

Future of Choice





The Global Challenge

The world has changed: Product supply and demand is globalized and there is no putting the genie back in the bottle. The flow of goods from Asia to the west has created an economic dependency over the past ten years that will be exploited over the next ten. As China and India and other fast-developing economies become the primary global marketplaces, the needs and wishes of the 4bn new consumers will dominate those of the 800m old ones in the US and Europe. The days where the US set the pace in the consumer mindset are over and this is not going to change.

In addition, choice is being threatened from the expropriation of freedom of choice launched from regulators, media, and the general public. Tobacco, candy, alcoholic beverages, speed, late hours, advertising, food... all are being subject to regulation that limits choice and how we get to know about it.

The way forward is for all to get used to the new world and operate by the new rules. While a few of the usual suspects may put up national or regional protectionist barriers, the realities of global trade are all too clear and we can see the end of variety. In fact we can see a changing balance between variety and cost. Consumers are making a trade-off in a smart way and cost is winning. We therefore face the challenge of how to deal with a reduction in the number of options in the categories of consumption but an expansion in the number of categories.

Hypermarkets and department stores will all struggle in the next decade: They may reduce their product mix down from 26000 SKUs (stock keeping units) to 16000, but continuing to provide consumers with such choice is unsustainable when discount stores only have to provide 1000 SKUs - an increase in the assortment from the 800 they offer today. Commoditization is the way forward for the mainstream majority and in many sectors this will mean a race to the bottom in terms of margins. Department stores need a continuous stream of new ideas and innovation to keep their mix fresh and so attract high-end consumers, but in a world of less variety where high quality, low cost Asian products dominate, why will the majority seek out the niche brands?

Why should we continue to build brands when China and India can buy them ready-made off the shelf? Just as Lenovo bought IBM and Tata bought Jaguar Land Rover, with the financial reserves now available, why should any established brand not be for sale? The Chinese production model is all about the right products - good quality at a low price and the brand is a secondary issue. Yes, there is the luxury sector - the Gucci, Prada, Louis Vuitton segment of the fashion industry and its like in electronics and automobiles, but that is, by its very nature, niche - and increasingly Asian in production. Moreover, culturally intensive products, a traditional refuge of variety, are under threat by consumer unwillingness to pay.

In the next ten years I see the rise of Asian retailing driven initially by the sheer size of the associated domestic markets and then a move into the international arena. The Aldi model will win over the Wal-Mart one, but what about a Chinese Aldi selling products made by a Chinese P&G? Who could compete against that combination? I believe that this will occur without any significant backlash. Consumers will follow the mainstream and quickly get used to less choice given the benefit of lower cost. This will apply across the board.

The only categories where I see an alternative future are those that are affected by time; perishable products (food), live content (broadcast) and extreme time to market goods (those that respond to latent consumer needs) will be relatively immune. Indeed, if the quality of the staple products is to improve and local production

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increases to ensure security of supply, we can see rising costs on the horizon - but still with less variety of choice. In 2020 how many of us in Europe will eat strawberries in December?

Choice will also be limited by our ability to process information. Ten years ago we did not have MP3s, PVRs, thousands of interesting websites, travel

destinations, or hundreds of lifestyle drugs. We will see more of these and, in addition, many disruptive and complex new products, services or solutions will grab the attention of an already over-solicited and less affluent consumer. As the number of categories expands, choice will have to be shared among, rather than within, categories of consumption.

Options and Possibilities

With the certainty that variety will lose out to speed and cost, we can foresee a world in which Zara and H&M are more successful than Gap and Neiman Marcus and, as mentioned earlier, the Aldi model wins over Wal-Mart one. Hypermarkets and department stores will lose out to discount stores and the speed merchants. This is clear. The shape of retailing has changed and the consequences over the next decade will be driven by a clear-out of the also-rans.

One likely development is in the food sector which is fast-becoming the tobacco of the 21st Century. We are progressing towards a model where no single organization can have as much influence as they have had in the past and we will become accustomed to a restriction in our freedom of choice. As suggested previously, the obesity epidemic has not been adequately moderated by the food industry and so governments will increasingly intervene to limit choice. Healthier foods will cease to be an option but instead will become the norm. Portion size will be reduced and low fat and low salt will be the new default standards. Although some companies, such as Mars and Coca-Cola, have been proactive in cutting back on advertising and taking away vending machines from within schools, and PepsiCo especially has shifted towards lower fat products, the majority of the food sector has not made a sufficient move over the past decade. So, faced with

increasing health costs and long-term disease risks, I see that regulators will act. The industry will have to sort itself out and we will see more transparency on ingredients. More variety in food is nonsense. We will see a shift to less. Less choice maybe better and hence, by 2020, again I see less choice within categories but more choice between categories. This will benefit the leading companies (a winner takes all proposition) as well as the most flexible, pragmatic, and adaptive followers.

