Philip Kotler
Giuseppe Stigliano

REDEFINING RETAIL

10 Guiding Principles for a Post-Digital World

WILEY

Praise for *Redefining Retail*

"In the intricate realm of fashion and luxury retail, where challenges encompass shifting consumer expectations, technological advancements, and evolving regulations, Giuseppe and Philip's book serves as a navigational compass for retailers. Their ten steadfast principles offer illuminating guidance amidst the ever-changing landscape of consumer behaviour, technology, competition, and societal influences. This book is not just about thriving; it's about adapting to shape the future of retail."

Andrea Baldo, CEO of Ganni

"*Redefining Retail* showcases the dynamic synergy achieved when a seasoned author and an industry visionary unite forces. This collaboration propels the discourse on a continuously evolving industry to new heights. The insights shared within highlight the need for fresh perspectives and innovative principles. I'm thrilled to have the opportunity to contribute to this book."

Penny Brook, Chief Marketing &
Experience Officer

"At its core, retailing is about curating a selection of products and services, training your staff to highlight the value of your offer, crafting an exceptional customer experience, and optimizing the 4Ps. This book equips retailers and brand managers with essential tools for excelling in a post-digital world."

Hans Carpels, President &
Co-Founder of Euronics

"In an ever-evolving business landscape, brands across all industries must constantly look at new ways of doing business to remain relevant and successful. *Redefining Retail* equips readers with invaluable guidance and a practical playbook to successfully navigate the complexities of today's world."

Stéphane de La Faverie, Executive Group President at The Estée Lauder Companies

"In today's post-digital world, customers interact with brands on their own terms, regardless of what decisions are made by the brand team in corporate offices. Retail plays a vital role in this scenario, providing both the personal touch of in-store experiences and the smooth operations of online shopping. This book stands as an invaluable repository of best practices and guiding principles."

Cristiano Fagnani, CEO of Off White and CEO of NGGH++ (Reebok Europe and Reebok luxury worldwide)

"One of the key challenges for organizations is how to combine the power of data intelligence and human creativity to deliver the most meaningful value to our customers. *Redefining Retail* offers very valuable insights and relevant answers to this essential aspect."

Greg Hoffman, Former CMO of Nike, author and speaker

"In a rapidly evolving and intensely competitive landscape, organizations have to balance the pressure to exploit existing sources of strength with the exploration of new business prospects. Phil and Beppe have effectively delineated 10 guiding principles that warrant serious consideration by all managers."

Michael G. Jacobides, Sir Donald Gordon Professor of Entrepreneurship & Innovation and Professor of Strategy, London Business School

"In this book, I encountered numerous concepts that align with my leadership philosophy and mirror the dynamics within organizations like the Coca-Cola Company. The approach of the authors impressed me, as they effectively combined their real-world business expertise with authoritative academic insights. Kotler and Stigliano's strategic framework is exceptionally well-crafted, and I will definitely recommend my teams to embrace it."

Nikos Koumettis, President of Europe at The Coca-Cola company.

"Redefining Retail stands out as the most comprehensive and original retail book I've encountered in years. Its invaluable insights will leave you intrigued and informed."

Martin Lindstrom, Author, Consultant and Keynote Speaker

"In a post-digital era, with customer journeys spanning numerous digital and physical touchpoints, the role each of these interactions must be distinctive and strategically planned. This book provides valuable perspectives for managers aiming to design a resilient retail marketing strategy for the future."

Lucia Marcuzzo, SVP Managing Director North Europe at Levi Strauss & Co.

"Beauty brands, among others, face the challenge of finding the right balance between the influence of technology and the personal touch of human interaction. 'Redefining Retail' provides precious insights for managers on how to address this critical issue."

Vasiliki Petrou, Group CEO of Unilever Prestige.

"In challenging times, companies often shift their focus to short-term financial outcomes in order to safeguard their market share. However, this approach can cause them to lose sight of a fundamental element—the human beings they are designed to serve. The guiding principles outlined by Philip and Giuseppe serve as an effective inspiration for leaders and managers, helping them strike a balance between financial results and the long-term sustainability of their business while maintaining a human-centred approach."

Mauro Porcini, SVP & Chief Design Officer at PepsiCo

"I had the pleasure of hosting Professor Stigliano in my class during the preparation phase of this book. My students and I had the opportunity to explore the first version of the 10 BEs strategic framework and were truly impressed by its capacity to address managerial priorities while upholding clarity, focus, and immediate applicability. I believe *Redefining Retail* is a significant and valuable addition to the marketing literature."

