McKinsey & Company

The Next Normal

The future of shopping: Technology everywhere

April 2021

The COVID-19 pandemic has reset the retail game board. The most successful retailers will be those that connect with consumers in new ways by leaning in on their digital, omnichannel, and in-store technology ambitions. In this edition, *The Next Normal* explores the coming decade in shopper experience and retail technology.

In this issue

The Next Normal | Video transcript

Omnichannel shopping in 2030

Four McKinsey leaders envision the future of retail.

Praveen Adhi

Eric Hazan

Sajal Kohli

Kelsey Robinson

The seemingly unstoppable rise of e-commerce, sophisticated customer analytics, personalized sounds and smells, digital mannequins that “know” your clothing preferences, automated home delivery—these are just some of the elements that will shape the shopping experience in the coming years. Listen as four McKinsey leaders share their perspectives on the future of retail.

The ‘phygital’ shopping experience

Eric Hazan: We are entering the world of “phygital”—physical and digital at the same time, where there is not a physical world or digital world in retail, but rather a completely connected one.

Praveen Adhi: Traffic in stores is almost certainly going to be down permanently. As you see the shift to e-commerce, whether it’s five, ten, or 15 points, some portion of your customers are not coming back in the store or not coming back at the same frequency they used to. So being able to maximize the value of each trip is going to be incredibly important.

Kelsey Robinson: For a customer walking into a store in 2030, I think it will feel really integrated—meaning, affirmations from social media or friends and family who aren’t even near me will somehow be integrated into that store.

Sajal Kohli: A lot of the resource investment—both human capital and capital expenditure in dollars—needs to shift away from opening new brick-and-mortar stores and toward putting it into technology.

Eric Hazan: More than 30 to 40 percent of cosmetics in Asia are being sold online. This will expand even more in the future. So, ten years from now, for certain product categories, the main part of the sale will be online, and you will only have flagships—for “showrooming”—in physical retail.

A store designed just for you

Kelsey Robinson: I think in 2030, shopping will feel incredibly personalized. It’ll feel like the sales associates in that store know me as well as a close friend or maybe as well as a personal stylist.

Sajal Kohli: As soon as I go in, they’ll know exactly when I was there last and, therefore, what my replenishment needs would be. And all [the store] will do is a confirmation of, “Here’s what must be out at home. Should we just reorder it for you?” But that’s not the main reason I would go to the store, because I could do that off my mobile device, right? The reason I would go in is because they would actually draw me in by saying, “New products, new brands, just for you, customized, personalized. Come have a look.”

Eric Hazan: If you don’t invest in analytics, if you don’t invest in personalization, the barriers to entry that others will build will be too high.

Praveen Adhi: There are companies out there that are personalizing the sounds you hear in the store and the scents that you smell. They’re personalizing what the associates know about you to help you find the right product more quickly. You’re going to see digital mannequins that quickly change what they’re wearing based on who you are and what you might be holding in your hand. You’ll see a lot more in-store experiences to help you engage with the product, touch and feel it, and get to know it. But when you go to buy the product, you might not just be grabbing it off the floor and walking out the door like you do today. It might be coming out of the back room, it might meet you in your car, or it might meet you at home.

Kelsey Robinson: I also think personalized fulfillment is a 2030 concept that might even come earlier: How do I, as Kelsey, want to have my products delivered, and how does a retailer actually know that in advance and get them more quickly to the exact door or location, either through their own channels or through partner channels?

Sustainability, community, fun

Eric Hazan: In certain countries—say, a few countries in Europe—almost one-fourth of consumers would basically change stores if they didn’t think that the products they have in front of them were sustainable. The preoccupation with and focus on hygiene, organic products, and sustainability are much more important than before. So it’s another layer of complexity for retailers.

Kelsey Robinson: Is a store just about a transaction? Or is it a place where I can offer community and experiences that are aligned with my brand—everything from a fitness class to meeting local talent or local bands?

Praveen Adhi: As customers get used to shopping online, what’s going to make them come to the store? How do you think about driving engagement with the brand, driving product knowledge, making it a fun experience, and removing all the friction in that experience?

Sajal Kohli: You’ve got to think about: What are the different axes of creating experience? What is your value proposition going to be? What will be the basis of your differentiation that will be the real reason why consumers will be loyal to you versus not?

Kelsey Robinson: Don’t try to win on every single element of the consumer experience. Pick the couple of areas where your brand can really stand out.

