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A Guide to Change in the Retail Industry

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In partnership with

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A guide to change in modern retail

Retailers are facing rapid changes in their industry, from dealing with physical stores that are no longer needed, to how digitisation can lead to re-training and re-deploying staff. Responsible, effective management of these challenges can be critical to how a business is viewed by its customers, employees and the wider community.

The retail sector is one of the biggest employers in Australia so changes to employment patterns within it are likely to impact a significant number of workers over the coming years.

The move to online shopping is also putting pressure on some physical retail stores and their surrounding environments in Australia's malls and shopping centres. Store closures can have a flow on impact on to local communities.

This report looks at how retailers can handle these changes and the impacts on workers and communities.

It also looks at the potential environmental impacts of increased home delivery, such as higher traffic volumes and the increased packaging associated with those changes to the supply chain.

McKinsey & Co Australia managing partner John Lydon notes the idea that the sole purpose of business is to generate returns to shareholders is a view from 30 years ago. "Now I think employees, in particular, are demanding that the purpose of business is to be much more responsible towards all stakeholders and to really contribute to society."

It's not just a way to mitigate risk, he says. Companies are "actually starting to see it as the new frontier of competitive advantage."

Looking at the change impacting the retail industry and those that are leading it, Mark Teperson, Chief Digital Officer of Australian retailer Accent Group notes:

> *"There's never been such a big gap between the average age of boards and the average age of the largest purchasing demographic in the market. Because up until three years ago baby boomers were the largest purchasing demographic while the average age of a board member was in a similar vein. You've got a situation where, broadly, boards are over-represented by people with lots of experience… but not necessarily native experience to the consumers that now represent the largest chunk of the purchasing dollar. I think that creates a very interesting environment in terms of change. What does that mean to a board and the board composition?*
>
> *"My view is that there is a huge amount of value in tenure and wisdom and understanding, but equally I think boards need to find the balance between finding and injecting new young blood, so that they continue to remain relevant and in touch with the larger purchasing cohort in the market."*

This is the environment company leaders in the current retail sector are grappling with. What follows is an attempt to outline some of the cutting-edge thinking in the sector.

Beyond the disruption headlines

Consultants Deloitte note that the rapid shift to e-commerce is quite literally transforming the retail landscape. With online growth outpacing overall growth of retail sales, retailers are rationalising their physical footprint and intensifying their e-commerce presence. Given the negative impact of e-commerce on store productivity, many have concluded that their existing store base is simply too big. This is resulting in a raft of store closures, more flexible store formats and new roles for bricks-and-mortar. Retail locations play a pivotal role in omnichannel strategies, serving as cross-channel fulfillment centres, pick-up stations for online orders and a convenient place for returns and exchanges. They also serve as a product showroom as well as a brand-building and customer acquisition channel.

In the US, Macy's is among the growing number of department store and specialty apparel retailers planning to significantly reduce physical presence in the wake of dwindling mall traffic. In August 2016, the company announced it intends to close approximately 100 Macy's full-line stores whose volume and profitability, in most cases, had been steadily declining. The company plans to elevate the shopping experience in its remaining stores and accelerate its investment in digital and mobile.

Similarly, in Australia, Target recently announced it would reduce floor and lease commitments by around 20 per cent, and aim to accelerate its online growth.

In Australia recently, we have seen the closure of several retail chains following weak sales and reflecting the impact of online and new global supply chains. Toys 'R' Us, Herringbone, Pumpkin Patch and Payless Shoes are among the casualties.

But there's a more nuanced story behind the headlines

Bruce Begbie, Executive Director for Client Coverage at the Commonwealth Bank's Institutional Bank and Markets division, notes the number of retailers in Australia entering administration is actually at an all-time low.

So while the disruption being witnessed today might be of a different order due to digitisation and global consumer culture, the retail sector has historically dealt with ongoing turbulence.

