased operational and supply chain efficiency opportunities

- Transparency using cloud-based platforms, AI, and ML can give you gain greater visibility into your supply chain, improve collaboration with partners and suppliers, and help you make more informed inventory, transportation, and production decisions, therefore reducing costs and improve efficiency while reducing the risk of disruptions.
- Robust order management systems (OMS) providing information on inventory levels, shipping status, and other supply chain metrics, you can improve accuracy, reduce risk, and improve responsiveness to customer demands. The system should manage and fulfil orders from multiple sales channels, such as online marketplaces, e-commerce sites, social media platforms, and physical stores, providing a centralised view of inventory across all channels and enabling you to see inventory in real-time, including products available in stores, warehouses, and other locations.
- AI and ML can help you build a more agile and flexible supply chain by identifying potential disruptions and acting appropriately to avoid or minimize their impact, while software platforms providing real-time visibility into the supply chain can leverage predictive analytics to anticipate potential disruptions.
- Nearshoring can reduce the adverse environmental effects of moving materials and finished goods across the supply chain, as well as mitigate against geopolitical risks.
- AI-based supply chain automation could offset initial investment in AI technology by delivering cost savings through increased efficiency and reduced labour costs.
- Research suggests AI, the metaverse, and the IoT can play a growing role in supply chain management, enabling companies to optimise processes, enhance visibility, and reduce costs.

Increased operational and supply chain efficiency action plan

- Evaluate new risk frontiers and interconnectivity of risk if you're considering new strategy, such as offering subscriptions (For example, do you understand the additional liabilities that may be created by contract or legislation?) or moving to EVs (For example, what are the implications on fire risk when vehicles are charging and what implications are there on supply chain risk in light of the charging infrastructure available beyond your warehouses).
- "Consider the impact of multiple events happening across the supply chain using data analytics. Understanding that the cost of insurance is just a small part of the total cost of risk is essential to compare the value from insurance with the value from other risk mitigation options to identify where you can find best value," says David Stebbing a Senior Director in WTW Strategic Risk Consulting.
- Interrogate the risk impact of any move towards autonomous and EVs, including the value of assets, charging infrastructure and fire exposures and the impact on workforce driving risks.

Trend — Last-mile innovation

By 2025, it's anticipated retail e-commerce sales as a share of total retail sales in the U.K. could reach to more than 38%. Global retail e-commerce sales worldwide are estimated at $6.3 trillion USD in 2023, expected to reach more than $8.2 trillion by 2026.

$6.3 TRILLION

estimated retail e-commerce sales worldwide in 2023, expected to reach more than **$8.2 trillion** by 2026

By 2030, approximately 60% of the world's population will reside in large cities, according to a United Nations report released in 2020. As a result, by 2030, the top 100 cities worldwide will see a 36% increase in the number of delivery vans to accommodate customers' increasing demand for home delivery of online orders, according to the World Economic Forum. Establishing fast, convenient, and consistent last-mile delivery experience — product is moved from the warehouse shelf to the back of a truck, to the customer's doorstep — is likely to offer a competitive advantage. Research from Accenture shows 66% of millennial online shoppers say they want e-commerce sites to offer a one-hour delivery option in metropolitan areas and in the U.K., 56% of online shoppers believe same-day delivery options are important and 55% now demand two-hour time slots (up from 44% in 2020).

In this section, we examine:

- Tackling the last-mile challenge
- Technology and the last mile
- Last-mile innovation risk alerts
- Last-mile innovation opportunities
- Last-mile innovation action plan.

Tackling the last-mile challenge

The last mile is the most expensive part of the order-fulfilment process, the combined costs of storage, fuel, labour, idling vehicles and maintenance, driving up the total of shipping and delivery in the supply chain. The last mile comprises more than 40% of total supply chain costs, according to the Capgemini Research Institute.

For retailers and delivery carriers, providing a differentiated delivery experience while remaining profitable is a significant challenge, not least because the final leg of shipment typically involves multiple stops with low drop sizes. In rural areas, the drop points may be distant, while in urban areas retailers' deliveries are up against traffic congestions.

In the 'battle for the last mile', Amazon has established a benchmark of customer experience and historically invested $1.5 billion in its one-day delivery initiative, with other retailers increasingly under pressure match to compete.

A McKinsey report indicates many retailers have explored strategic partnerships to enhance delivery convenience, such as the collaboration between Sainsbury's and Just Eat allows which allows shoppers to get groceries delivered within 30 mins. Sainsbury's also offers its own on-demand delivery service called Chop Chop in around 15 areas, delivering up to 25 items in 60 minutes.

More generally, retailers such as Sainsbury's and Tesco and are now able to provide same-day deliveries within certain urban areas, where their infrastructure already includes distribution centres, superstores with in-store pickers, or newly implemented 'dark' stores servicing online orders only.

Smaller supermarkets can choose to piggyback onto the networks of larger food retailers, or food delivery specialists, whilst for other retailers, the best option could be to partner with courier and haulage firms to provide same-day delivery via vans and motorbikes. In the U.S., Instacart offers same day deliver on BestBuy products, for example.