Thomaï Serdari, Clinical Associate Professor of Marketing, NYU Stern School of Business

"This world needs companies that focus on maximizing the longevity of the products they make while preserving the moral dignity of all the stakeholders involved in their operations. This book excels at motivating business leaders to adopt fresh guiding principles to harmonize ethics and profitability."

Riccardo Stefanelli, CEO at Brunello Cucinelli

"The modern consumer goes beyond the limitations of in-store, mobile, digital, and virtual experiences, surpassing the traditional boundaries of marketing. This book offers managers 10 insightful guiding principles to understand consumers with a more comprehensive and holistic perspective."

Giovanni Valentini, General Manager for *Lancôme* USA

"People all over the world require companies to seamlessly merge offline and online, to be personal, diverse and inclusive, to understand and respect the cultural nuances of different markets. In such a complex landscape, this book and its guiding principles represent a beacon for the business community."

Sandro Veronesi, Founder & President of Calzedonia Group (Calzedonia, Intimissimi, Tezenis, Falconeri, Signorvino).

"Luxury department stores have been part of the retail landscape for generations. The 10 guiding principles presented in this book offer invaluable insights that can empower these iconic establishments to sustain their relevance."

Michael Ward, General Manager, Harrods

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PHILIP KOTLER
GIUSEPPE STIGLIANO

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Introduction: Change Is the Only Constant

> When we thought we had all the answers, all of a sudden, all the questions changed.
>
> —Mario Benedetti, Uruguayan journalist, novelist, and poet (1920–2009)

It is not news that change is inevitable. Indeed, we know from the sixth-century BC Greek philosopher Heraclitus that "the only constant in life is change." However, the speed, depth, and breadth of the transformation triggered by digital technology, accelerated by the pandemic, and exacerbated by the volatility of the macroeconomic context qualifies as an undeniable paradigm shift. The business community has long used the acronym VUCA—volatile, uncertain, complex, and ambiguous—to describe the state of flux that has replaced the sense of certainty, stability, and familiarity that people had previously been used to.[1] However, another acronym more aptly captures the times we live in today—BANI: brittle, anxious, nonlinear, and incomprehensible—coined in 2016 by Jamais Cascio, an American anthropologist, futurist, and author. The term BANI emphasizes even more the folly of relying on the concept of stability. In the words of Cascio: "It is a framework to articulate the increasingly commonplace situations in which simple volatility or complexity are insufficient lenses through which to understand what's taking place. Situations in which conditions aren't simply unstable, they're chaotic. In which outcomes aren't simply hard to foresee, they're completely unpredictable. Or, to use the particular language of these frameworks, situations where what happens isn't simply ambiguous, it's incomprehensible."[2] De facto, the future is no longer a marginal optimization of the past; instead, it's a constantly changing scenario evolving at an unprecedented speed. Case in point: in 2022 the editors of the *Collins English Dictionary* chose as their word of the year *permacrisis*, defined as an "an extended period of instability and insecurity."[3]

This scenario poses a critical threat to private and public organizations and undermines their ability to plan their own future. Macroeconomic assumptions and geopolitical certainties that have held for decades have all been dramatically shaken. We can no longer maintain that borders should be inviolable, rough material will be available at reasonable cost, manufacturing can be delocalized in most convenient parts of the world, supply chains will be stable, energy supply is granted, inflation will be contained, and global GDP will be sustained by emerging economies. In *The Age of Discontinuity: Guidelines to Our Changing Society*, Peter F. Drucker—unanimously celebrated as the father of management—was among the first authors to call attention to the impossibility of predicting the future in a context where the forward projection of current trends risks taking us nowhere or, even worse, to the wrong place.[4]

In such an unpredictable scenario, how can managers share with shareholders an accurate forecast, deliver predictable results, and meet customers' needs better than the competition? The short answer is they can't. Or at least they can't if they use the same playbook they've always relied on. The problem is that no one currently at the helm of an organization or leading a team has been trained for instability. Actually, the opposite is true. Managers are trained to achieve economies of scale, scope, and learning in a relatively stable context that allows maximal profit margin and return on investment. Most training courses don't teach how to deal with extreme volatility. The only solution is to do what the new normal requires: develop a flexible approach, learn by doing, and follow new guiding principles that are natively designed for this world and thus are inherently adaptive. Paraphrasing Drucker, the only way to decode this complexity is to understand the profound nature of its underlining discontinuities.