Begbie highlights the entry of the global fast fashion chains. Some domestic retailers have struggled to compete with their scale and supply chain expertise. He said:

> *"Looking at the brands that have gone into administration over the last 12 months or so there are a lot of recognised retail names, household brands that are very familiar to us. I think that has over-emphasised what's actually happening. Well-known brands are falling by the wayside relative to other more nimble businesses because they've probably not kept up the pace of change that's going on in the sector. There is also an element of brands falling out of favour with customers on style and reputation, not just price alone. But if you go back over decades this has always been going on. In fact, it's probably one of the good things that is happening [in the sector]. It drives innovation and renewal."*

Outside of the big shopping centres, declining store productivity also has big-box suburban retailers re-evaluating their expansion plans. In the US, both Lowe's and Target see opportunity in urban areas with smaller, more flexible-format stores whose size and assortment will be customised according to the demographics of the neighbourhood. Target's new stores in the US are typically less than 50,000 square feet – compared with its existing average store size of 145,000 square feet – and the retailer is planning hundreds of them.

Traditional stores in the modern world

Retail management software provider Vend believes that brick-and-mortar retail is alive and well. Traditional store formats may be on the decline, but innovative stores — ones that offer great shopping experiences — will continue to emerge.

Industry data supports this. According to the US National Retail Federation, there was *"a net increase in store openings of over 4,000 in 2017. In fact, for each company closing a store, 2.7 companies are opening stores."*

It's a similar story in the UK, where data from the British Independent Retailers Association shows that more shops were opened than were closed in the first quarter of 2017. This was an increase of 414 shops in the first three months of 2017, compared with a net increase of just 4 shops for the same period the previous year.

One reason behind this trend is that technology can help to fuel (as well as curb) the rise of brick-and-mortar retail. Modern point-of-sale and retail management systems mean it has never been easier to open a retail business. Mobile applications and cloud-based solutions are enabling merchants to quickly set up shop with a minimal investment. This suggests it's likely we'll be seeing more independent stores enter the market. This of course puts pressure on incumbents to stay fresh and interesting to consumers.

Another helpful factor is the media reality: advertising costs have never been lower because of social media and other digital channels. Independent stores can develop a following at a relatively low cost if they have a product or service that people are passionate about and enjoy.

Consider this: Accenture believes the physical store will continue to be the channel that contributes the most revenue for the majority of large multichannel retailers until at least 2026. It suggests the value proposition will evolve from being a distribution channel to that of a platform for discovery, engagement, experience and interaction. This will be done through leveraging technology for differentiated customer experiences, developing new technology-enabled frontline engagement with shoppers and new collaborations to repurpose the stores and hubs for social interaction.

Show, don't sell

Tomorrow's physical stores will offer rich, dynamic interactions and virtual experiences. They will become more like media platforms or flagship showrooms where consumers go to interact

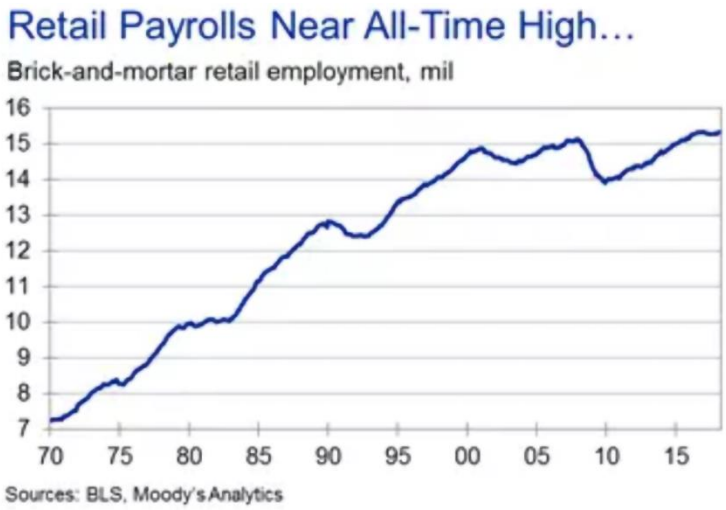
with products and expect hyper-personalized services. For example, by combining IoT and data analytics with Augmented Reality or Virtual Reality, “smart fitting rooms” can predict consumer preferences using knowledge of the customer gathered through previous interactions. This innovation helps customers see how items of clothing will look on them via projections on digital, interactive screens.

Scott Rigby of technology firm Adobe has pointed out that research clearly shows customers tend to buy more when they come into a physical store to pick up goods ordered online. He uses the wonderfully descriptive term “phygital” to describe the future of retail – that is to say, it will involve a combination of physical stores and digital.