The other certainty I see is a reduction in the number of players within each category. The top mega-brands will survive as will some of the most efficient non-brands. But there will be a clear out of the middle market - the me-too brands will become ex-brands and will disappear.

Some may see that there is uncertainty in how consumers will react to less variety. I see that, if they



are not given so much choice, the mainstream majority will follow where they are led. Take, for example, what will happen when the first Renault, Citroen and VW electric cars are launched into the European market in 2012. When consumers are given an option to buy one of, say ten efficient, zero emission, zero-tax vehicles,

who will be interested in the hundreds of non-electric alternatives? Regulation, public opinion and financial incentives will all accelerate the migration of the consumer vehicle fleet to electric and we will not care about the reduction in choice.

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The Way Forward

Given the impact of the global downturn, in the retail arena I don't think that we will be returning to a business as usual world. Consumer attitudes have changed to shift many of us away from wanting increased variety. In addition, the framework within which we consume has changed: Governments, the big brands, the acceleration of China and retail efficiency are all creating a new landscape within which our choice will become more limited: Less will be less not more. Variety is increasing across categories not within them.

Over the next ten years we will see a reduction in the number of players per category. As variety is reduced and commoditization increases, only the #1 and #2 brands will survive. So what about #3, #4 and #5? The playing field for the future will be increasingly determined by whoever sets the standards. And the standards will be set by the category leaders and the biggest marketplaces - the US, China and India - it is a numbers game. Europe with around 200m active consumers will become a secondary influence to Asia with 4bn. Therefore, as products and services are configured to meet the global consumer, who will be increasingly Asian, the variety of choice will become less influential than scale and speed of delivery.

Back in the 1950s William Starbuck developed one of the few ideas in retailing to have lasted: Every retail model is substituted by a more efficient one. This has been the case for the last 50 years and I see no reason for change in the future. As the success of discount

supermarkets like Aldi demonstrates, variety will be substituted by budget. I see that, in the forthcoming decade, many retailers will struggle to compete and fall down in between the leaders in providing low cost commodities and trend setting. As the continued growth of fast-fashion chains such as Zara and H&M reveals, providing a limited but fast-changing product range is more profitable than holding a broad portfolio to cover the full range of potential consumer choice. We have now entered a world in which the distinction between prediction and following of trends has become blurred. Given the speed with which Zara changes its product mix, we are no longer certain whether media leads fashion or vice-versa. But who leads who is irrelevant when we, as consumers, don't have to choose. The decisions about what we can buy are made for us and so variety again reduces. The most important capability for any manufacturer seeking a decent margin will be the ability to produce faster than the diffusion of a trend. Scale will dominate over choice.

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In addition, we are facing greater intervention of an increasing number of influential bodies and groups into the world of retailing which will all align to reduce our freedom of choice. The media, public opinion and government regulation are moving us towards a

reduction in variety in the consumption of products and services. As they have in the past impacted alcohol and tobacco, so in the next decade they will impact other areas of consumption from food and fashion to transport.

Impacts and Implications

As variety reduces some may question whether consumers will miss the old days. I don't believe so. Some of our recent research at IESE has explored choice from a number of dimensions. It may seem counter-intuitive but fewer choices provide higher levels of satisfaction: People like to have lots of variety, but when faced with too many choices, we tend to vacillate and delay decisions. We may want 31 options instead of six, but we find it easier to choose one of six than one of 31. In a series of experiments with men and women from a range of different cultures we found that the greatest level of satisfaction, both with the final choice and the decision-making process, was reached when people chose from an intermediate number of alternatives as opposed to large or small choice sets. These findings have practical implications for people offering many choices to customers, consumer and employees today. Going forward, I see that this supports my notion that we will see little consumer backlash against a reduction of variety.

Moving to the wider impacts of how I see the future of choice, it is clear that, although some may see my view as being a little negative from a Western perspective, it does highlight the dynamics at play across the retail environment of the next ten years. As we are cognizant of a world in which less variety is the predominant shift for most, if not all, categories, then, as manufacturers and retailers, we can prepare ourselves for a new paradigm. With good quality, low-cost, mass commoditization the norm for the mainstream, we either need to compete on these terms or else migrate to the margins. I have highlighted the successful approaches taken by Spanish Zara and Swedish H&M in the fashion industry where they have both developed fast-fashion as a core capability. There is nothing to stop other companies in other categories from following the same

path or finding their own way forward which creates and sustains a unique position in the marketplace. Yes, my views on choice and the mainstream may sound alarm bells for many in the middle market today, but they should also provide a stimulus for others to think differently about the new competitive landscape.

The future of choice is about less variety, but this does not mean less interest. The products that will succeed in the future will be the ones that offer global customers what they want, even if it is before they have recognized what that is. The successful retailers of the future will provide consumers with a smaller portfolio of products than their predecessors did in the past, but the portfolio will be higher selling products. Less variety means fewer SKUs but fewer SKUs mean more efficient retailing.



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