Praveen Adhi is a partner in McKinsey’s Chicago office, where **Sajal Kohli** is a senior partner and global leader of the Retail and Consumer Goods Practices; **Eric Hazan** is a senior partner in the Paris office; and **Kelsey Robinson** is a partner in the San Francisco office.

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March 2021 | Interview

How a Russian retailer is building a next-generation grocery business

Sergei Goncharov

In just one year, Pyaterochka experienced a fiftyfold increase in online-grocery demand. The spike was unexpected—but the company was ready. And its CEO is preparing for even more change ahead.

In February 2020, when Russian food retailer Pyaterochka was piloting its express-delivery service, the average volume was about 600 orders a day, says its CEO Sergei Goncharov. Only a year later, the 17,000-store chain is fulfilling approximately 30,000 online orders daily. Goncharov recites these numbers with obvious pride—in both the company's agility and the talent that made it happen. He recently spoke with McKinsey senior partner Alexander Sukharevsky, who leads McKinsey Analytics globally, about how Pyaterochka is preparing for the next evolution in food retail. The following are edited excerpts of the conversation.

Alexander Sukharevsky: Pyaterochka's investments in technology have paid off; your business is growing and profitable. Yet, around the world, there are technology-heavy grocery businesses that are getting significant valuations but are still cash negative. What's the recipe for developing a highly technological grocery business that is also net profitable?

Sergei Goncharov: First, it's very important to keep your end goal in mind. This is easier said than done. A lot of people, when they start doing new things and experimenting with new technology, get carried away. They drift away from the original goal. So, the first thing is to understand why you're doing it.

Second, make sure your technology investment is beneficial to the current business. For example, about two years ago we bought a platform that allowed us to roll out online delivery very quickly, and we started online delivery in early 2020. The timing worked out very well for us, because the COVID-19 pandemic hit just a couple of months later. What I'm saying is that your investment has to have synergies with your main business.

Third, have the ambition to look beyond the horizon. Think big; don't just look two or three years ahead. Invest a portion of your capex in a few big, interesting ideas so that you're not stuck in just "today or tomorrow" kind of thinking, but you're looking at what's around the corner over the longer term.

Alexander Sukharevsky: Say more about that. Let's look ahead—say, ten years down the road. How do you think food retail will change? What will the grocery-shopping customer experience look like in 2030?

Sergei Goncharov: It's useful to look at history as a basis for predicting what is to come. I think we will continue consuming food the way we do now. We will eat; we won't just become integrated with machines and plug ourselves in and get charged with electricity or anything like that—maybe in 100 years, but not in ten years. I also think the model of distributing food will not dramatically change; there will be various distribution channels to get food from the food producer to the end user.

But just like we've seen in the past few decades, there will be changes in the channels and formats in which groceries are sold. I think we'll hit a major fork in the road in the next few years. Consumption will revolve around two main paradigms: one is food as a utility, and the second is food as a pleasurable experience. For the first one, food basics and utility items—the things that you always stock in your pantry—consumers will shift to fulfillment by subscription or online delivery. For the second one—choosing your own food and treating meals as an interesting and pleasurable experience—people will go to physical locations like supermarkets.

Alexander Sukharevsky: If that happens, what would be the implications for Pyaterochka's real-estate strategy and portfolio?

Sergei Goncharov: We've already started remodeling our locations more in favor of the second paradigm: food as a pleasurable experience. We're reallocating some floor space away from dry foods and toward fresh categories like fruits and vegetables, meat, and dairy. The purchase of dry foods has already started to shift to online.

As for our overall real-estate expansion, we've been opening 2,000 to 3,000 stores per year over the past five years. We will probably stabilize at 25,000 to 26,000 stores in Russia. At that time, we will continue opening stores but at a slower pace.

Alexander Sukharevsky: Your investment in online delivery proved prescient. What technology investments are you making today to gain competitive advantage in the future?

Sergei Goncharov: First and foremost, we're investing in people. I think we have one of the best big-data and analytics teams in the country—and I don't mean just in the retail business, but in business in general, including banking and high tech. We invest a lot in new hardware as well. And we invest in understanding and learning about new practices and new ways of doing business. It's not just our tech people who do this, but all levels of management in the company, and not just top management.

Alexander Sukharevsky: What do you see as the role of big data and analytics in future consumer journeys?

Sergei Goncharov: Big data will provide information not just in the aggregate but also on individual customers, so it will allow us to make our offers more targeted and personalized. We already collect a wealth of information through our loyalty-card program. If you're a Pyaterochka customer, we can predict, with fairly high accuracy, what you will want to consume in the next two weeks or two months, based on your past consumption.