Technology and the last mile

We increasingly expect technology to accelerate last-mile innovation, making meeting customer expectations in this space more accessible and scalable for more retailers. A CB report suggest the future of last-mile delivery will be built on key technologies, including:

- Autonomous delivery systems such as self-driving cars, robots designed to travel on pavements/sidewalks, and drones
- Robotic stores on wheels to bring shopping experiences to consumer's doorstep. Tortoise, for example, has introduced a remote-controlled robot selling a varied inventory from tap-to-pay containers on the back of the unit
- Delivery lockers and storage systems that provide logistics partners or retailers the capability to place multiple packages in a single location. Mileberry's smart parcel lockers hubs, for example, are providing last-mile delivery the option to drop and customer packages, with customers collecting them according to their schedules. Mileberry's app is designed to help consumers locate the closest hub to them. Delivery drivers, also via the app, can track the hub a consumer wishes to receive their goods at and deposit parcels in appropriate lockers, potentially consolidating deliveries therefore reducing fuel usage and costs.

Last-mile innovation risk alerts

- Regulatory challenges persist for both ground and drone autonomous deliveries.
- Customer returns, failed deliveries, damaged products and the link can undermine efforts to keep delivery costs in check even in the face of technological efficiencies.

Last-mile innovation opportunities

- Falling costs of autonomous delivery systems could drive retailers more widely adopting this technology, with smaller retailers able to explore more collaborative fulfilment solutions to exploit economies of scale.
- Benchmarking your last-mile offer against competitors allows you to better understand the trade-offs around investing in last-mile innovation technology when it comes to retaining customers and winning them from your peers based on delivery experiences.
- Digital twins of supply chain using real-time data/snapshots can forecast supply chain dynamics and optimize the flow of resources across the supply chain, generating last-mile journey efficiencies.

Last-mile innovation action plan

- Consider how you can leverage your current operational footprint to improve last-mile delivery. For example can you deploy stores in fulfilling orders to reduce time, cost and distance for deliveries, or can you incentivise store collection to avoid additional costs.
- Ensure your enterprise risk management strategy includes horizon scanning on emerging operational and customer changes concerning the last mile so you capture the opportunities and risks they present to your business to drive future business model optimisation.
- Position the last mile as an innovative and future-looking area to attract talent to your organisation and build the future workforce capable of delivering excellence around the last mile.

3. Sustainability and climate change

Trend — Sustainability and climate change drivers for long-term resilience

We believe retailers that prioritise boosting their ESG practices are more likely to have a competitive advantage and achieve improved growth over the long term.

There are both financial performance and regulatory imperatives driving the move towards a greater focus on climate and wider ESG drivers, with international climate reporting evolving fast towards a global baseline of climate and wider ESG standards.

In this section, we examine the evidence around the case for climate and ESG action by retailers, specifically exploring:

- The impact of prioritising ESG on financial performance
- Regulatory drivers to boost climate and sustainability action
- Sustainability and climate change risk alerts
- Sustainability and climate change opportunities
- Sustainability and climate change action plan
- Focus: Considerations for the future of sustainable goods.

The impact of prioritising ESG on financial performance

There is a wide evidence base for the impact of ESG measures driving improved performance and investment metrics:

- According to a Schroders report, companies with stronger ESG credentials are expected to outperform their peers in the long term, with a tendency towards lower costs of capital and higher profitability than those with weak ESG credentials. The report also found companies with strong ESG credentials tend to be better positioned to manage risk, which can also lead to improved financial performance over the long term.
- An EY study also demonstrates the positive impact of sustainability on financial performance. Sustainable companies outperformed their industry peers on gross profit, EBITDA, EBIT and net profit metrics with the extent of outperformance ranging from 3.1 to 6.3 percentage points.

- Evidence also suggests companies with greater emphasis on ESG over the last three years have also seen income rise by almost 10% — more than double the rate of those companies that have not given it as much prominence, the study from Moore Intelligence finds. The rate of profit growth among keen ESG adopters slightly lagged income growth, at 9.1% versus almost 10%. However, it still represented significant outperformance. Its profit growth over three years was almost three times greater than ESG laggards, which achieved an uplift of 3.7%.
- Investors are also increasingly focused on sustainability performance, with sustainable investing assets expected to reach $53 trillion by 2025. Climate change risks can significantly impact a company's financial performance, with more than 90% of the world's largest companies will have at least one asset highly exposed to the physical impacts of climate change by the 2050s.
- A Global Impact Investing Network (GIIN) report, meanwhile, found impact investments — those generating social and environmental benefits in addition to financial returns — have achieved competitive financial returns in recent years.
- The shift to a circular economy could generate $4.5 trillion in economic output by 2030, with circularity in relevant fast-moving consumer goods sectors (packaged foods, apparel, beverages, fresh good, beauty and personal care and others) potentially yielding net materials cost savings of ~$700 billion p.a. globally. According to the Ellen MacArthur Foundation, a circular economy could reduce greenhouse gas emissions by 22% to 44% in 2050 compared to the current linear model. More generally, transitioning to a circular economy supports the achievement of 12 of the 17 sustainable Development Goals (SDGs)s adopted by the United Nations.
- Sustainable debt instruments 'green bonds' offer a means of financing major ESG initiatives as well as holding retailers and apparel brands to account on executing their sustainability goals. Across industries, company issuance of ESG-themed bonds has grown 25 times since 2014 with Moody's forecasting bond market to grow 10% in 2023 to issuance of $950 billion. Walmart closed on its first-ever issue of green bonds and will use $2 billion in new capital to invest in renewable energy projects, energy-efficient facilities, sustainable transport such as electric and hybrid vehicles, and waste reduction and other investments intended to lessen the company's environmental impact.
- According to Deloitte's 2023 CxO Sustainability Report, 75% of retail and consumer industry c-suite executives have increased investments in sustainability over the last year, with stakeholders, customers, board members, and regulators all driving the change. Findings show c-suite executives also see the benefits of their sustainability efforts expanding into areas such as brand recognition, customer satisfaction, and increased supply chain efficiency and/or resilience.