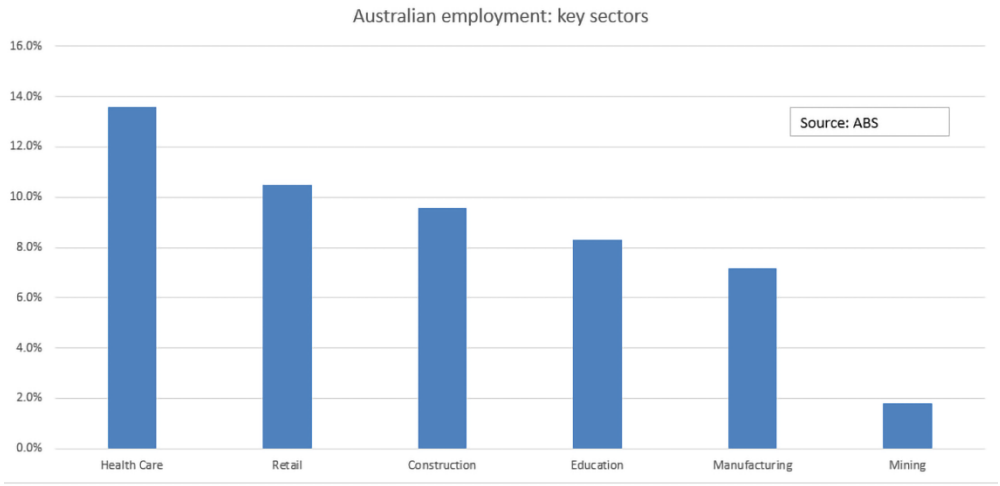
Big workforce, big change

As the proportion of shopping done online grows, and stores evolve from being primarily transactional to more experiential and technology-led, the composition of the retail workforce and the skills required to fill major roles will change.

Today, retail is the largest private-sector employer in the world. The retail workforce in the United States (15.3 million workers) comprises 9.8% of the total workforce. Despite fears about the death of retail, data from Moody's Analytics shows that the number of jobs in physical retail is actually at an all-time high (although it has fallen as a percentage of the overall workforce).



In Australia the retail sector is an even more significant employer. According to Australian Bureau of Statistics (ABS) data, employment in retail trade in Australia in February 2018 was just over 1.3 million people. This represents almost 11% of the workforce. The sector is the second biggest employer in Australia, behind healthcare and social assistance (13.7%).



The other side of the trend to online retail of course is the number of jobs being created in online retailers and in areas such as warehousing and delivery. Adam Ozimek of Moody's Analytics has noted that *"employment gains in e-commerce are visible in warehousing and non-store retailers, the latter of which includes e-commerce sellers like Amazon. Over the last decade, non-store retailers have added 157,000 jobs and warehousing has added almost 369,000, which combined more than offset the job losses of 392,000 in department stores."*

The HR aspect of the retail transformation is often overlooked. Olaf Koch, CEO of German wholesale group Metro AG, says dissatisfied staff are unlikely to lead to satisfied customers. *"In my view, the relationship between employee engagement and customer satisfaction isn't linear,"* he says, *"it is exponential."*

There are three primary drivers that will impact workers in the retail sector:

1. **Store closures**. As digital becomes more prevalent and sales shift online, brick-and-mortar stores will close as companies adjust strategies and downsize physical infrastructure. Stores will still be an important part of the distribution strategy for an omnichannel retailer, but there will be fewer of them. This will displace the workers they employ, especially as the rate of new store openings is expected to be nominal.
2. **Automation.** As technology is adopted and incorporated into day-to-day operations, tasks currently done by employees (e.g. stocking shelves, cashier work) will be automated. Once automation is fully incorporated, Accenture estimates it could put 30% to 50% of these positions at risk. They give the example of activities that do not drive value to the consumer experience -- for example stocking shelves or checking out -- as being areas that are likely to be automated.
3. **Employee efficiency**. In terms of sales per employee, there is an enormous disparity between the employee efficiency of online and brick-and-mortar retailers. One employee in online earns revenue equivalent to four to five employees in physical retail. Over the next decade, with the rapid growth of e-commerce, there will likely be pressure in brick-and-mortar retail to increase sales per employee and start closing this gap.

Human interaction is critical for retailers

As stores compete on and differentiate their experience, an enhanced skill set will be required for sales associates in the future. A large component of the job will be providing a personalised service to the customer. The interaction must add value and not be centred solely on making the sale, as traditional sales associate roles have emphasised. Customers want to receive high-quality *service*, not just be *sold* on product.