Retail: A Different Perspective

Starting from when Mesopotamian tribes invented the practice of bartering in 6000 BC, the logic at the basis of commerce has been a value exchange between two counterparts. The buyer can be either the end-user of the product or an intermediary that will resell to a third party. We typically refer to these two scenarios as B2C (Business to Customer) and B2B (Business to Business), and retailing is unequivocally associated to the former. In fact, the term "retail" refers to the sale of goods, services, or experiences from individuals or businesses to end users. Retailers are in the business of acquiring goods from wholesalers, manufacturers, or other retailers and then selling them to final consumers for a profit. As a consequence, B2C and B2B companies have historically adopted very different operating models and organizational structures. B2B players didn't directly interact with consumers and didn't need to have stores—so, rather than having to maintain large sales and marketing budgets, they were able to focus on sourcing, production, and logistics. B2C players, on the other hand, needed to excel in crafting customer experience, since the ability to increase the perceived quality of what people buy determines success—so they focused on branding, customer service, marketing communications, and promotions. Consumer companies like Coca-Cola, Estée Lauder, Procter & Gamble, or Unilever have traditionally operated as a sort of hybrid—functioning in both the B2B realm by utilizing distributors and retailers to reach end consumers, and embracing a strong B2C orientation through their marketing efforts.

However, the digital transformation we experienced during the two consecutive waves that we refer to as Retail 3.0 and Retail 4.0 (more on both soon) challenged this dichotomy and role of all players involved in the process. For 8,000 years—with the exception of mail order—to be a retailer one needed to physically interact with a customer, whether in a traditional market, in the street, or in a brick-and-mortar location. But when Amazon and eBay were founded, in 1994 and 1995, respectively, the world of commerce changed. Presence and localization were unbundled for the first time—one doesn't need to go somewhere to effectively be there. From that moment onward, a retailer could be also a pure digital player or even a "consumer" who decides to trade with their peers. And in the following two decades, the exponential acceleration of technology amplified this opportunity for newcomers so much that it posed strategic challenges to the established companies. The ubiquity of commerce—combined with the unprecedented possibility for potentially the vast majority of the world's population accessing products and services, regardless of location—redefined the competitive landscape. For the first time it was possible for manufacturers and any B2B firms to explore the market on their own—bypassing all intermediaries and interacting directly with the final consumers. We refer to this shift as B2Cization. A process through which a business or organization that traditionally operates in a B2B context borrows strategies commonly associated with B2C interactions. This can involve incorporating customer-centric approaches, building or reinforcing a marketing department, investing in customer-relationship management, public relations, and other forms of direct engagement with end users, similar to how B2C companies interact with consumers.

An immediate application of this new possibility is a strategy called D2C (Direct to Consumer), a business model in which a company (e.g., a manufacturer) sells its output directly to consumers without intermediaries such as retailers or wholesalers. Although this approach allows companies to acquire first-party data and insights and have more control over their brand, customer experience, and distribution, it is a double-edged sword, as we will discuss later in the book. Though it has great potential, it also disrupts the existing dynamic of the market and poses critical threats to established business practices, calling for different operations, more structured marketing efforts—essentially, all the variables of a different business model. What is relevant at this juncture is the fact that a huge number of companies not engineered to manage relationships with end-users were forced to restructure their organization and develop new skills. How can you sell something to an empowered and connected customer if you don't improve your brand image, have at least an e-commerce website, customer service, and a social media presence? And even if you decide not to sell but only to nurture your brand and perhaps build a community on a social media platform, how can you manage the interactions with a broader audience (compared to the sole industry professionals) if you don't develop specific B2C capabilities?

Ultimately, businesses need to contend with the fact that in a connected world—where digital channels are pervasive, and customers are tech-savvy and empowered—the line between B2B and B2C is inexorably blurring.

This is a critical point, since it calls even more conservative B2B players to develop an entirely new skillset rather than counting on intermediaries to manage the interaction with the final user. Since the Internet enables any consumer to publicly call into question any company, we clearly need to rewrite the definitions of "retail" and "retailer." Established retailers must also reckon with the fact that it can be relatively easy for newcomers to set up a D2C model—leaving incumbents scrambling to compete. Depending on the degree of B2Cization, efforts include consolidating the value chain, reengineering their processes, hiring employees with different competencies, reinventing their operating model—even redefining their organizational culture. (We will discuss this topic in detail in Chapter 13, and offer multiple means to address this cogent problem.)