Regulatory drivers to boost climate and sustainability action

International climate reporting is evolving fast. In June, the International Sustainability Standards Board (ISSB) issued its inaugural standards on climate-related financial disclosures — International Financial Reporting Standards Standard 1 (IFRS S1) and International Financial Reporting Standards Standard 2 (IFRS S2). ISSB described the move as "ushering in a new era of sustainability-related disclosures in capital

markets worldwide," with the new standards aiming to improve trust and confidence in company disclosures about sustainability to inform investment decisions.

ISSB also described IFRS S1 and S2 as creating a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects for the first time, building on the Financial Stability Board (FSB)'s Task Force on Climate-related Financial Disclosures (TCFD). TCFD has been seen as the global gold standard and is mandatory for some companies in the U.K..

In the U.S. retailers will have the proposed Securities and Exchange Commission (SEC) climate proposal to standardise climate-related disclosures for investors on their radar, while in the EU, before IFRS 1 and 2, the regulatory drivers have been the Corporate Sustainability Reporting Directive (CSRD) alongside the EU Taxonomy common classification scheme for sustainable economic activities, in addition to the ISSB standards, as they were being developed.

Soon after the publication of IFRS S1 and S2, the FSB announced it had asked the IFRS Foundation to take over the monitoring of the progress on companies' climate-related disclosures from TCFD.

IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the material information associated with sustainability-related risks and opportunities they face over the short, medium and long term.

Building on the pillars of TCFD, IFRS S1 requires organisations to provide disclosures about:

The governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities

The entity's strategy for managing sustainability-related risks and opportunities

The processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities as part of risk management

The entity's performance in relation to sustainability-related risks and opportunities, including progress towards any metrics and targets the entity has set or is required to meet by law or regulation.

IFRS S2, meanwhile, sets out specific climate-related disclosures and is designed to be used with IFRS S1. It applies to climate-related physical risks, climate-related transition risks and climate-related opportunities. Based on WTW expert analysis of the standard, we have found it is closely aligned with the current form of TCFD.

Looking ahead, given the rapid evolution of climate reporting regulation, in addition to the financial and stakeholder imperatives, many retailers are already shifting from 'compliance and reporting' approaches to deeper, strategic mindsets when addressing climate and wider ESG issues, as well as emerging global and regional standards and frameworks.

We would also argue moving to a 'beyond compliance' approach to climate reporting will both enable retailers to meet their current/impending reporting obligations, as well as secure long-term sustainable success. This approach will enable organisations to align with TCFD whilst also providing the groundwork on which they can base disclosure in line with other emerging standards, such as IFRS and climate-related elements of the CSRD.

Generally speaking, we anticipate climate risk reporting approaches will need to be responsive to potential evolutions around a number of areas. This includes quantifying financial impacts, greater integration of climate into risk management, and around issues relating to boards being sufficiently informed to exercise due climate risk-related governance.

Sustainability and climate change risk alerts

- The EU has proposed a tax on non-recycled plastic waste to reduce the amount produced, so if you produce or import plastic packaging, you'll be subject to tax based on the amount of non-recycled plastic you use. Similarly, in the U.K., Plastic Packaging Tax, requires you to pay £210.82 per tonne from 1 April 2023 if you have manufactured or imported plastic packaging components which contain less than 30% recycled plastic.
- Retailers are facing sustainability challenges around managing emissions in the supply chain, particularly in the extended value chain, which includes manufacturing, logistics, suppliers, distributors, and retailers. According to McKinsey & Co, more than 75% of emissions come from Scope 3 and the supply chain.
- Highlighting sustainability credentials encourages increased scrutiny, and should you fail to meet any public pledges or consumer expectations, your brand could face reputational damage and financial losses.
- "Carbon pricing is evolving around the world and has the potential to impact the cost of more carbon-intensive raw materials. This is particularly relevant at the moment for businesses importing to or operating in the EU, which enforces an EU Emissions Trading Scheme. The Green Deal (an EU pathway to no net emissions of greenhouse gases by 2050), includes a carbon border adjustment mechanism This aims to ensure a level playing field by requiring that if you import into the EU from a country that doesn't have carbon pricing, you will need to pay the difference against the EU carbon price. Reporting on this started in 2023, and taxes need to be paid from 2026," says Fiona Ribbons WTW ESG and Climate Risk consulting specialist.
- Given the current economic climate, there may be a balance between expectations and plans and having the means to deliver on them. Not meeting plans set will have a reputational risk, and potentially litigation risk.
- Legislation is being built around net zero for 2050, however requirements are evolving quickly – ISSB is set to supersede TCFD and will apply on a voluntary basis for reporting from Jan 2024; its requirements will go further than before. "This means retailers will require more granular detail and more quantification of climate and ESG-related risks and opportunities. Keeping up with these requirements in parallel to dealing with the current risk landscape (including geopolitical risks and cost of living-related issues) will requires focus and skilled workers," says Fiona Ribbons.

