

System Initiative on Shaping the Future of Consumption

Annual Meeting 2017
Davos-Klosters, Switzerland 17-20 January



1. The Current State of Public-Private Cooperation in Consumption

The System Initiative on Shaping the Future of Consumption was developed to serve as a platform to bring together leaders and experts to address global opportunities for economic value creation and the commensurate public-private collaboration required to find viable solutions. **As a new System Initiative**, partner organizations are invited to work with the Forum to shape the objective, content and call to action of this endeavour going forward.

How can technological disruption drive enhanced models of consumption with sustainable benefits for business and society?

Overview

The Fourth Industrial Revolution is transforming entire systems of production, distribution and consumption. With technology firmly embedded in these processes and in consumers' lives, the way people shop and consume will change fundamentally over the next decade. Preferences, habits and context will be interwoven in a highly connected world to make daily experiences simpler, more enjoyable and highly personal. New models of consumption, including where and how goods and services are accessed, will change rapidly. As a result, current value chains will be disrupted as players extend far beyond traditional boundaries to meet consumer demands. Unprecedented levels of technological disruption have been unleashed and will accelerate. The extent of change in the next 10 years will far surpass that of the last 40.

Importantly, consumer demand, disruptive technologies and emerging business models will be sources of innovation with unimaginable possibilities. With consumer spending an engine of economic activity that drives approximately 60% of world GDP but that varies significantly at the regional or

national level, the opportunity to leverage the transformative power of technology as a catalyst for the creation of new economic value for the populace should be at the forefront.

A world where global e-commerce penetration will increase from approximately 10% currently to 40%¹ or more over the next decade is highly probable. Difficult to predict and highly debated, the impact of 3D printing is as yet unknown. If adopted at scale, whether via printing centres or at home, how goods are produced and accessed will, once again, be forever altered.

Moreover, increases in e-commerce activities will create significant economic opportunity across and between developed and emerging economies. While the impact on established physical retail in the developed world will be pronounced, emerging economies are expected to leap into a leading position. Fast-growth consumer markets such as China, India and Indonesia will become ever more prominent on the global consumption landscape as their middle class emerges and digital-native Millennials become a dominant segment.

The System Initiative on Shaping the Future of Consumption aims to enable its successful transformation by ensuring sustainable benefits for business and society. Navigating through the uncharted territories of digital disruption, however, will give rise to critical challenges that will need to be addressed:

- **The changing face of consumers and their patterns of consumption**
 - How do stakeholders address urbanization and the rise of the middle class in emerging economies accompanied by a decline in that class in developed parts of the world?
 - How can business keep up with consumers' desire for convenience, instant gratification, personalization, services/experiences over products, or access versus ownership? How will hyperconnectivity be managed with data sought after and used as an asset without breaching consumer privacy and trust?

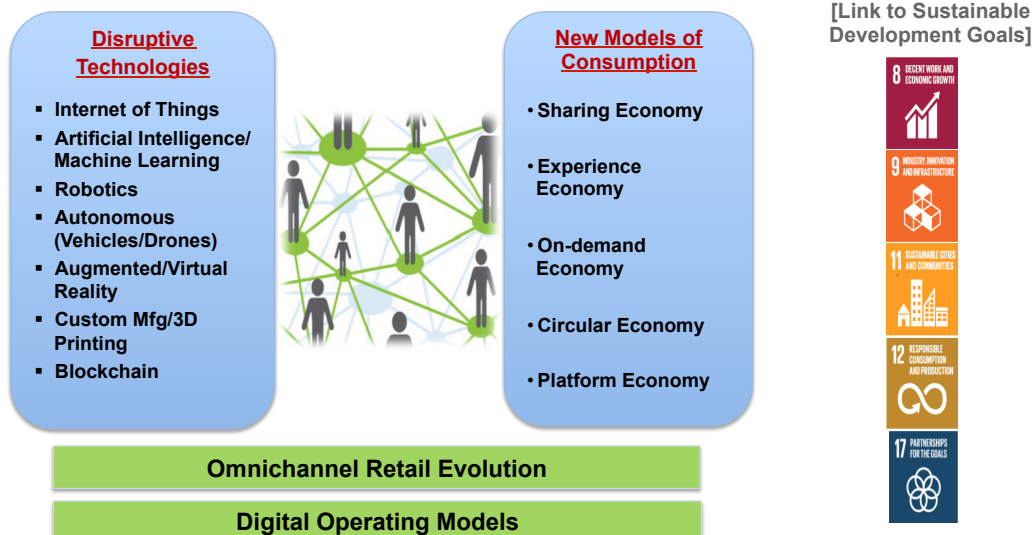
- What are the implications on the new patterns of consumption of Millennials and, concurrently, of the large portion of the population turning 60?
- How can the concept of sustainable consumption (and production) gain further momentum?
- **Groundbreaking speed of technological advancement**
 - How quickly can industry innovate by leveraging the unprecedented number of technological advancements, such as the Internet of Things, mobility, artificial intelligence, robotics, 3D printing, autonomous vehicles, virtual reality and wearables/functional fabric?
 - How will manufacturers and retailers not just "go digital" to enhance their customer and consumer relationships, but use technology to "be digital"? What leadership/cultural shifts are needed?
- **Tackling societal impacts early via private-public partnerships to create positive value for all stakeholders**
 - What policy and regulatory frameworks are needed to ensure progress is not hindered but instead an environment will prevail where innovation will thrive and is fully embraced?
 - How will the evolution of physical retail and/or the exponential rise in e-commerce impact employment?
 - What environmental challenges need to be addressed? For example, what is the impact of millions of packages moving every day to support on-demand desires?
 - What trade barriers must be addressed?