There are two essential points to be made here: (1) today, a retailer can be defined as any entity that deals with a final customer (or client)—in a certain sense, pure B2B companies no longer exist in a connected world; and

(2) the principles that guide B2C companies should be studied, absorbed, and applied by B2B companies as well. This book is designed to provide all companies—regardless of size, industry, or location—a flexible playbook with which to navigate the complexity of the post-digital world.

Post-Digital: When Hype Meets Reality

Despite the fact that various cataclysms—such as wars, natural disasters, and, indeed, pandemics—have shaped the human experience over time, more often than not we assisted to progressive transformations. In other words, the future is built *with* the past, not *on* the past. For example, although we use far less paper than we did before digitization, paper books, newspapers, and magazines are still widely used. Though streaming and cloud storage is the new normal, many still store files in physical devices, and record companies still release DVDs and even vinyl. Yes, e-commerce is growing steadily, but brick-and-mortar stores will always exist. In other words, as new products and formats find their footing, the once-dominant formats lose relevance, but they don't disappear overnight—or at all. Though when we say ours is a "post-digital" age, that doesn't mean we're entering an era where everything we know about digital will be surpassed by something different. We use this term to refer to the beginning of a maturity phase: where hype meets reality. One in which people, institutions, and companies develop a more mature relationship with what was previously seen (even just a couple of decades earlier) as a disruptive technological revolution. In the post-digital age, we take that disruption for granted—and focus on the creation of a new reality.

Needless to say, the COVID-19 pandemic globally accelerated this transition. Businesses and markets alike were forced to adapt to restricted mobility and hence relied (even) more heavily on digital. And many reluctant companies were forced to stop procrastinating and engage in drastic digitalization to avoid going out of business. At the beginning of 2020, concepts like social commerce, voice commerce, and virtual reality were considered futuristic by many consumers; today, they are an integral part of the commerce fabric.

Of course this phenomenon is not new. Every time markets get disrupted by new technologies and competitors, the vast majority of legacy companies struggle to keep up. They are simply not prepared to leverage the same transformative innovation that the new players natively embrace. Azeem Azhar in the book *The Exponential Age: How Accelerating Technology Is Leaving Us Behind and What to Do About It*, refers to the current version of this phenomenon as an "exponential gap," the chasm between new forms of technology—along with the fresh approaches to business, work, politics, and civil society the technology brings about—and the corporations, employees, politics, and wider social norms that get left behind.[5] The exponential pace at which technologies are being invented and scaled, all while they are decreasing in price and increasing in availability, exacerbates the gap and widens the gulf between tech and society. Our existing rules around market power, monopoly, competition, and tax became obsolete if not anachronistic vis-à-vis the gigantic size of ecosystem companies like Alphabet, Apple, Amazon, or Meta. Existing laws and employment practices don't align with the new expectations of workers. The current structure of the market in many sectors, including retail, is such that both regulators and managers feel more inadequate than ever.

But, again, that's nothing new; when a new paradigm arises, those prospering in the previous one have always needed to reinvent themselves to avoid extinction—whether we're talking about the entire supply chain built around salt from when the Egyptians first used it to preserve food in 2000 BC or the 22-century business of candlemaking being disrupted following the development of electricity. Information technology is a General Purpose Technology (GPT), which, as defined by economists Richard Lipsey and Kenneth Carlaw, can affect an entire economy and has the potential to drastically alter societies through its impact on pre-existing economic and social structures.[6] Other examples include steam engines, railways, cars, and, of course, computers.

Our assumption is that we are today at one of those crossroads that determines the beginning of a new era—one built *with* the previous one but also with the potential to lead to a very different scenario. The peculiarity is that contemporary GPTs are exponentially more powerful, hence their transformative impact might be astonishing. In their book *Marketing 5.0: Technology for Humanity*, authors Philip Kotler, Hermawan Kartajaya, and Iwan Setiawan argue that this new wave has been made possible by the maturity of six enablers: (1) the huge increase in computing power, (2) open-source software that constantly improves thanks to the collaboration of people and companies all over the world, (3) the widespread diffusion of the Internet, (4) cloud computing in the form of shared access to software and storage, (5) the ubiquity of mobile devices, and (6) ready access to big data.[7]