Sustainability and climate change opportunities

- **Nearshoring**, working with nearby suppliers, encourages sustainable sourcing practices, facilitates closed-loop supply chains, and promotes the material reuse and recycling with trade-in incentives. For example, back in 2015, Levi Strauss & Co launched a closed-loop denim supply chain that involves collecting old jeans, breaking them down into fibres, and spinning them into new yarn, all within a 500-mile radius of its headquarters in San Francisco. This nearshoring approach has helped them minimize transportation and logistics costs while promoting sustainable material reuse and recycling.
- **Implementing standardized sustainable reporting** is a crucial sustainable business practice for embracing ESG. Like financial reporting, third-party audit firms will audit these reports annually, and non-compliance or fraud will result in fines. The reports can include ecological accounting for construction projects, which measures collateral damage, such as deforestation. Standards for sustainability reporting, such as Greenhouse Gas Protocol and Carbon Disclosure Project (CDP) can help ensure transparency and accountability in your sustainability reporting.
- **Mapping the supply chain** can promote social and environmental sustainability. By identifying and tracing the supply chain, you can identify and then address labour rights violations, environmental damage, and human rights issues. You can also screen trading partners, identifying red flags to de-risk transactions and comply with regulations, such as the U.S. Uyghur Forced Labor Prevention Act and the EU Supply Chain Act. Complying with these regulations is essential to proactively address issues in your supply chains related to labour rights, data privacy, cybersecurity, and environmental protection.
- **Circular economy approaches can prepare the business for longer-term competitive advantage.** Companies can adopt a carrot-and-stick approach to enforce sustainable practices, incentivise trade-in programs, and develop closed-loop symbiotic partnerships. Only 7.2% of the economy currently operates within circular model, but it is expected to become more mainstream in the near future. Making strategic moves now could position the business for improved long-term growth.
- **Shifting to subscription-based models** can promote a closed-loop approach to consumer products (see also earlier Focus section Considering subscription models). By subscribing to a product, consumers are encouraged to return it within a set period allowing them to use and reuse it efficiently, aligning with environmental responsibility principles. You can look to design any components with limited innovation potential for perpetual use and repurposing once consumers return them through your subscription program.
- **Adopting AI and investing in technology** such as IoT sensors, radio-frequency identification tags, and advanced data analytics tools with real-time market signals can help you better understand demand for your products. By having a more accurate picture of demand, you can reduce excess inventory and only stock the necessary inventory levels at each location. This can help reduce emissions, water use, and waste associated with meeting demand.
- **Adopting autonomous and EVs** can contribute to a more sustainable future and reduce your carbon emissions.

Sustainability and climate change action plan

- Use analytics and modelling to support strategic climate and sustainability plans using scenarios analysis to identify and manage climate-related risks and maximise opportunities.
- Refine managing climate-related risks across complex supply chains, using data analytics to better identify potential supply chain failures before they happen in real time, supporting business continuity planning.
- "Undertake security and political risk analysis, alongside crisis management and business resilience (including international security) and assess human rights in the supply chain," advises Patrick Rogers, Head of Risk Advisory WTW's Alert:24. This can help overcome c-suite barriers to identifying and analysing overarching, and often interconnected, macro risks likely to impact your retail business into the future.
- "Use climate mapping and diagnostic tools to summarise the physical climate risk exposure in a dynamic way using dashboards. Evaluating the here and now of your supply chain and the likely physical risks that can disrupt or prevent supply in the future, and adding these to the transition risks in terms of Scope 3 emissions and carbon costs from supply chain, will develop your strategic response," says Fiona Ribbons. Considering the criticality due to the reliance or lack of alternatives and looking at the alternatives, or investment and what controls you might put into place will help you manage immediate and longer-term risks.
- Consider the longer-tail risks, going beyond shorter-term time horizons and shifting business impact and mitigation strategies over timelines of longer than 20 years.

Focus: Considerations for the future of sustainable goods

- While consumer demand for sustainable goods is high, with Deloitte survey indicating one in four consumers would pay more for sustainable packaging and products, inflation may see some consumers prioritise essential needs over sustainable products, posing short-term challenges at least for sustainability focused retail brands.
- Sustainable brand positioning can backfire if it is seen as greenwashing, that is, where the green credentials you use in publicity and marketing are not matched by the track record of the business overall. A recent survey showed 23% of British consumers spent less money with household brands publicly accused of greenwashing.
- Several retailers are entering or expanding into used goods markets by introducing marketplaces and buy-back options, driven by the preferences of Millennial and Gen Z customers seeking sustainable buying options and are also affected by the increasing costs of first-hand goods. For example, Ikea allows customers to sell back used Ikea furniture in exchange for in-store credit, while H&M's second-hand platform Sellpy has seen more than eight million second-hand items traded across 24 markets in 2022 alone.
- Globally, the U.K. is one of the leading countries where consumers are well-acquainted and practiced with buying and selling second-hand items. A 2022 survey found out that four in 10 consumers purchased second-hand goods, while another one-third of consumers sold their used items on the second-hand market.
- Retailers need to consider the costs to upgrade to meet requirements such as recycled products (with issues like sourcing the appropriate recycled materials proving challenging, and in some cases, making it necessary to include 'virgin materials') in terms of the costs and strategic implications.

4. Transformation of workforce and people

Decreasing margins will see more retailers eliminate unprofitable physical stores and/or implement cost savings measures across their entire physical presence and supply chain (see also the earlier trend section Future omni-channel and consumer shopping experience). These cost savings could be in the form of robots, which can boost productivity and free workers to generate more revenue by focusing on sales, or reducing human labour when it's feasible to automate routine tasks.

Meanwhile, while 76% of businesses have a coordinated diversity and inclusion (D&I) strategy, and 13% have one in its formulation stages, according to a BRC report, PwC research indicates only half (51%) of retail employees believe D&I is sufficiently high on their employer's agenda, and less than half (47%) believe that their employer communicates about D&I.

Therefore, the key questions for retailers looking towards a more automated and diverse workforce are around how can you support employees as their roles transform; how can you 'walk the talk' on D&I?