As the retail workforce evolves, industry leaders and policymakers need to focus on re-skilling the present workforce. With brick-and-mortar stores becoming more experiential and service-oriented, frontline workers will require new skill sets. Policymakers will need to work with the industry to lay the groundwork for successfully transitioning the workforce and equipping them with the skill set they will need in the future to close the skills gap.

Business and policy makers will also need to partner with colleges and universities to map the needs of future employees and adapt the curriculum in these education institutions accordingly. This will ensure there is a skills match with future workforce requirements.

There are related questions around the supply chain. Emerging technologies will drive efficiencies in store labour and long-haul trucking, among others. This increased productivity will likely lead to job losses and change the nature of the industry's workforce. The deployment of autonomous vehicles and/or drones for delivery to retailers and for last-mile delivery will have an impact on truck-driving and doorstep-delivery jobs. There are 3.5 million truck drivers in the United States alone.

What happens when the shelves are already packed

As the proportion of online shopping grows ever greater, we'll see stores transforming from being principally transactional locations to become experiential and technology-enabled. As this happens, the skills retailers need to employ will start to look very different. Digital and business talent will be an even more precious commodity than it is today.

Talent will shift from task focus to offering expertise and experience.

Mark Teperson, CDO at Australian footwear retailer Accent Group said: *"Five years ago when we started this digital transformation journey, I was the only body that we had in the business working on it. Today we now have in excess of 40 people in our business that are principally responsible or that are part of my team that enable that transformation."*

Accenture notes that, as machines take on more of the traditional work of a retailer, customer-facing labour will become highly important. CEOs must put the expert in the centre to ensure that store associates become brand ambassadors, or storytellers of the brand's purpose. For instance, sales associates must be personable and passionate about the brand and its story, sharing a depth of product and service knowledge while using technology to enhance the interaction and deliver high-quality service.

A marketplace for workers

In the future retail workforce, the way talent is sourced and staffed is also likely to change. Workforce models will become more flexible. Retailers will have a backbone of core talent, but they will also access on-demand resources through service marketplaces. Freelancers and independent contractors will bring specific skill sets as needed.

Store employees may be more in control of their schedule, leveraging tools that allow employees to bid on shifts.

The core skills that retailers need to keep in-house mean there is likely to be a persistent need for a roster of full-time employees. However, seasonality is a long-established driver in retail, and using new digital platforms to source talent could offer a new way of optimising this perennial requirement, enabling rapid scaling up or down in line with demand. What's more, dynamic scheduling and shift management, via an AI-powered portal, could match supply and demand with even greater accuracy and efficiency, offering employees options on where and when they will be working on a day-to-day basis.

Managing the property portfolio

Retail and real estate have always had a symbiotic relationship. For major retailers, finding a location that taps into a target demographic and a commercial site that enables a brand's deepest aspirations has always meant joining forces with real estate providers and property developers can bring these goals to life. However, wide-scale disruption across the retail industry means that serious changes are afoot.

Bold Moves, a March 2017 PwC report that offers radical strategies for Australian retailers in an increasingly fragmented landscape, suggests that brands identify the worst-performing stores, and shut down 25% of their network to invest resources in digital touchpoints. The report also recommends that flagship stores be converted to customer experience centres or showrooms that use omnichannel techniques to attract and retain customers.

"It's essential that landlords and property developers understand the trends disrupting the retail industry and anticipate future vacancies so they can re-imagine how commercial space could be used," wrote Keenan Muir, Property Leader at PwC Financial Advisory.

As the retail sector adapts and becomes agile to meet new retail trends and customer needs, it will play a key role in shaping the future of our cities. Landlords and property developers need to stay connected with local government, businesses and community groups so together they can create cities that thrive and endure.

According to PwC's 2017 Total Retail Survey, 59% of global shoppers want an inviting ambience when they shop. For the real estate sector, experiential retail — the ability to curate memorable experiences for shoppers, turning shopping centres into hubs for community while returning

glamour and surprise to the act of shopping – shouldn't be an afterthought. It's a part of long-term survival.

Since 2012, Woolworths has rolled out in-store coffee shops, barista made espresso and pastries to ensure that customers linger in-store. Sydney's Broadway shopping centre has rebranded itself as a food destination, investing in a Scandinavian-inspired fit-out and recruiting cult food brands, while the recently revamped Westfield Miranda incorporates fruit and vegetable stalls that echo a European-style market. For these players, preparing for disruption means re-imagining what a retail space looks like and introducing an element of surprise.

