The future of retail: Reinventing business models for success

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Today's retail landscape is undergoing a seismic transformation. Driven by shifts in customer preferences, regulatory changes, skills shortages, disruptive technologies and other factors, traditional retail playbooks will need to fundamentally change to stay relevant. CEOs are taking action. According to PwC's 2024 Global CEO Survey, 97% of CEOs report they've taken steps to change how they create, deliver and capture value in the last five years. Despite these efforts, 45% remain unsure if their company's current trajectory will keep them viable beyond the next decade — up from 39% just 12 months earlier.

The retailers who successfully face these challenges will be those who adapt, innovate and strategically position themselves within this evolving landscape by reinventing their business models. Specifically, reinvented retail business models will likely use the power of platforms and ecosystems to help fulfill customer needs while creating value beyond what they can achieve alone. Through strategic partnerships and collaborations, many of today's leading companies are already driving innovation at scale while also being faster to market, more agile and more innovative, according to recent PwC research.

Fundamental to retailers' success will be the evolution of five distinct business archetypes that we see driving the core of today's transformation:

- Masters of scale
- Niche specializers
- Experience exemplars
- Innovation accelerators
- Value optimizers

What is a business archetype? It's what captures the essential characteristics, structures and practices common to businesses within a specific industry or sector. For retail, this includes product sourcing, managing inventory and interacting with customers. In our view, these five retail archetypes, through their dynamic interplay with changing consumer demands, technological advances and market dynamics, can shape the future of retail.

Evolving archetypes and the new frontiers of retail

Masters of scale

These retail businesses, which include industry giants like Amazon, Walmart and Home Depot, have used speed and innovation to expand their operations and achieve a decisive scale advantage over competitors**.** By consolidating resources, acquiring other companies and establishing expansive networks, they've extended their reach into adjacent industries and created partnerships with global presence, while also offering a vast array of products and services to help maintain customer loyalty.

A decisive mastery of logistics — and operations more broadly — has been a central pillar to their traditional success. By focusing on sophisticated inventory management, masters of scale have been able to hold down costs along the entire supply chain, using their industry-leading knowledge in demand forecasting to leverage a host of critical variables — from market conditions to weather fluctuations — to understand where products will likely be needed in the near future.

Also critical to their success is their gargantuan customer base. With millions of customers at their fingertips, they have the ability to expand their ecosystem by taking their core models for retailing and shipping into new areas. By using existing infrastructure to set up new businesses, masters of scale typically have an immediate and inherent cost and scale advantage.

Into the future: If traditional masters of scale grew linearly by expanding their operational capabilities, masters of scale that have reinvented their business will grow nonlinearly by means of platforms and ecosystems. From this perspective, scale becomes a driving force of innovation in its own right, pushing companies to look outside their walls to seek larger value pools and bigger problems to solve. Amazon, for example, developed its cloud services business because its scale required expanding beyond mainframes. The company now derives much of its revenue from Amazon Web Services (AWS).

Niche specializers

Companies like Foot Locker, Chewy and Tractor Supply Company cater to a specific segment of the market by offering specialized products and services that meet the needs and preferences of a particular audience. While their core businesses and strategies might differ, their success is rooted in understanding and addressing the specific demands of the target market that forms their loyal customer base.

Often combining strong physical store presences with sophisticated online and mobile platforms, these companies continuously adapt and innovate their product offerings and marketing strategies, always focused on building their core brand identity to help deliver better experiences, products and outcomes for their customers.

Into the future: While their traditional business models relied on maintaining category dominance, a key strategy for future niche specializers will likely involve reinventing themselves as embedded service providers who have transformed their traditional products into on-demand subscription- or consumption-based services. This sort of transformation requires the flexibility to evolve within their tightly-focused markets while frictionlessly connecting with the relevant outside parties and ecosystem allies. Compared to competitors still focused on functional excellence, the enterprise-wide reinvention that these niche specializers are undertaking can help give them a decisive edge, particularly in terms of closing key capability gaps and promoting the company's strategic advantage.

Experience exemplars

Companies like Apple, Chanel and Sephora prioritize creating exceptional and memorable customer experiences. By investing in strong brands that psychologically engage customers, they are able to curate an enjoyable, distinctive and emotional experience that's backed by products and services that embody their corporate ethos.