In this section we explore:

- Trend — Automation transforming employment patterns
- Automation transforming employment patterns risk alerts
- Automation transforming employment patterns opportunities
- Automation transforming employment patterns opportunities action plan
- Trend — Greater focus needed to deliver potential of D&I strategies
- Diversity and inclusion risk alerts
- Diversity and inclusion opportunities
- Diversity and inclusion action plan checklist
- Focus: Supporting workers wellbeing and boosting recruitment in retail
- Focus: Managing the risks of violence and civil unrest.

Trend — Automation transforming employment patterns

The Federal Reserve Bank and the Office for National Statistics both show retail industry employment has been growing consistently for decades, driven by growing e-commerce sales, before recent contraction or stagnation in employment figures. Looking ahead, the Brookings institute believes advanced robotics and AI will eliminate millions of retail jobs, as well as employment in other sectors. McKinsey & Company has previously predicted around half of the activities in retail can be automated using current, at-scale technology. Activities such as cashless/contactless payments, ordering, inventory and stock replenishment, work/staff planning and scheduling, task allocation, targets and reward, predictive marketing and personalisation can all be automated.

While AI is opening opportunities for retailers to cut costs and boost efficiency, it also opens up the possibilities of job cuts and mass layoffs. The latest research by the Centre for Retail Research (CRR) highlights how nearly 52,887 jobs lost at the end of July 2023. The sector in the U.K. alone experienced an 11% drop in new job postings in Q1 2023 compared with the previous quarter. Most of the retail job losses (11,689) reported were attributed to Tesco and Asda.

The U.K. has also seen one million people, mostly in their 50s, leave work since the start of the COVID-19 outbreak, with retirement the most dominant reason given by people aged between 50 and 70. The reason being challenging trading environment, with firms reporting disappointing sales and formidable inflationary pressures.

As a result, reatilers are cutting back on the size of their workforce and investment plans while continuing to support automation innovations.

Amid job cuts, Amazon is actively rolling out its 'Just Walk Out' technology, effectively eliminating check-out assistants. This is around the same time as it announced layoffs affecting 18,000 employees, including those the retail division, including hundreds of thousands of hourly warehouse and delivery personnel who accounts for 6% of Amazon's 350,000 corporate employees around the globe. Meanwhile, IKEA has expanded its autonomous fleet to 100 drones to optimise the manual process of checking barcodes of more than 10,000 IKEA's stocking spots.

Major chains like Walmart, Target and Kroeger's are also introducing self-checkouts which presents a risk to employment in the retail sector in physical stores. While not all cashiers can be eliminated, self-check outs provide a way to cut payroll costs and poses a long-term threat to the 3.3 million people (as of 2021) employed as cashiers in the U.S..

Freethink reports 65% of retail jobs could be automated by 2025. Another study of 107 retail executive conducted by Retail Dive reveals retailers foresee up to 70% of routine tasks being wholly or partially automated by 2025.

E-commerce as a share of total sales grew more than 260% over the last ten years both in the U.S. and U.K., driving both falls in jobs and physical stores, with a study conducted by credit insurance company Allianz finding 56,000 stores have closed in the U.S. and that 670,000 net jobs have been lost since 2008. The study states: "for every job created in e-commerce, four and a half jobs are lost by traditional retailers". The study's projection for the future suggests the potential continuation in the trend and an elimination of an additional 500,000 jobs and 30,000 retail physical locations. UBS reinforced this future forecast and projected closures of between 40,000 to 50,000 stores.

The U.S. Bureau of Labour Statistics projects that cashiers position are expected to decline 7.4% between 2019 and 2029. A survey of 4,200 international respondents conducted by Zebra Technologies found that 45% of respondents are converting more cash registers to self-checkout space.

An article from PYMNTS reveals that some of U.K.'s biggest grocers also launched apps that allow customers to scan as they shop and pay with their mobile which further reduces the need for registers.

Although Amazon announced recent closure of several of its cashier-free stores, but it was accompanied with the confirmation that it remained committed to the Amazon Go format in appropriate locations and that still poses a risk to employment.

Many retailers are also using robots in warehouses and distributions centres, posing a further threat to retail-related job numbers. Amazon employs more than 200,000 robots helping deliver more than 350 million distinct products. In 2019 Amazon introduced packaging robots that replace workers, said to pack at a rate four-to-five times faster than the average human rate. Reuters projected the implementation of this technology would eliminate 1,300 Amazon jobs.

In addition to offsite changes, retailers have been experimenting with in-store robots that can restock shelves and clean floors. Recent technology is already enabling robots to analyse and interpret unclean areas and clean them by themselves, understand when customers enter the store and greet them, and take photos of new cartons, analysing items in the box and moving them to the right shelves. Walmart added thousands of autonomous floor scrubbers in 1,860 of its 4,700 U.S. stores, also adding robots that can scan shelf inventory at 350 stores.

These robots can pinpoint where items are out of stock, send images to associates, and transmit the information to robots who unload trucks to prioritise items. Walmart has positioned so-called 'smart assistants' as freeing worker's time spent on "repeatable, predictable and manual" to sell more merchandise to shoppers. With unemployment at its lowest level in decades, Walmart and other retailers believe that adding robots could help in managing rising payroll costs.

Automation transforming employment patterns risk alerts

- Retaining staff is a big challenge facing retailers. With the advent of robotics and automation, retailers will need to upskill their workers to staff new positions, potentially facing competition for scarce labour and inflationary pressure on wages due to lack of skilled workers.
- High employee churn along with skills and capability gaps can create inconsistent service quality and hamper brand experience for the consumers. This can result in reputational damage.
- The problems of attracting talent are exacerbated within retail sector as there is a general perception the retail sector is characterised by low-paid, low-skilled roles with reduced potential for career advancement.