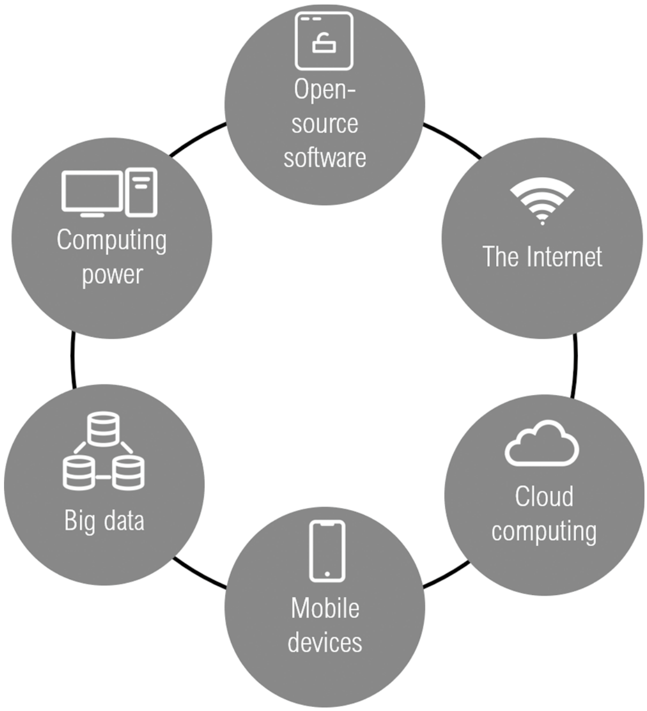

Fig. 0.1 The six enablers of next tech.
(Source: Kotler et al., Adapted from *Marketing 5.0*, 2021)

In addition, these technologies are more prone to combination than are those of the past, which creates a mutually reinforcing cycle that will redefine the world as we know it. This brings us to the essential question: Given that the transformation triggered by the mix of these technologies is at this point the connecting tissue of the new normal, how can established companies, retailers, and consumer brands survive and thrive in a post-digital world?

We argue that we are beyond the hyperbolic initial phase where positions tend to be polarized—we're entering the maturity stage. All the technological innovations described have been around for decades. It's time for markets and companies to face reality and take a full inventory of this new era. For example, consider the luxury electric-vehicle company Tesla. At the beginning of 2022 Tesla had reached yet another milestone: with a market value that exceeded $1.2 trillion, it left its competition in its wake. But just one year later, Tesla had dropped well behind, valued at less than one-third of what it had been previously. As noted in *The Economist,* "the main reason for the market's recalibration of Tesla's prospects is a dawning realization that the company is a new-generation carmaker . . . not a tech company."[8] Similarly, after the hype of the metaverse, Meta, the fiercest advocate of the new immersive virtual world, had to face reality and pivot after having lost $13.7 billion on Reality Labs in 2022. And even companies like Google, Microsoft, and Amazon, had to accept that, although their business models are inherently more in line with the new status quo, they are not exempt from the pressure exerted by inflation, recession, and a more generalized economic slowdown.

Maturity should also have led the business community to the full understanding that digital transformation is first and foremost a cultural shift.[9] If companies want to properly achieve it, it is not enough to simply "digitalize" (to use a word processor instead of pen and paper and send emails instead of letters); they need to holistically embrace a new modus operandi. Based on our analysis of the most successful digital transformations of the past decade, as well as our hundreds of conversations with top executives worldwide, we conclude that the majority of this effort cannot be achieved through technology. Digital transformation must be effected by people. This means coaching, training, and upskilling and reskilling the workforce as an indispensable prerequisite, combined with reorganizing the reporting lines, reviewing the incentive structure, updating KPIs, and developing new ways of working. These are all necessary conditions to unlocking the full potential of whatever technological innovation one hopes to bring to an organization. Technology is only as good as its weakest link, and its weakest link usually includes its users.

Finally, maturity means accepting that just because you *can,* that doesn't mean you *should*. In some cases a complete digital transformation may not be the most suitable option, as some companies may lack the necessary resources to undertake a sustainable transformation. Perhaps they're too small, or too siloed; perhaps their leadership isn't entirely on board or lack the right mindset.[10] In those cases, the solution simply sits somewhere else.