From Apple's major product launch events to Chanel's long history of influential fashion shows and advertising, these companies use innovative marketing techniques that resonate with and help build their target audiences. The strong brand loyalty these companies command often leads to communities forming around the brand. Linking this distinctive branding to their high-quality products, these companies can leverage their customer-centricity and personal connection to support premium pricing and margins that can exceed the industry average.

Into the future: While traditional experience exemplars focused on creating frictionless buying experiences in-store, online and across channels, business reinvention will likely entail moving from transactions to relationships by focusing on a mix of products and services that can help create stronger and more meaningful bonds between retailers and their customers. Further, these companies might look toward their broader ecosystems for potential collaborations and for ways to lessen the friction of these interactions. Such a strategy could boost their ability to derive revenue from their ecosystem and value from the cross-company data flows that ecosystems create.

Innovation accelerators

Companies like Uniqlo, On Running and Wayfair are at the forefront of introducing new and creative products and services to the market. Quick to adopt and leverage innovative technologies, they're known for using the latest ideas and concepts to start trends that push industry boundaries. As they continuously invest in research and development, their competitive advantage comes from their ability to drive and embrace innovation so they can provide value.

They tend to form partnerships with startups and technology companies, working in agile ways to quickly develop and launch new offerings. They also have a strong focus on customer feedback and data analytics to help identify emerging trends and consumer preferences.

While technology is often a key driver of their innovative strategies — to create advanced fabrics, engineer new footwear designs or redesign the furniture shopping experience — these companies also innovate in areas that extend beyond just products to include their business model and supply chains.

Into the future: While traditional Innovation accelerators were industry-leading in the lead-up to the present retail transformation, they're still searching for the sort of reinvention that can help push this archetype into the upper echelon of today's growth retailers. More than just continuing to introduce creative products and services to the market, they will likely need to deepen the interconnectedness of their brand ecosystem and strengthen the connections between their core retail merchandise and services to evolve further and sustain long-term success.

Sustainability can be a key to success, requiring innovation accelerators to prioritize environmental sustainability, ethical sourcing, fair labor practices and corporate responsibility. As consumers become more conscious of the impact of their purchases, companies that demonstrate a commitment to sustainability can gain an advantage. Additionally, keeping up with emerging technologies like augmented reality, virtual reality, blockchain and the Internet of Things (IoT) can also be essential. These technologies have the potential to help transform the retail experience and make virtual shopping more immersive.

Value optimizers

Companies like Dollar Tree, Dollar General and Five Below aim to provide the best possible value to their customers by offering a broad assortment of products at extremely competitive pricing. Their basic store designs and efficient supply chain management have helped them maintain profitability despite the low price point.

Compared to a master-of-scale retailer like Walmart — which in some ways they resemble — these companies carry a more limited assortment of products. They also frequently rely on opportunistic buying, where they purchase overstock merchandise or inventory that manufacturers are looking to close out. Product availability can be inconsistent for this reason.

Aggressive store expansion has been a key strategy, increasing their presence and accessibility across different regions so they can take advantage of market opportunities and broaden their reach. In many cases, this entails locating stores in rural and suburban areas underserved by other retailers, making them an essential local shopping destination.

Into the future: Having traditionally grown their businesses by scaling their brick-and-mortar footprint, reinvented value optimizers will likely have to concentrate on enhancing their customer experience in order to stay competitive while keeping masters of scale at bay. This involves focusing relentlessly on convenient purchasing channels, investing in employee training, improving store layouts, and streamlining checkout and e-commerce platforms to help foster brand loyalty.

While maintaining their focus on value, these businesses should also innovate their value proposition beyond low prices. This could include offering unique product assortments, exclusive partnerships or value-added services that set them apart from competitors while still emphasizing affordability.

To maintain their store counts, value optimizers should strive to modernize their approaches to merchandising, inventory management and labor allocation so they can achieve economic efficiency. Lastly, they may consider acquiring smaller companies that exemplify the above strategies, bringing them closer to the masters of scale archetype.