Automation transforming employment patterns opportunities

- With significant competitive pressures in retail talent recruitment, differentiating your employee offer with help you attract talent. Benchmarking can reveal what peers are offering to pinpoint opportunities to stand out from competing retailers.
- Be prepared to skill and reskill employees ready to fill emerging roles from automation-driven employment shifts and to help avoid inflationary pressure on wages due to lack of skilled workers.
- As routine tasks get automated, and robots are added to the process, employees could be redirected to a more sales-generating or customer service role. We also expect novel roles to service, operate, and manage robots will emerge.

Automation transforming employment patterns action plan

- Identify the near and longer-term technological developments that will bring value to your operation, and the investment and operational changes required to meet this. For example, if investment is needed to redesign and refit stores to accommodate distribution space, and include greater technology at check-out with less staff, a retraining and retention strategy focused on the right current workforce can support this transition.
- Focus on employee engagement and enhancing culture to support attracting and retaining the right talent for your future business, and to avoid additional costs associated with recruitment and training. Hold annual staff events to get feedback. Taking action in response to this feedback is essential to improving culture, identifying patterns and addressing issues.
- Traditionally the retail sector has focused on pay in rewarding staff, however providing other benefits and wellbeing services may be necessary for the future as competition increases for skilled staff, particularly in the technology sector where retailers will be competing with other industries for talent.

Trend — Greater focus needed to deliver potential of D&I strategies

In addition to the moral imperative to 'walk the talk' on D&I, it's worth bearing in mind some of the legislative imperatives.

The EU Accessibility Act directive aims to enhance the way products and services are rendered across the EU by synchronising accessibility rules for all member states, while in the U.K., the Equality Act 2010.

So, what actions can you take to 'walk the talk' on diversity and inclusion?

Ensure your people represent your customers — A study found a link between diverse customer demographics and diverse retail employees. The researchers looked at racial diversity in retail and discovered a store performs better when its personnel diversity is more closely aligned with that of its clientele.

Employee wellbeing should be part of your D&I strategy — not only because of the regulatory obligations (The Equality Act 2010) but because retail workers are under significant pressure in the face of rising theft, customers struggling with rising costs and rising levels of abuse (see Focus section below) impacting their mental health and wellbeing. You should also consider providing mental health support through management training and appointment of first aiders — without healthy and engaged staff, your business can't operate.

85%

of CEOs whose organisations have inclusion and diversity strategy say it has improved their bottom line

Fortune 500 companies with a high representation of women on their boards of directors outperform their peers by

53%

in returns on equity and 42% in returns on sales.

Organisations that have high ratings for inclusion and diversity are

70%

more likely to have success in new markets, and 45% more likely to improve their market share.

Recognise how people shop based on their own ideals — a notable survey of consumers conducted across Canada, the U.S., and the U.K., showed 42% of ethnic minority consumers and 41% of LGBT consumers say they would switch to a retailer that is dedicated to diversity and inclusion, while 55% of consumers overall say they would avoid retailers that handle negative incidents involving diversity and inclusion poorly. In addition, research suggests 75% of disabled people have had to leave a store or website in the past, as they were unable to finish a purchase because of their disability.

Recognise D&I as an investment issue to energise organisational responses — One of the key elements of the ESG agenda includes fostering inclusive and diverse workplaces. More investors are recognising long-term success is dependent not only on financial performance but also on the outcomes it achieves for its stakeholders. We have seen cases where investment has been held back on the basis of D&I credentials, for example, Goldman Sachs stated it would no longer take a company public on the stock exchange if all its directors are male and white and Institutional Shareholder Services (ISS) proxy voting guidance in the U.K. and Ireland advises voting against the chair of the nominating committee if the business is a member of the FTSE 350 (excluding investment businesses) and the board is not one-third female.

Ensure your products reflect your disabled customers — More than one in five potential U.K. consumers have a disability — 16 million, according to the Family Resources Survey — and their needs are often poorly met by the retail sector. Their spending power, known as the purple pound has a value of £274 billion. 70% of disabled people won't return to a business after receiving a poor customer service according to the Purple Tuesday survey, OXO, meanwhile, created more ergonomic cooking tools, while Procter & Gamble created washing detergent packaging which was both accessible, using tactile markers to help with identification and including NaviLens technology to make it easier for those with low or no vision to locate the product on the shelf.

Diversity and inclusion risk alerts

- Online news platforms and social media mean customers can watch in real-time how businesses respond when criticised for their lack of retail diversity, dubious product selections, or careless advertising. This can cause a reputational damage along with loss in revenue.
- The lack of relevant data to assess diversity can be a barrier to progress. While mandatory gender pay gap reporting has forced retailers to act on gathering gender data, information remains incomplete on most other areas. Most significantly, only 33% of companies attempt to capture ethnicity data, with most of those using voluntary surveys rather than systematic tracking.
- Not adhering to accessibility, labour, and other regulations may incur fines and penalties.
- "Given organisational leadership tends to be comprised mainly of experienced colleagues (and therefore unlikely to contain many Millennials or Gen Z representatives) some retail organisations risk their leadership teams being either unwilling or unable to accurately analyse and react to the rapidly changing consumer behaviour emerging from these generations," says Sam Haslam WTW Risk Management ERM subject matter expert.