For example, a company might decide to transform their obsolete business and operating model into a specific value proposition, without any technological upgrade. Imagine a fishmonger forgoing e-commerce and embracing its brick-and-mortar location—offering customers the marine equivalent of a niche product range. Or, say a fashion house decides to invest in traditional ateliers to deliver very personalized human-to-human service to selected high-spending customers. As Marcello Pace—the chief executive officer (CEO) of Pittarosso, a leading Italian shoe retailer with more than 200 stores in Europe—told us: "Embracing digitalization is certainly important for our business, but we need to be careful when allocating our resources, as most of our clients still have a relatively linear and mainly analogue customer journey. It'd be a big mistake assuming that they would want to shift to online too rapidly. The challenge in our case is to keep the current business model while simultaneously testing new communication and sales channels, getting ready for the next generation of customers."[11]

For some the solution may reside in adopting a hybrid approach, leveraging digital in different ways depending on the service line or the product category. Simon Fox—CEO of the publishing and art fair group Frieze, and former CEO of the British newspaper publisher Reach—shared such a scenario with us:

> *It's important to understand the difference between product digitalization and leveraging digital channels to discover, learn about or buy physical products. Digitalization is when the product itself becomes digital—such as a music album moving from a CD to digital file. Whereas using a digital platform to discover a physical product requires a different set of supply chain skills, it's important to deeply understand customer needs. For example, in the books category Children, Cooking and Art books are still much preferred in their physical form whilst fiction is often preferred as a digital download to a Kindle or other device. So, it's all about understanding the customer journey, choosing the channel mix, and understanding the purpose of every purchase.*[12]

In summary, this new phase of maturity calls for accepting that we have evolved beyond the "digitalize or die" mentality that marked the beginning of the twenty-first century. In this phase, companies can avoid the mistakes born of either taking on too much transformation (from the fear of missing out) or of taking on too little (from sheer head-in-the-sand denial).

This scenario determines a new horizon for people and companies—one in which we should take for granted that advanced information technology is a *conditio sine* *qua non* for the new normal. The future of commerce is at the intersection of a plethora of critical technologies such as Artificial Intelligence (AI), the Internet of Things (IoT), Machine Learning (ML), Virtual Reality (VR), Augmented Reality (AR), Natural Language Processing (NLP), Vocal Interfaces (VI), Blockchain, Non-Fungible-Tokens (NFT), and the Metaverse. Before the COVID-19 pandemic, all these technologies were at least a dozen years away from becoming mainstream; now they constitute the fabric of the new normal. As such, the implications for retailers, manufacturers, and consumer brands are profound.

How We Got to Retail 5.0

Retail 5.0 will be enabled by the technological convergence described in the previous paragraph. But before we dig into the details of this new realm, let's retrace the evolution of the previous four phases. To do this, we benefit from the framework offered in McKinsey & Company's report "Retail 4.0: The Future of Retail Grocery in a Digital World," written by Parag Desai, Ali Potia, and Brian Salsberg.[13] And it's important to keep this in mind: although the different waves triggered a sequence of tectonic shifts in the world of retail, the new never replaced the old.

Retail 0.0: The Origins of Commerce

As noted earlier, we can argue that retail commerce was born in Mesopotamia in 6000 BC, when our ancestors started bartering or trading services or goods without using currency. Since then, many other civilizations all over the world adopted the practice, until it was replaced in most of the cases by money. The key elements of this phase are: (1) the fact that the transaction requires that the parties physically meet to negotiate the value exchange (no fixed prices); (2) there being a certain information asymmetry between buyer and seller; and (3) the role played by the skills of the sellers—the more they emphasized the virtues of their products and services, and the more they personalized the transaction and forged relationships with their customers, the greater their maximization of value. This dynamic was the dominant form of trade all over the world until the beginning of the twentieth century.

Retail 1.0: The Self-Service

You've no doubt seen shows or films where people acquired their goods not by milling through the aisles of a store but by naming the items they desired to the clerk behind the counter. With this setup the retailer is the centre of the transaction. But in 1916, in Memphis, Tennessee, a new model was born—and patented in 1917—the self-service approach, which others have named "Retail 1.0." According to the grocery retailer called Piggly Wiggly, "they were the first retailer to provide open shelves and checkout stands, and to price-mark every item in the store." In this scenario, the information asymmetry between seller and buyer started fading and the retailer ceded centre stage to the shopper. Components such as packaging and brand cachet increased their roles dramatically. Once the Piggly Wiggly Corporation franchised its model, the number of actual stores increased dramatically as well—from one to 2,500 nationwide by 1932. The format was since adopted all over the world in virtually every sector, although in some cases with some variants.