I'll give you an example of how we're offering promotions that are more targeted to individual needs: we know that a certain customer buys toothpaste every month and a new toothbrush every three months at our stores. If our data shows that the customer is continuing to purchase toothpaste from us but has stopped purchasing toothbrushes, we know that either the customer is using the old toothbrush longer or—more likely—has started buying toothbrushes somewhere else. So, we can make a special offer to motivate that customer to buy toothbrushes at our store. The same goes for a customer who buys expensive fruits and veggies but cheap alcohol; we know that, given behavioral patterns, that doesn't make a lot of sense—so we'll offer that customer promotions on alcohol.

In the future, I see customer data being integrated into and analyzed along with data from other sources: banking data, social networks, et cetera. So, we can predict what you will be consuming not only next week or next month, but also next year or two years from now. We'll be able to predict not only your shopping behavior but also your overall behavior, your health, your habits. We will be able to offer you options depending on your goals. For example, if you want to go on a weight-loss program, we can create that for you. If you want to eat healthier food, we can provide recipes and shopping lists for you.

Alexander Sukharevsky: The more you go into personalization, the more you start dealing with privacy issues. How can companies stay responsible and ethical while providing consumers with personalized offers?

Sergei Goncharov: Unless we live off the grid in a cabin in the woods, data about us is being disseminated, whether we like it or not. Laws and regulations play an important role in this issue; we should not underappreciate that. But an organization's mission and values matter, too. Our company's mission is to earn the lifelong trust of our customers, so we think a lot about how to go further than what the law requires.

The poster behind me says, "Everyone is important," which is one of our slogans. We respect each and every one of our customers. We work hard to make sure that our customer data is held and managed in an absolutely secure way, and that our customers have the ultimate say in what data we collect about them and what types of offers they want to receive from us.

Alexander Sukharevsky: Grocery is not necessarily the most attractive industry for many of the brightest analytics or digital minds. How do you attract tech talent, considering many other companies—banks, technology companies, players in other industries—are fighting for the exact same talent?

Sergei Goncharov: You're absolutely right—retail is not an industry that is top of mind for tech talent. Many people still see it as an old, stodgy industry. In the beginning, it was very difficult for us to attract this talent. The pay scale, of course, is important, but the atmosphere and culture are also important.

A few years ago, we separated big data into its own organization, separate from our traditional retail business—like a department within a department. Then we put an incredibly capable leader in charge of that department. We charged him with creating a culture within that organization that would be attractive for tech talent: a culture that is conducive to experimentation and does not punish for mistakes but actually encourages people to take risks, make mistakes, and learn from those mistakes.

Little by little, we started attracting some great people, who then attracted even more great people. Now it's a bit easier than it was in the beginning. But there's no magic bullet; it's a combination of the culture, the environment, and the problems that they get to work on. They want to work on things that are interesting and innovative—and our industry and our business certainly allow them to do that.

Alexander Sukharevsky: Do you think the culture within the traditional grocery part of your business has changed as well?

Sergei Goncharov: Yes. A very interesting thing started happening after we hired tech talent. As I said, they have a different mentality from people in the traditional retail industry; they're not as risk averse as traditional retailers. Some of them are actually quite risk loving. And they started changing the culture around them. Their risk-taking mentality started trickling down into the organization. We started to see a lot of people in the traditional retail departments changing their attitudes and mentality. So, I think we're all benefiting from this mindset. It has become one of our competitive advantages, for sure.

Sergei Goncharov is CEO of Pyaterochka. This interview was conducted by **Alexander Sukharevsky,** a senior partner in McKinsey's Moscow office and global leader of McKinsey Analytics.

For more from Sergei Goncharov, see the videos accompanying this article on McKinsey.com.

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March 2021 | Interview

Retailers as ‘experience designers’: Brian Solis on shopping in 2030

Brian Solis

In the future, the most successful retailers will employ experts in video-game design and spatial computing, predicts Salesforce.com’s global innovation evangelist.

Only if retailers stop thinking like retailers will they truly innovate. So says Brian Solis, a self-described “digital anthropologist and futurist” who joined Salesforce.com in March 2020 as its global innovation evangelist. The author of several books including *X: The Experience When Business Meets Design* (John Wiley & Sons, 2015), Solis recently shared his views on the future of shopping with McKinsey’s Cindy Van Horne. This interview has been edited for length and clarity.

McKinsey: You have an unusual job title. What does it mean to be a “global innovation evangelist”?