Commonwealth Bank's Begbie points out that *"this is the conversation landlords are having – the experience that a shopping mall can bring. It's not just about having more brands, it's about having an experience. So, we have more entertainment, we have more food, we have other things such as child care."*

The store network of the future is likely to have flagship store locations with key satellites that offer an omnichannel experience, ensuring customers can shop anywhere, anytime, any way they want – and all of it seamlessly.

Conventional wisdom suggests Australian retailers need a presence in every region or location. However, a wide store network is no longer a determinant of profitability or future growth. Instead, retailers are better off focusing their resources and effort on shifting the same volume from fewer shopfronts. Flagship stores can double as customer experience centres that convey brand values and are equipped to offer omnichannel customer experiences.

Showrooms: catching up to modern shopping habits

Given the obstacles facing retailers today, PwC believes there is an additional, largely complementary sales approach that retailers in some sectors should consider. They can replace underperforming stores and support e-commerce efforts with showrooms. A showroom, in its purest form, is a store that showcases products, but sells nothing — in the sense of providing goods to consumers. Instead, a showroom offers items for inspection, gives advice on products, and takes orders. The products are then shipped to the customer's home from some other location.

As it happens, many consumers use retail stores in this way already; they browse in person and purchase online. But because retailers still aim to sell from their store inventory, they have to maintain the full range of existing store support infrastructure, making the current arrangement not economically beneficial. A dedicated showroom has a crucially different intent.

Showrooms work best for *differentiated goods*. These are products that vary significantly from one retailer to the next (like branded fashion apparel), are new to consumers (such as the latest electronic gadget), or can be said to be sold, rather than bought (for example, a wireless data plan or expensive jewellery). Their counterparts are common goods, or items (such as ketchup, soft drinks, and athletic socks) that consumers are very familiar with and that are essentially the same in every store. Common goods sell well online but differentiated goods are harder to move via e-commerce; consumers may need or prefer to browse for these items, examine them, and even seek out advice about what to buy.

Bonobos, a clothing company that caters to 18- to 40-year-old men, illustrates the showroom retail concept. Since 2012, the company has been experimenting with showrooms it calls Guideshops, now in 30 locations around the US. Consumers can walk in or book an appointment and have a beer or a drink of water as knowledgeable salespeople (called ninjas) take measurements and help sort styles and sizes.

Guideshops have all the advantages of a high-end, high-touch retail store. Customers can try on clothing, get plenty of advice — and be enticed with possible accessories and add-ons. At the end of the sales appointment, the goods are ordered online and shipped to the customer at home. "We said we would never be offline, and then, wait a second," Bonobos CEO and cofounder Andy Dunn told the *New York Times* in 2014. "We hit a big turning point. We realised offline really works."

Guideshops save money by requiring fewer salespeople and having smaller footprints than a traditional retail store. Furthermore, since customer details (such as sizing and favourite styles) are recorded in the Bonobos data system, customers are more likely to make online purchases unassisted in the future, driving customer loyalty and lower returns, even for e-commerce transactions.

Physical stores are valuable assets for brands in what is becoming an increasingly nuanced customer journey. Many customers still want the option to walk in, touch and feel products, or walk out with what they want, right then and there. Others, however, want to try in store and buy online. Showrooming will continue to be a key retail trend as brands look to provide special in-store experiences that drive online engagement. The keys to success are ensuring the link between the two is seamless for the customer and that brands collect valuable insight for those in-person visits and put it to use at key touchpoints.

Australian footwear retailer Accent Group has taken advantage of its large physical presence to offer a better experience to its customers. Accent Group's Chief Digital Officer Mark Teperson said that by thinking of digital and e-commerce as a distinct business unit, traditional retailers are failing to leverage their assets to deliver better services and experiences to their consumers. "While it's true that our stores are our most important asset for creating an experience for customers, they also happen to be fantastic distribution centres to get products to customers faster," Teperson said.

Accent also plans to introduce what is known as "endless aisles" which will allow in-store staff the ability to deliver products to customers free of charge the next day, if those products aren't in store when the customer visits.

Dealing with decay

The global financial crisis of 2008 might not appear to have much in common with a derelict shopping mall in your neighbourhood. But according to research from the Kellogg School at Northwestern University, both are examples of how financial distress can spread.