Retail 2.0: "Everything Under One Roof"

We can argue that the following shift in the world of retail has been represented by the concentration of different shops under the same roof, often located in suburban areas to accommodate the huge footprint. Although the first shopping malls were built in the United States in the 1920s and 1930s, they boomed globally in the second half of that century, in some regions more swiftly than others. The main factors that facilitated the success of this format were the profusion of cars, which allowed people to reach remote locations and transport goods; the adoption of electricity, and thus refrigerators and freezers in which products could be preserved for longer time; and last but not least the growing number of women with full-time jobs, who needed to shop more efficiently than they had before. The combined effect of these variables drastically reduced foot traffic and purchase frequency, forcing a reckoning upon traditional local stores.

Retail 3.0: The Birth of E-Commerce

The next portion of our tale begins its disruption in 1994. At that time the Internet could be considered primordial—connecting approximately 40 million people with a maximum transfer rate of 56 kilobits per second, compared to the 5.1 billion online users who today enjoy speeds between 100 and 6,000 *mega*bits per second.[14] Into this realm stepped Jeff Bezos: who began selling books but today sells everything from AAA batteries to zip ties. Two of the most innovative features of this new model were low-cost or no-cost shipping and the "now-famous recommendation engine," which McKinsey & Company see as being "as important to Amazon.com's success as anything." Fellow player eBay was founded in 1995; "by 1997 . . . 'e-commerce' had become a buzzword that ushered in a new era of retail"—one in which individuals could consider themselves "retailers" using a marketplace to sell goods to other individuals, and in which retailers' roles in recommending their wares took yet another step back, its voice muffled by the buzz of peer recommendation.[15]

Retail 4.0: Ubiquitous Commerce

We argue that Retail 4.0 starts approximately with the beginning of the new millennium and terminates with the COVID-19 global pandemic. This phase is marked by the progressive diffusion of feature phones before and smartphones later, combined with increasingly more powerful connections and technological infrastructure. In the first 20 years of this century, commerce has become ubiquitous, everyone can be a retailer, and every surface can be a store. Other characteristics of this phase are the consolidation of peer-to-peer commerce, the dematerialization of payments, the boom of e-commerce—including the adoption of D2C—and of course the hybridization between digital and physical stores in the so-called "phygital." This period culminated in the lockdowns, which, three months into 2020, applied to nearly 4 billion people—roughly half of the world's population.[16] This confinement required even the most reluctant consumers to develop a digital literacy, and forced all retailers, manufacturers, and consumer brands to rapidly upgrade their digital skills. In that phase you could either sell online or you couldn't sell at all. This caused an unforeseen acceleration that paved the way for a new era.

Retail 5.0: Post-Digital Commerce

We see several distinct angles regarding this next era.

One: In Retail 5.0, technology will be less visible but far more present. An array of minuscule sensors will collect and elaborate on real-time data about shoppers. Computers capable of seeing, hearing, and assessing the world around them will revolutionize the way brands and retailers communicate and sell, making every interaction contextually relevant and fully personalized to the single customer. To some extent, the relationship between supply and demand will resemble the tried-and-true model wherein sellers recognize and cater to individual customers. However, in this case the capacity of identifying customers and personalizing the experience will be powered by AI—and potentially scaled without limits. And, paradoxically, this mass personalization will be perceived as more rather than less human, since people will engage this technology using their bodies and voices rather than keyboards and screens. This aspect is part of a larger trend called "Zero UI" (Zero User Interface) whereby interactions with devices or systems happen more naturally and intuitively, often relying on voice commands, gestures, sensors, artificial intelligence, and other forms of ambient computing. The goal is to make technology fade into the background, enabling users to interact with devices or systems as effortlessly as possible.

Two: In Retail 5.0, organizations will recognize the wisdom of concentrating on the most relevant channels and touchpoints, optimizing resources rather than being lured into a state of "ubiquity" that risks fragmenting resources and diminishing effectiveness. The notion of omnipresence will yield to "optipresence," allowing organizations to avoid the paradox of choice, where an excess of options ultimately reduces the overall ability to make savvy choices. Emerging technologies will streamline this process, prompting players across industries to explore new ways of interacting with customers while meticulously measuring the return on investment. This will unlock new opportunities for both B2B and B2C brands, providing a significant boost to the aforementioned direct-to-consumer strategy.