System Framework – Summary

Technological advancement is the catalyst for the transformational shifts related to consumption. It will spur innovation via new business models, significantly impact how omnichannel retail will evolve and, in doing so, call for the creation of smart and agile operating models.

Figure 1: Future of Consumption - Framework Summary

Objective: To enable successful transformation of industry by shaping the impact of technological disruption to drive enhanced models of consumption with sustainable benefits for business and society



2. Progress of the System Initiative on Shaping the Future of Consumption

The System Initiative, launched in the second quarter of 2016, focuses on the following project work: the future of retail, the operating models of the future, the future of consumption in fast-growth consumer markets, and the next generation of the sharing economy.

Future of retail

Retail is the largest private-sector employer in the world and it is experiencing massive disruption. The Future of Retail project was initiated in 2016, in collaboration with Accenture, to deepen the understanding of how the concept of retail and the way consumers shop will evolve over the next decade for both retailers and consumers.

A significant body of research was conducted to illuminate **empowered consumers'** influence on the industry, assess the impact of specific **disruptive technologies** across the entire value chain, and identify **transformative business models** and the commensurate **key capabilities** organizations need to quickly expand. Moreover, **societal implications** that will ensue related to labour, the environment and communities have been identified as retail transforms, and will be examined at the World Economic Forum Annual Meeting 2017.

A summary of the key success drivers follows:

- **Increasingly connecting and understanding the progressively more empowered consumer:** Power has been shifting from retailers and manufacturers to the consumer. Going forward, this trend will only accelerate. Empowered by technology, the “hyperconnected” consumer of the future will demand not only the best-in-class value associated with cost, choice and convenience, but also control and experiences. Businesses will have to be agile, constantly innovate and challenge themselves to meet the high standards and expectations of consumers.
- **Quickly adopting game-changing technologies to increase reach:** Industry participants will only succeed with a relentless and ongoing focus on using technology to increase their reach – while balancing these turbocharged capabilities with practical cost. Over the next 10 years, seven technologies are expected to come of age in Consumer industries, creating a level of disruption that has never been seen before: the Internet of Things, autonomous vehicles/drones, artificial intelligence, robotics, augmented/virtual reality, digital traceability and blockchain. The first four were identified as most transformative due to their widespread application, ability to drive significant efficiencies and impact on labour.
- **Unlocking the power of transformative business models in the physical and digital space:** Over the next decade, the lines between online and offline retail

will continue to blur. Emerging business models will continue to proliferate and gain scale and momentum. With slow-growing incomes in OECD² countries and a shift of consumer spending from products to services (e.g. travel, entertainment), it is projected that the industry will witness value migration from one company and/or business model to another versus significant value addition.

If e-commerce growth rates continue even slightly below the current pace, e-commerce penetration has the potential to grow from 10% today to more than 40% in 2026. Even with this growth, for large multichannel retailers, the physical store will continue to be the channel with the largest revenue contribution until at least 2026. However, the store will transition from being a distribution channel that merchandises a product, conveys information and processes a purchase, to a platform for discovery, engagement, experience and interaction.