Unlike global financial markets, the retail stores in a mall are primarily connected via their physical proximity to one another—a phenomenon that economists call "retail agglomeration". The connections within these local, brick-and-mortar "networks" can propagate economic shocks just as powerfully as the virtual networks that connected Lehmann Brothers and Goldman Sachs. Just as the failure of one investment bank started a domino effect that

threatened its peers and competitors around the globe, the bankruptcy of a large retail location in a mall or shopping centre puts neighbouring stores at increased risk of failure as well.

Even if the local economic conditions are otherwise good, the loss of a single retail tenant exposes every other store around it to a potential cascade of troublesome economic outcomes.

This effect is identified by Efraim Benmelech, who directs the Guthrie Center for Real Estate Research at Northwestern University's Kellogg School of Management.

The economic benefits of retailers' physical agglomeration are obvious to anyone who has visited a shopping mall intending to purchase one item and found themselves coming home with ten. But agglomeration economies are a double-edged sword.

"What are the negative consequences of breaking this link between stores? And what is happening to the neighbouring stores when a store shuts down?" Benmelech asks. *"When several stores leave the mall, that makes it less attractive to consumers, which weakens the position of the remaining stores. It's a domino effect, and basically the mall dies.*

"We show a domino effect where a negative shock to a retail environment, driven by the fact that some players are leaving the area, is leading to further economic deterioration in that area. Stores would like to be next to each other and consumers would like to go to malls with high occupancy rates. When this breaks down, it means that more and more stores close, which leads to a local economic decline."

In addition, as you might expect, the researchers find that, in the wake of a closing national chain store, neighbouring stores are more affected by the negative shock if they are less profitable. For example, any store within 50 metres of a bankrupt chain location would be at a higher risk of closing its own doors—but if that neighbouring store were in just the 25th percentile of profitability, its odds of closing increase by 16.9 to 22.2%.

Understanding how bankruptcy agglomeration works could also help those owners unlucky enough to experience it mitigate or even reverse its effects. “It may make sense to bring in a new tenant and offer it a very low lease or even pay the tenant to come to stabilise the mall,” Benmelech says. “It may seem counterintuitive, but you will pay much more if you lose your other tenants.”

The Ferrier Hodgson Azarium 2018 Australian Retail Survey found that of retail executives surveyed, 47 per cent cited rental overheads as one of the three most significant challenges facing the retail sector – more so than labour costs (43 per cent) and even international entrants (27 per cent).

Malls and high streets have traditionally been seen as community hubs fusing social, lifestyle and entertainment elements. But an increasing number of retail stores are downsizing or closing each year as e-commerce captures a higher percentage of sales. This decrease in retail square footage is expected to continue over the next decade and dramatically change those malls and high streets.

All of these three options – abandonment, demolition or reconstruction – have profound cultural and economic repercussions for the community.

First there’s **employment**. Local job availability levels will be affected which, in turn, impacts disposable income.

Then there’s **local revenue streams**. Local governments, which depend on rates as an important source of revenue, will lose that funding stream. This money is typically used to finance local projects such as road repairs and public services.

It can also impact the physical neighbourhood. If a closed store sits vacant for years, it could become a place for crime and vandalism.

While the repercussions are potentially severe, they can be planned for and mitigated. Imagine a future where there is a shared community space in the centre of town for local residents. It is a multi-purpose space where one could, for example, go to the office, gym, bank and grocery store all in one location. The proliferation of these large, mixed-use community spaces, developed with the needs of the local community in mind, is very plausible over the next decade, as traditional retail infrastructure is rapidly transformed.

In Australia, Scentre Group (owner of the Westfield shopping centres) has increased the number of service outlets within its centres such as medical centres and banks that open on

weekends. These are designed to maintain foot traffic by giving consumers continued reasons to visit the centres even if actual retail outlets are declining.

This trend is backed up by data from the UK where the largest percentage growth is in categories such as hair/beauty and cafes/restaurants.