Diversity and inclusion opportunities

- To strengthen your diversity and inclusion agenda, offer products and services considering diverse needs of the consumers as well as employees. Create a true purpose-linked agenda and develop authentic relationships with shoppers.
- Nearly one in four participants from ethnic minorities in PwC's research reported having experienced or witnessed racism in the workplace. Equally troubling is the 13% of female respondents who have experienced sexual harassment and 14% who have experienced gender discrimination. Listen to your employees in terms of their experience at the workplace by taking pulse surveys and anonymous feedback to understand the current company culture and take the necessary action based on employee feedback.
- Foster an inclusive company culture by looking at leadership, the workforce, marketing, and the viewpoint of the customer through a diversity lens. For example, implement inclusive recruitment strategies, provide spaces to form connections with employees, and ask for employee feedback. Reflect a range of backgrounds and experiences within your marketing and employee messaging to effectively connect with future customers and employees.

Diversity and inclusion action plan checklist

In order to identify areas where you may need further work to imporove your D&I strategy, retailers can consider the following questions:

- **Purpose:** Does my organisation support inclusion and diversity efforts? Is D&I part of our mission and values? For publicly traded companies, is it part of our employee-support-group commitments and/or sustainability metrics?
- **Work:** Do fair career development opportunities exist? Does unconscious bias exist? Are teams diverse?
- **People:** Is the company attracting and retaining the right talent, particularly from crucial talent segments? Do I feel like I can bring my authentic self to work? Is it safe to speak up?
- **Total rewards:** Does my company provide benefits — or access to benefits — to all segments of the workforce that "meet them where they are and where they want to go"? Does my company support fair pay programmes and measures?

Focus: Supporting workers' wellbeing and boosting recruitment in retail

WTW Stress and Mental Health Risk Specialist at WTW Rebecca Forster examines ways to harness wellbeing to address people shortages.

There are some alarming statistics showing workers in the retail sector are under enormous stress and pressure that could leave to more workers leaving the sector. One in five workers plan to quit the industry and 84% of retail staff say their mental health has deteriorated over the last year, while 64% in retail work have been threatened by a customer. In addition, 90% have been verbally abused and 12% reported being physically assaulted.

While you probably have a good understanding of the risks to your workers' physical health at work, manual handling, slips, trips and falls, driving for work and fire risks are just a few physical hazards your organisation may be managing with policies, procedures, training and control measures. However, you may not have the same risk management measures in place for psychological health and safety risks, known as psychosocial hazards. If this is the case, you could be leaving your people, and your business, exposed.

It's worth remembering The Health & Safety at Work Act 1974 places a legal duty on employers to protecting employees from work-related violence, while the Management of Health & Safety at Work Regulations 1999 require employers to assess the health and safety risks to workers, including the risk of work-related violence. The Equality Act 2010 means employers must ensure they make reasonable adjustments for employees whose mental health is having more than a minor adverse impact on their ability to carry out their day-to-day activity. A person does not have to disclose their illness for this legislation to apply, so all employers in the retail sector should put managing psychosocial risks and mental wellbeing at the heart of the risk management strategy.

Managing psychosocial risk effectively is not only about minimising damage but maximising opportunities for employees to thrive, in turn, improving recruitment and retention. Organisations with a demonstrable and robust approach to worker wellbeing and total rewards are more likely to compete for the loyal workers they require to deliver high quality services and operations and the talent they need for longer-term success.

Focus: Managing the risks of violence and civil unrest

The 2023 BRC Crime survey shows high levels of violence and abuse facing retail workers, at more than 850 incidents per day, almost double pre-pandemic levels, yet only 7% of incidents of violence or abuse were prosecuted. The disturbing scale of violence and abuse prompted some 100 retail CEOs to write to 41 Police and Crime Commissioners in England and Wales, calling on them to commit to making retail crime a priority in local policing strategies. The letter was published in the summer of 2022, but so far there has been no specific action, while we have also seen an escalation in violence and unrest prompted by social media.

An action plan to help protect your retail business from the impact of violence and unrest now and into the future could include:

- Investing in physical preventative measures, including ensuring you have access to materials to secure your property, for example, for boarding up windows
- Checking your alarms are fully effective and that staff are clear on your evacuation procedures
- Access to additional security staff and checking these resources lined up and ready to activate quickly in the event of violent civil unrest
- Ensuring violence and civil unrest and the associated risks are included and regularly evaluated in the context of the risk register and business continuity plans
- Checking your crisis response structure is clear and ready to be activated at short notice, and that you have established communication strategies in the context of violence and civil unrest
- Reviewing your insurance provisions to understand exactly what is and isn't covered and where any gaps may need addressing ahead of potential losses
- Creating planned post-incident responses to protect mental health at work in light violence, abuse or civil unrest, including training managers and/or Mental Health First Aiders to monitor the worker for symptoms of physical, cognitive, emotional, and behavioural distress.

5. Outlook for the future of retail

In this final section, Teresa Long, WTW Industry Leader for Retail, Leisure and Hospitality for GB Risk and Broking, summarises the predictions of the subject matter experts at WTW, including Frederick Gentile, Consultant in WTW Risk Management Practice and Lucy Stanbrough Head of Emerging Risks at WTW Research Network, on what might be beyond the horizon for retailers.

How can retailers prepare for the next 10-20 years?
The process of preparing and testing future scenarios and resilience are key tools for companies to respond more effectively for greater uncertainty into the next 10-20 years. Retailers successfully exploring emerging trends and thinking through what might happen to give teams the muscle memory of working together, knowing who was responding, and what capabilities are available recognise this process takes time and needs to be nurtured and constantly refreshed to be effective. This about deploying narrative 'storylines' that weave together risks and trends you might otherwise consider in isolation, switching from a *prepare for one* approach to *prepare for all*.