Brian Solis: At Salesforce, I study how technology is changing markets and behaviors. I then reverse engineer trends to help executives and decision makers understand how to get in front of those trends—through technology investments or by reimagining business models, operational models, and leadership mindsets. In other words, I help people see the future of business differently.

McKinsey: Today we’d like you to help us see the future of retail differently. Walk us through the shopping experience in 2030. How will it be different from the shopping experience in 2021?

Brian Solis: There are two ways that 2030 could play out for a retailer. One is, “We’re just going to keep iterating with all of this incredible new technology.” On that path, the retailer gets stuck on iterative investments and incremental designs that build on the past, which limits the possibilities. The other path is, “We’re going to innovate and reimagine what shopping should look like in 2030—in a way that the customer either already wants or doesn’t know yet that they want—and once they have it, they’ll feel like they can’t live without it.” In my work, I focus on the latter.

The problem, when we imagine the future of retail, is that we tend to think about it as retailers. But there are other possibilities. For example, we could look at the most innovative amusement parks and translate that guest experience to the inside of a store or across other channels. Think about all the artistry and science that go into virtual reality, augmented reality, video games, or theme parks like Disney World. There's a lot of "Imagineering," as Disney calls it, that has to take place to marry technology with the customer's experience in special ways that a company can then own and make a part of its brand. What do consumers love about those experiences? What's the wow factor and how can we re-create it in retail in ways that didn't exist before? As developers, as retailers, we're only limited by how much we allow ourselves to break away from the conventional definition of retail itself.

By 2030, 5G will have given way to 6G. We'll have sensors, computer vision, artificial intelligence, augmented reality, immersive and spatial computing. How can these worlds play together in a way that is almost fantasy-like? Figuring that out takes imagination. It takes experience architecture—a new type of discipline and expertise. I wouldn't be shocked if the best retailers in 2030 are employing game designers or spatial-computing designers.

McKinsey: What does all of that mean for retail stores? What role will physical stores play in the future that you described?

Brian Solis: Retailers can no longer just build fixed structures and rely on a business model based on, "How much can we squeeze out of this design before we need a remodel?" The business model *is* remodeling. It's about being agile, evolving, staying culturally relevant. It's about reimagining space and flow: How will people come through this space? What will they feel? What's the draw? What's the attraction, beyond just stuff on shelves?

Let's look at a current trend like microfulfillment, for example. The spirit of microfulfillment is essentially freeing the shopper of the confines of stuff: I can walk around and shop and experience things, and then microfulfillment will just take care of my purchases on the back end—by putting them in the trunk of my car, delivering them to my home, or figuring out some other way to get them to me later. By offering microfulfillment, you just changed the dynamic of how I'm going to operate within your retail space.

In futuristic movies like *Minority Report* and *Blade Runner*, a character walks through retail settings and he's greeted by name; there's technology that knows who he is and tries to sell him things, and it's very intrusive. That should give us cues from a design perspective: technology shouldn't feel intrusive and suffocating. It should just be in the background. Those technological capabilities already exist today. Technically, a retailer could know me by name when I walk into a store. It can know what transactions I've made and it can look at other types of data points in real time to know a more inclusive me, a 360-degree me, beyond just what I've bought at that store. It can offer me new products and services based on that broader view of me.

The technologies exist, so the question becomes, "How do we use them?" It's about creating magic. Great retailers, in the future, will make you feel like you're in a special place, designed especially for you, so that you take time out of your life to go to that place because it feels like the right place to be. It's aspirational.

McKinsey: You've mentioned many different types of technologies that retailers could invest in. How can they strike the right balance between "creating magic" and staying profitable?

Brian Solis: Of course, retailers have to think about profitability—but also growth. When we get caught up in profit, we start getting caught up in costs, and then the conversations about innovation and the future of retail sound a lot like, “Let’s just do what we’ve been doing, but slightly better.” When we’re not willing to give up any profitability or shareholder return, that can hold us back from potential growth. It forces us into a cycle of short-termism—thinking only about performing better than we did last quarter.

When we’re imagining the future of retail, we have to stop thinking about these efforts as a cost center. We need to think of them as an investment. The “I” in ROI can stand for ignorance—what’s the return on ignorance? What’s the opportunity cost if we don’t move in new directions? Will it be good enough for us to be incrementally better? No. We have to break out of the profitability box and instead think like an investor.