Top 10 independent business openings by classification mix

Classification	Net Change %	Units Net Change
Barbers	6.26	619
Beauty Salons	6.21	394
Tobacconists	22.01	342
Cafe & Tearoom	2.04	324
Nail Salons	6.24	176
Restaurant & Bar	6.48	172
Mobile Phones	6.35	153
Alternative & Complementary Medicines	3.74	111
Bars	2.86	110
Convenience Stores*	1.58	97

source: British Independent Retailers Association 2017

The redevelopment of spaces needs to be part of a larger, long-term economic development strategy. Redevelopment initiatives require big investments so it is critical that they are thoughtfully planned and part of a larger, multi-year strategy for the community.

If business and public sector leaders focus on collaborating with the community to repurpose closed stores and strategically incorporate them into their long term plans, these spaces will prove to be assets that bring the community together.

Supply chains and the packaging problem

Increasing consumer demand for instant delivery is driving industry players to sacrifice some efficiency to enhance convenience for customers. This is directly impacting the environment.

This environmental impact takes two main forms:

- increased CO2 emissions from more delivery trips being made; and
- extra waste from more cardboard or packaging being used.

Customer expectations are changing rapidly, with "on-demand" becoming increasingly synonymous with "instant". This is driving the growth in emissions and packaging waste. As the industry transforms, it must address and account for this environmental cost.

Meeting the consumer demand for "what I want, when and where I want it" will need to be done with minimal environmental costs, especially those related to CO2 emissions and cardboard and packaging. Business, regulators and policy makers will have to stay focused and drive innovation in packaging, as well as establish the infrastructure and governance framework around systemic recycling initiatives.

Last-mile delivery will be an industry-wide issue on which businesses must work together to solve. An innovative solution would create the optimal combination of cost, efficiency and consumer experience. Over the next few years, pressure will increase and last-mile delivery will need to change. Potential solutions being suggested for delivery of the goods ordered online include:

- **Batched deliveries** once a day rather than separate deliveries;
- **A re-usable, eco-friendly container** that holds all of the goods. This container fits into a larger containerisation system, unlike the cardboard boxes that predominate today;
- **An automated robot** deployed via an "aircraft carrier model". This involves an autonomous vehicle driving to a designated point, then dispersing several more robots, including one to deliver the customer's single, consolidated container of goods in a batched manner, once a day, rather than in separate deliveries.

A company's primary focus is likely to be its business goals, but it should also be aware of the potential impact of digitisation on society. In a retail context, this impact is likely to manifest itself through changes to physical stores affecting communities, the impact of new technologies on the industry's workforce and last-mile delivery challenging sustainability.

Effective collaboration between business leaders and policy makers is the key to managing the impacts of digital transformation.

Packaging and the environment

Convenience is a key selling point of e-commerce, so speed to fulfilment is a top priority. More frequent deliveries have led to increased demand for cardboard. The question of what happens to these materials after delivery is important.

Consumers find it frustrating to break packaging down and can find it difficult to identify which materials are recyclable. According to the United States Environmental Protection Agency, containers and packaging accounted for 30% – or 75.2m tonnes – of total solid waste generated in the US. There is a clear opportunity to improve the recycling rate with cardboard. The case for change is compelling; as recycled cardboard can be used to make new paper products, and 24% less energy is required than when making cardboard from raw materials. A greater focus on recycling cardboard and packaging materials would unlock the dual benefits of minimising landfill and reducing the resources used to produce cardboard.

Innovation will be needed to develop environmentally-friendly packaging options. Recently invented biodegradable plastics help minimise the impact of packaging waste. These and other packaging s will have to be scaled. In addition, businesses will have to boost efficiency in fulfilment and seize opportunities in the packaging process to reduce the amount of cardboard and other materials used.

Infrastructure will have to be built at local and regional levels to make recycling the norm, for both business and consumers. This is not a question for retail leaders, but clearly it will be important for them to be involved in influencing policy and delivering on the results.

Practice and industry: The Circular Economy

The circular economy is a term used to describe an economy that creates products and services in a more sustainable way. In a circular economy, products and services are re-designed to minimise waste and the use of virgin raw materials. They're also easier to reuse, repair and recycle. Particular emphasis is placed on efficiency and raw materials being used again and again in the same products as part of a closed loop process. As an example, soft drink bottles made from PET plastic can be recycled back into PET bottles. This is the opposite of what respected Australian environmental consultant and social entrepreneur Jon Dee has described as the current "take, make and dispose" extractive economy where many resources are used only once.

A recent IKEA survey showed that 81% of Australians had not yet heard of the circular economy, but the 19% that had heard of it, knew what it meant. In addition to this, sustainability and environmental issues do appear to be becoming bigger concerns. As consumers do latch on to this global theme, it will be something that retailers need to be conscious of in their planning.