It will be critical for retail and consumer packaged goods companies to continue to innovate and embrace new, digitally-enabled business models, including: 1) rental and secondary markets or the “next generation sharing economy”; 2) “curated subscriptions” or the “personalization economy”; 3) “auto replenishment” or the “smart re-ordering/on-demand economy”, and 4) “Do-It-For-Me” or the “services economy”.

- **Redefining key capabilities:** In this new world, where personalization is no longer tailored assortment but the prediction of the individual consumer’s specific needs, companies will need to transform their capabilities to keep up with increasing demands. Players will need to adopt a “partnership mindset” to form ecosystems not only to provide full consumer solutions but to develop innovative delivery solutions (e.g. concerning the last mile) that are both “smart” and sustainable, and accelerate their journey from simply collecting consumer data, to using it for scaling and systematizing enhanced decision-making across the entire value chain.
- **Developing public-private partnerships to address societal impacts:** It is expected that the transformation of physical retail driven by digitalization (e.g. checkout-free stores) and closures will have a negative impact on labour and local communities. Moreover, delivery solutions, such as for the last mile, are rife with challenges. As businesses look to address the consumer demand for convenience and fast access to goods, risks of negatively impacting CO₂ emission and waste levels due to excesses in cardboard/packaging exist. Tangible solutions and collaborative actions will be critical to address these challenges. All key stakeholders are called upon to take responsible action to address them.

3. Priority Actions and Opportunities in the Year Ahead

Operating models of the future

This project aims to perform an in-depth analysis by identifying tech-empowered operating models that are needed to support new and evolving modes of consumption. Key dimensions that will be explored include:

- Determining how to take advantage of a host of technological inventions that will fundamentally alter the path between the order and consumer. Vital sets of new capabilities will be needed not only to build direct consumer relationships, but also to cultivate collaborative ecosystems, support the increased range of business models, and take advantage of a host of new technologies (e.g. artificial intelligence, robotics, bots).
- Illuminating “end-to-end” thinking that will reshape roles, eliminate large blocks of activity and vastly accelerate others. In most back-office functions, over 30% of current activity may be eliminated by technological advancement, hence forcing the redesign of functions such as sales and marketing.
- With virtually no function remaining untouched, examining the new models of employment/skills required to support the operating models of the future and the commensurate public-private partnerships needed to address the related challenges.

The future of consumption in fast-growth consumer markets

This multi-year initiative strives to shape new dimensions of economic and societal value in fast-growth consumer markets, such as China, India and Indonesia (the three countries combined comprise more than 40% of world population) among others, to ensure technology-enabled and economically inclusive growth over the next decade. The following business and societal dimensions will be addressed:

- Patterns of distinctive business models, local innovation and organizational capability development
- Solutions for mitigating barriers related to trade and e-commerce, enabling infrastructure and policies, and risks of disruptive technologies on jobs
- Urban-rural divides by enhancing digital opportunities across rural markets

The next generation of the sharing economy

Projections value the sharing economy at \$335 billion globally within the next decade. To unlock the possibilities, this project aims to accelerate the sharing economy (beyond transportation and hospitality categories) and the necessary enabling environments by:

- Exploring “access versus ownership” business and regulatory models across different product categories and their benefits to consumer and society (e.g. sustainability)
- Focusing on the key technological enablers to ensure trust and authentication (e.g. blockchain) as well as capabilities, such as new partnerships, to advance this economy
- Addressing, head-on, policy and regulatory challenges that “ownership to access” patterns of consumption will face.

Annex

Engagement Summary

January 2017

- World Economic Forum Annual Meeting 2017, Stewardship Board Meeting and other sessions, Davos-Klosters, Switzerland (17-20 January)

May 2017

- First virtual meetings for the Project Steering Committees

September 2017

- In-person meeting of the Project Steering Committees via workshops
- Progress update and Annual Meeting alignment meeting with Stewardship Boards

December 2017

- Final virtual meetings for the Project Steering Committees

January 2018

- World Economic Forum Annual Meeting 2018, Stewardship Board Meeting and other sessions, Davos-Klosters, Switzerland (23-26 January)

Note: Additional project-related workshops may be held at World Economic Forum regional events to capture insights.

Endnotes

1. Growth rates per US Department of Commerce
2. The Future of Retail project focused on digitally developed economies as identified by the OECD since they are most ready to leverage the existing infrastructure and resources required for implementation.