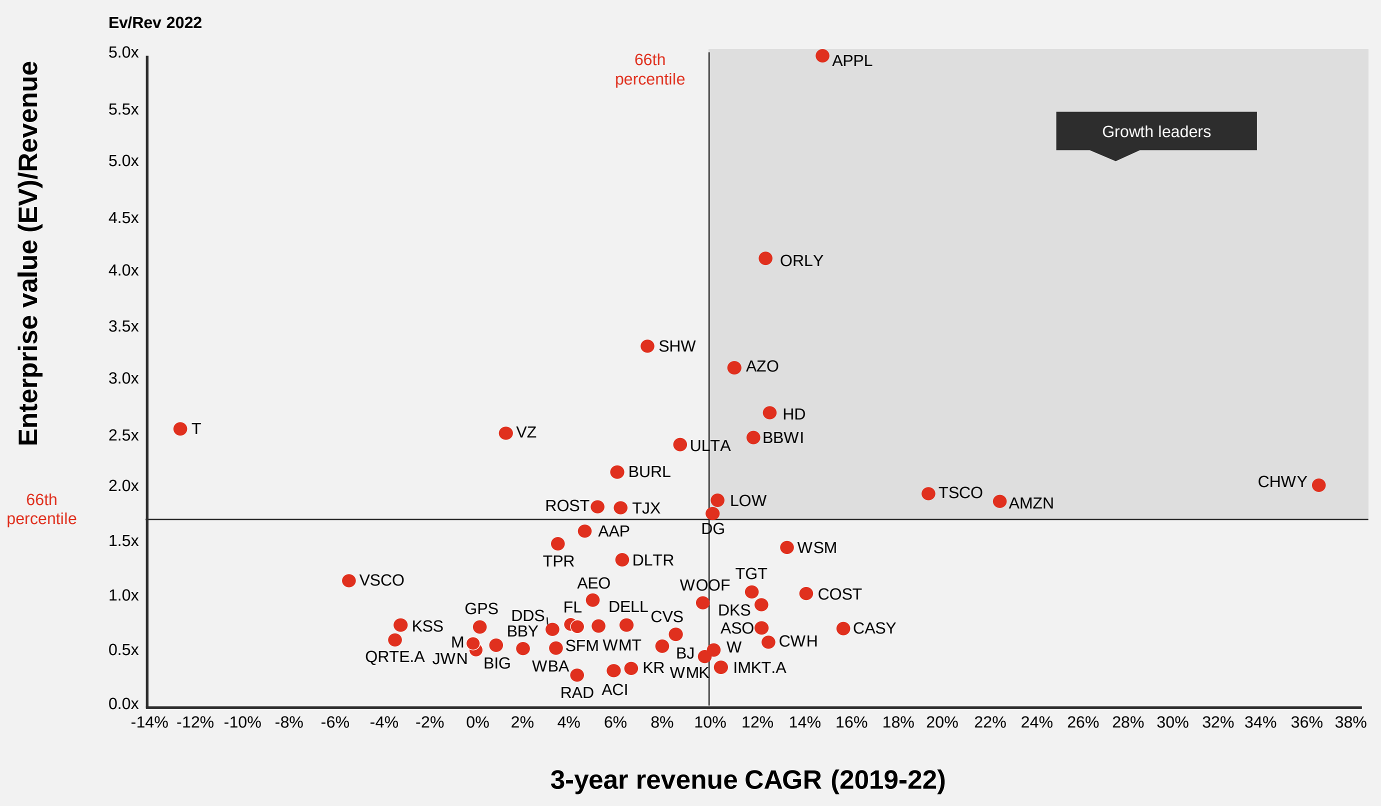
Today's growth leaders are already showing the way

Understanding business models in retail hinges on identifying growth leaders and laggards. Leaders exhibit economic viability, sustained growth and market expansion, while laggards struggle with enduring growth and market share.

To assess positive and negative trends, we looked at Capital IQ performance data for [NRF's Top 100 Retailers] from 2019 to 2022 and identified leading retailers using two pivotal financial metrics: enterprise value to revenue (EV/Revenue) and revenue compound annual growth rate (CAGR). The EV/Revenue ratio assesses a company's relative value by comparing its enterprise value to annual revenue, suggesting undervaluation with a lower ratio and overvaluation with a higher one. CAGR is useful for comparing growth across different domains with the caveat that its smoothed average rate can obscure rapid, pandemic-driven growth.

Based on these inputs, we created a 2x2 analysis with growth leaders appearing in the upper right quadrant and laggards in the lower left. Three primary business archetypes dominate the growth leaders: masters of scale, niche specializers and experience exemplars.