From the retail industry's perspective, the circular economy can be a way to reduce costs in a challenging environment. For example, Dee points to the example of supermarket chain Aldi, which has adopted reusable plastic pallets to deliver items to their stores. These pallets can be wheeled off the truck into the store and consumers can then select items directly from the pallets. The empty pallets are then wheeled out and returned to the supplier to be refilled and reused. This saves Aldi costs such as labour in stacking shelves and the disposing of piles of cardboard boxes and packaging. It should also help to keep supply chain costs lower.

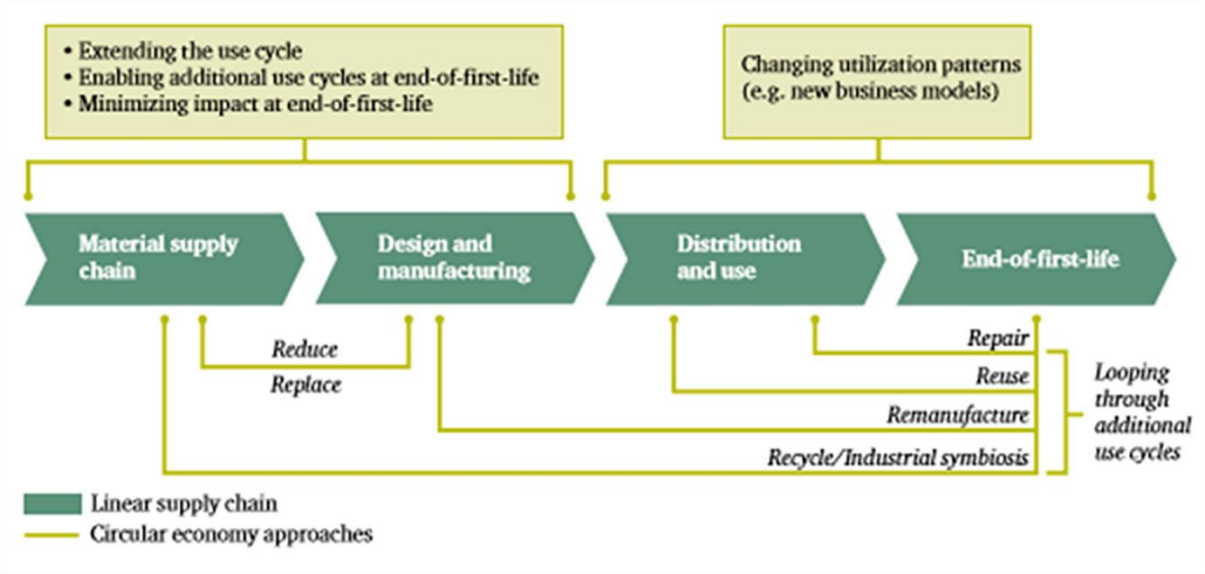
The implementation of circular economy ideas is being made easier by the digital revolution. Online marketplaces for waste products and materials are being piloted in several US cities. The internet of things will also bring a step-change in our ability to know where materials and products are in the economy.

Governments in the EU, Japan and China have all developed strategies around the circular economy. In the UK, there is now a British Standard on implementing circular economy concepts in companies. It is likely it will arrive in some form in Australia. According to Executive Director of the European Environment Agency Hans Bruyninckx, "the concept of a circular economy has recently gained traction in European policy making as a positive,

solutions-based perspective for achieving economic development while respecting environmental limits".

The Waste Management Association of Australia recently held a national summit to address how Australian businesses can benefit from a more circular economy. Businesses will need to be more and more aware of these developments as the idea spreads.

By working to accelerate the transition to the circular economy, governments and businesses can enhance sustainability and minimise the economic, social and environmental impacts of the current ways in which we extract, consume and dispose of resources.



Source: Chatham House: The UK Think Tank

Conclusion

The rapidly changing retail environment and the impact of technology will have huge impacts on the retail business model. Companies will need to respond responsibly to the changing nature of employment in the industry and the need for different skills.

Moves to decrease physical retail space in the face of technological change and the advance of online shopping also create issues for retailers to manage. As well as ensuring they have the right business model, they will need to be sure that they handle change well to preserve their reputation and avoid negative consumer and community responses.

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