Three: Companies will need to redefine the role of human beings—employees, store managers, sales associates, cashiers—in light of technology. Finding the right balance between what we should delegate to machines and what we should leave to humans will determine strategic positioning, competitive advantage and shape the customer experience. In the United States, the retail chain Trader Joe's prefers its staff to stock stores *during* peak shopping hours so as to increase the chance they will interact with customers—and be on-hand to assist when needed. With this approach sales associates can humanize the shopping experience, optimize it, and potentially increase sales by making cross-selling suggestions.[17]

Four: Another critical aspect that characterizes this fifth wave is the stable presence of virtual, immersive worlds in increasingly larger segments of the world population. As a consequence, our digital selves—including avatars—will become more important. People will spend increasingly more money on digital products and virtual experiences. And the customer journey will become in many cases three-dimensional: physical, digital, and virtual. B2Cization is set to advance even more, propelled by the growing accessibility of these technologies. And the "C" in this scenario could represent a person, an avatar, or an AI, depending on the context (more on this in Chapters 14, 15, 16, and 17).

Five: Moreover, just because something is not physical, it doesn't mean it is less real. In Retail 5.0, digital is real, and virtual is real. Think about it: if we make a digital transaction, "real" money disappears from our "real" bank account. If we digitally sign a contract, or pass an exam during a video call, it has validity in the real world. What we write in an email we send into the digital sphere stands as a written agreement. If we play a video game online in the shape of an avatar with a friend located thousands of miles away, the way we behave has an impact on the relationship with that friend across all dimensions: real, digital, and virtual. If we buy an accessory for our virtual avatar paying crypto money from our digital wallet, that money is as much real as the digital product worn by the virtual avatar on the screen. And our analogue brains connect with this concept; as much as 60% of consumers declare they would buy the same products for their avatars as they'd buy for themselves.[18] We will further discuss the three-dimensional customer journey extensively in Part II.

In summary, thriving in such challenging conditions requires a different mindset, new skills, and new guiding principles in order to rethink entire business models. There's also no time to waste. Retailers with a "wait and see" approach will fall further behind.

The Journey to Come

In the first part of the book, we will analyze the driving forces that are keeping retailers, manufacturers, and consumer brands awake at night. The topics have been distilled out of 125 conversations with C-level executives located in 16 countries, in an effort to represent different perspectives and infer guiding principles that could be broadly relevant. In Part II, we present a comprehensive framework based on 10 guiding principles, carefully crafted to inspire retail and brand leaders as they embark on their transformational journey into the post-digital era.

The content of this book, particularly the framework presented in Part II, is applicable to a large audience—spanning from seasoned business professionals eager to update their strategic vision, to managers in search of a framework to filter their day-to-day endeavours, to entrepreneurs and small–medium enterprise managers, to management and marketing students who want to deepen their understanding of the driving forces of the markets they will soon be facing. In fact, the scenario we present as Retail 5.0 is not a futuristic horizon a decade down the line. It is the result of driving forces that are very much already in motion, and are set to deeply impact the way manufacturers, retailers, and consumer brands conduct their business.

Some questions we aim to answer in this book are:

- How can purpose, people, planet, and profit create a virtuous cycle that retailers, manufacturers, and consumer brands can all benefit from? (For more, see Chapters 2 and 12.)
- What are the opportunities and threats of "disintermediation"—cutting out the intermediary? How can we determine whether going D2C is a good idea? (For more, see Chapter 3.)
- What are the opportunities that small and medium brick-and-mortar retailers can unlock in the post-digital world? (Answers to this question begin in Chapter 4.)

- How can retailers nurture brand loyalty and increase customer lifetime value in a volatile and unpredictable world? (For more, see Chapters 5, 7, and 20.)
- Is Omnichannel—a business strategy aimed at providing a seamless shopping experience across all sales and communication channels—actually achievable and economically sustainable? Is there an alternative model? (Answers to this question begin in Chapter 6.)
- How can real-time data and insights lead to hyper-personalized interactions with customers, clients, suppliers, employees, and industrial partners? (For more, see Chapters 7, 8, 14, and 20.)
- Which role(s) will virtual spaces and other explorable, immersive digital worlds play in the customer journey and the larger retail ecosystem? (For more, see Chapters 7, 8, 14, and 19.)
- What is the role of sales associates in a world increasingly populated by computers, AI, and robots? (For more, see Chapters 8, 16, and 19.)
- How can established retailers, manufacturers, and consumer brands integrate next-generation innovations into their traditional business model? (Answers to this question begin in Part II.)

Welcome to the journey!

Part I

The Post-Digital Era

The future is already here, it's just not evenly distributed.
—William Gibson[1]

In this first part, we analyze the main challenges that retailers and consumer brands are facing in the post-digital world. We will focus on market trends, the customer journey, emerging demands from customers and the constantly evolving relationship between technology and people.