A retailer might say, “Oh, that’s just too much to get my mind around. I’m bleeding money over here. The COVID-19 pandemic caused us to shut down so many stores.” I get it. But consumers in 2030 won’t want to shop the way they did in 2020. Consumers have learned how to shop more digitally; they’ve dealt with brands and start-ups that offer personalized experiences. They want to see their shopping experiences brought to life in ways that take full advantage of the technologies that we’ll have in 2030.

McKinsey: Retailers will need design and tech talent to make all of that happen and they’ll be competing with many other companies in other industries for that same scarce talent. Any advice for retailers on that front?

Brian Solis: I did some work with Westfield, the shopping-mall developer, when it was launching an innovation center and a lab in San Francisco. The company wanted to not just imagine the future of retail but also set the stage for the type of talent it wanted to attract. So it opened a collaboration hub and invited entrepreneurs to work there, which created energy and a sense of belonging. That’s one way to start thinking about the talent question: What are you, really? Are you a retailer? Or are you an experience designer and retail just happens to be a facility of how you transact?

I believe that it’s a mindset. In the 2000s and 2010s, Domino’s Pizza realized that it had to be a technology company first. How does a pizza company attract top software talent? By attaching innovation to the brand. Domino’s started to demonstrate radical possibilities, like self-driving pizza-delivery vehicles.

You have to demonstrate imagination as part of your brand. People don’t see themselves as just engineers or developers; they see themselves as architects of the future. They’re attracted to brands that have similar values and visions for where the future can go.

Brian Solis is Salesforce.com’s global innovation evangelist. This interview was conducted by **Cindy Van Horne,** global communications director of McKinsey’s Marketing & Sales Practice.

For more from Brian Solis, see the videos accompanying this article on McKinsey.com.

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April 2021 | Interview

Tiger of Sweden's CEO on the future of shopping

Linda Dauriz

In 2030, the shopping experience will be highly personalized, yet still have unexpected elements, says Linda Dauriz.

Tiger of Sweden CEO Linda Dauriz believes that the unexpected can take many forms. In the fashion industry, that can mean new shapes, new fits, and new materials with innovative functionalities. And she hopes that, in the future, consumers will still delight in the unexpected, even as brands increasingly personalize their goods and services.

Dauriz joined Stockholm-based fashion house Tiger of Sweden in December 2019 from Hugo Boss, where she was director of customer experience and corporate development. Tiger of Sweden, established more than a century ago by two Scandinavian menswear tailors, today offers premium ready-to-wear and accessory collections for both men and women. Dauriz focuses on increasing the brand's relevance online and in the 1,200-plus stores in Europe, Canada, and South Africa that carry its collections.

Dauriz recently shared her thoughts on the future of apparel shopping with McKinsey's Justine Jablonska. The following are edited excerpts of the conversation.

A differentiated customer experience

I'm convinced we're going to move away from the notion of omnichannel shopping, the seamless merging [of the customer experience] across all channels. I believe the fundamentals will stay the same: retailers will need to have the utmost transparency about inventory availability across channels. Where is your stock located? How fast is it moving? What is in high demand? [That information will then] trigger, based on customer feedback, all the required actions in the supply chain.

But the customer experience will be differentiated by channel. So customers who seek a frictionless transaction will shop online and have [their purchase] delivered to their house within the next two hours. But customers who seek a pleasant shopping experience—and really want to indulge and treat themselves—will seek out brick-and-mortar stores, with their favorite personal-shopping assistants advising them on their style and fit, and really connecting with them on an emotional level.

‘Today’s data environment already has the power to personalize anything we buy to the infinite degree. In the future, though, I hope that we will still be surprised by designers’ creations—and really treasure the unexpected.’

Infinite personalization, still some surprises

There are brands today that already are top notch when it comes to personalization, be it online or offline. In brick-and-mortar retail, there are retailers that know you intimately: your personal situation, your preferences, your birthdays, your anniversaries. They can read your mind and know what you want even before you realize it yourself. In my view, we will see more players raising their game to that level.

Today’s data environment already has the power to personalize anything we buy to the infinite degree. We are totally transparent as customers. In the future, though, I hope that we will still be surprised by designers’ creations—and really treasure the unexpected.

Unexpected in fashion can mean unexpected designs—creativity flowing into new shapes, new fits—but also innovative materials with new functionalities you would never have expected. There is a lot of innovation going on in technical and functional fabrics. And who knows what’s going to be out there for us in ten years?

Linda Dauriz is the CEO of Tiger of Sweden; **Justine Jablonska** is an editor in McKinsey’s New York office.

For more from Linda Dauriz, see the video accompanying this article on McKinsey.com.

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