While the extent to which climate and ESG drivers are impacting consumer spend, retailers should look to up their efforts in these spaces to better prepare for longer time horizons. If you are not seen to be contributing to the transition to net zero, we expect your customers could choose alternative brands. We may also expect see further societal unrest and uncertainty and in that environment and retailers would be well advised to prepare for related shifts in consumer behaviours and values as temperatures risk.

For example, here in the U.K., if we start to see summer heat regularly at 35-40 degrees and have hose pipe bans, supply chain issues, lack of air conditioning, increased flooding and more storms and hurricanes, consumers may then start making the moves to change their buying habits when they see their shopping behaviours are directly impacting the issue we are causing. Products may also not be available in the future so now is the time to explore the viability of your supply chain, potentially seeking alternative supplier and manufacturing locations.

If you are sourcing on a global basis, you should interrogate the likely longevity of your source points. (ie For example, if you are sourcing from China, what is that going to look like in ten to twenty years' time? Retailers should be asking the question how reliable any region is looking across a range of factors including geopolitical and climate-related risks.

What might retailers need to consider in the nearer future?

There are a few key themes you should be prioritising for the nearer future:

- **The economic downturn cycle** is likely to continue for a while, however in three to four years, economists expect to be in the upturn again. However, retailers' risk managers and boards should explore continual stresses and how they would respond to continued inflation, the impacts on their own businesses and the pockets of your customers.
- **Spending patterns in younger and older consumers** — while the older populations are growing in size and disposable income in developed nations, but statistics suggest Gen Z spending representing 40% of business generated via social media, so retailers need to consider what these trends represent in terms of risk and opportunity.
- **Businesses need to consider AI** and the risks posed by the way information can be distorted and the potential damage this can cause, such as data and privacy issues, unintentional biases and other factors that open retailers up to reputational damage, particularly as regulation may prove difficult to establish. All this means, you need to have real-time monitoring and information-sharing. This is about having processes in place to move as quick as possible to meet consumer expectations and act when things go wrong. Expert advisory boards and committees comprised of internal cross-business employees and external perspectives can act as sounding boards that can critically challenge and enable strategic business plans, such as when deciding to implement AI, exploring the spectrum of risks and how you plan to mitigate them.
- **The use of brand ambassadors and influencer partners is likely to continue,** and there needs to be more checks and controls on who they are, what they are doing and a solid plan for what happens if something goes wrong. What are the potential negatives of using them or any action they might take — what if they turn against the brand –can you take the chance of being sued? What flagging systems do you have in place should anything go wrong? And how are you checking that things are going right? Sentiment analysis like Polecat is one way we're seeing companies monitor and gather data, establish thresholds, and formulate plans of pre-prepared action.

How should retailers change their risk perspective to thrive in the future if the sector?

Given the pace of change, technological advancement, and the interconnectivity of risks on the horizon, retailers need to move away from short-termism when reviewing their approach to insurance and risk management, looking to the next 10-20 years to consider your business strategy and the risks associated with trading in this new environment: Can you manage them? Do you need to transfer them? Does the business already have existing frameworks or do you need to review or rework your existing framework?

A 2023 WEF report introduces the idea of 'polycrises': a number of events occurring at the same time, for example, global pandemic combined with economic downturn and then the Ukraine/Russia conflict that impacted the supply chain semi-conductor production, which then had a knock on to the automotive industry as the supply was diverted to mobile and laptops and similar devices to support the demand in remote working and changes to how businesses now operate. All sectors, retail included, need to challenge thinking about risks as in individual buckets.

Getting ready for the future of retail action plan — five key steps to prepare

- Go back to your list of scenarios. Do you test combinations? What risks have emerged already and what ones need to be tested — both in isolation and in combination?
- How resilient are you as a company — do you have disaster recovery and risk management plans fit-for-purpose in a polycrises, such as trade restrictions creating supply chain issues, and a cyber hack creating wide scale business interruption?
- How liquid the business and what would a sharp shock do to your financial gearing? If you are operating on a just-in-time model, you could be particularly vulnerable. Has your business model changed recently? Do you know where your supply chain pinch points are?
- What are your business objectives and what is stopping you from achieving them? What is your resilience, how are you quantifying and monitoring this?
- In what scenarios could you incur reputational damage and what could that lead to in terms of lost revenues? What might you do to mitigate this?

Once you understand the potential impact of these scenarios, you can work with internal and/or external insurance and risk experts to explore emerging insurer propositions and alternative risk transfer and management options, including:

- **Developing supply chain continuity plans** to identify weaknesses or pinch points and explore the operational action you can take to address them, such as stock holding or finding additional suppliers
- **Ensuring supply chain is a board agenda item** and increasing cross-functional collaboration to resolve problems, working more closely with suppliers, including considering short-term loans to aid business development to ensure a more robust supply chain or more closely integrating climate disclosure efforts
- **Enhanced scenario planning**, working with subject matter experts acting as 'devils advocates' across risk, people, climate, emerging risks and considering the potential economic situation in 10 years' time, to challenge how your business will respond, and ultimately present the challenges and action plans back to the leadership
- **Quantify risk interconnectivity with data**, modelling the aggregated impact of a given risk triggering another then another. Once you have identified and quantified this interconnectivity, you can begin to build the right risk management and insurance program able to protect the business and reveal the opportunities.

Regulatory and legal Disclaimer

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