2x2 analysis of NRF companies*



* Any client names included are proprietary of their respective owners and are not affiliated with, nor endorsed by, PricewaterhouseCoopers LLP, its subsidiaries or affiliates.

Source: PwC analysis based on Capital IQ performance data for the NRF Top 100 Retailers from 2019-2022

Methodology

Using Capital IQ data, PwC evaluated more than 2,700 public companies that reported a minimum of $200 million in annual revenues, comparing their revenue growth in the three-year period from January 1, 2020, through December 31, 2022, with their enterprise value (EV) at the end of 2022. (Enterprise value is defined as market capitalization plus total debt minus cash.) We also researched company financial reports and industry analyst reports to study commonalities across companies by industries and business models. Companies that are generating significant growth and winning investor confidence were defined as those achieving greater than the 66th percentile for three-year revenue growth and the 66th percentile for EV/revenue.

As retailers respond to the dynamic shifts shaping today's business landscape, they are at different stages in their archetype evolutions and business model reinvention. We've found that today's growth leaders, such as Home Depot, Chewy, Tractor Supply Company and Apple, have already started their archetype shift. By evaluating the qualities and characteristics of their current business models, we can shed light on what other companies can do in order to thrive in the coming years.

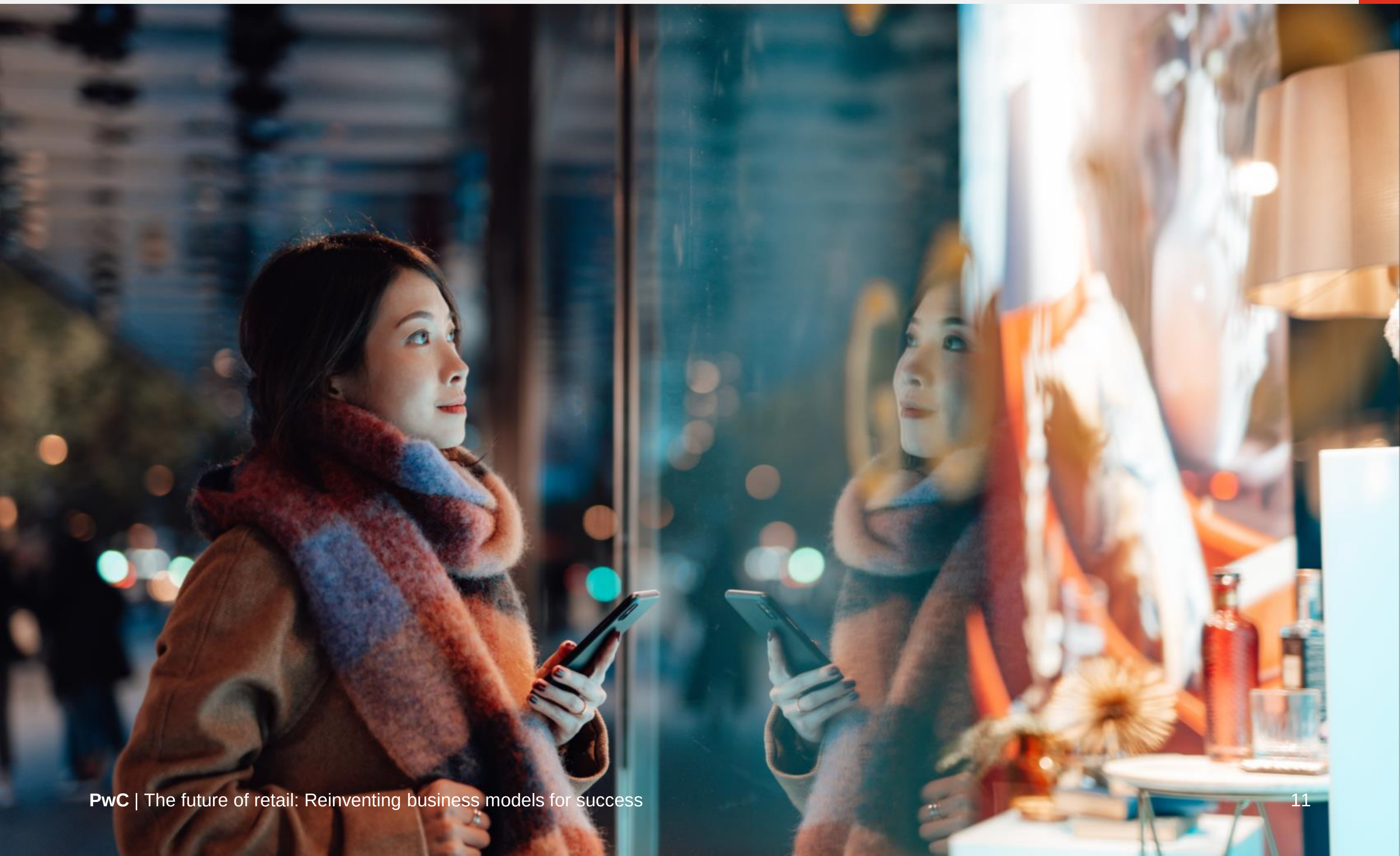
What's needed to help get it right?

According to PwC's Annual Global CEO Survey, in order to thrive in today's rapidly changing business landscape, CEOs should understand and embrace *continuous* reinvention. While big moves to support business model reinvention are important, they are not sufficient on their own. Top companies focus not only on their business model but also on their operating and technology models, and they do so continuously.

This requires a mindset change and presents significant management challenges. To succeed, leaders should consider a broader range of initiatives and apply them in combination. For example, investing in service partnerships can help close operating-model capability gaps and keep pace with technology advancements, allowing the company to focus on its core strengths.

The good news is that the rewards for reinvention are substantial. Winning companies achieve a performance premium, which is measured as the combined effect of profit margin and revenue growth, adjusted by industry. This performance premium is often worth more than 13 times that of their peers.

Reinvention in action



Home Depot: Outperforming by mastering scale

Home Depot, a leader in the home improvement sector, is renowned for its extensive product range and services, catering to DIY enthusiasts and professional contractors. It has successfully combined core retail offerings with value-added services like installations and tool rentals, deepening alignment with its legacy of customer-focused quality service. A significant part of Home Depot's strategy involves direct sales to both professionals and consumers, bolstered by loyalty initiatives like Pro Xtra, which both enhances customer relationships and serves as a proactive move toward channel disintermediation.

	Key success factors	Reinvention advantage
Anything as a Service (XaaS)	• Home Depot continues to integrate on-demand services with retail offerings, enhance customer convenience and diversify revenue streams • This approach solidifies customer loyalty while helping address a wide customer base.	• Expanded subscription services, such as product upgrades, extended warranties and bundled solutions enable Home Depot to enhance customer value and help drive steady revenue.
Ecosystems orchestrator	• As a platform leader, Home Depot facilitates connections within its ecosystem, fostering innovation and partnerships. • Platforms like its Path to Pro, linking skilled labor with hirers, are vital for this strategy.	• Integrating virtual community spaces to bridge physical and digital experiences can help Home Depot stay at the forefront of digital trends, appealing to tech-savvy consumers.
Value chain shifts	• Expanding into adjacent industries and offering do-it-for-me (DIFM) services strategically diversifies Home Depot's operations. • This can help mitigate risks and confirm adaptability to market and technological shifts.	• Strategic partnerships in emerging sectors like electric vehicles and expanded B2B offerings can help Home Depot diversify revenue sources and buffer against market fluctuations.

Home Depot's strategy involves balancing proven approaches with innovative shifts to help meet evolving consumer needs. To maintain its position as a leader in the home improvement sector, a master of scale like Home Depot should prioritize speed and innovation as it expands into related industries and forges global partnerships while continuing to offer a holistic range of products and services.

Chewy: From niche products to orchestrating ecosystems

Chewy, since its 2011 launch, has used its dedicated e-commerce platform to become a significant force in the pet care industry. As a niche specializer, it has excelled by understanding pet owners' needs and offering diverse, specialized products and services. Chewy pays great attention to its Net Promoter Score, which is often seen as the key to keeping its customer base as it continues its customer acquisition journey. Despite being a significant cost to the business model, as Chewy wants to talk with every customer, the benefit pays off. This approach provides valuable customer information through these interactions that it is later able to monetize.

Chewy's focus on customer-centricity and operational improvements has carved out this distinct market niche through its focus on establishing a strong brand presence among pet enthusiasts. The company is transitioning from a retailer to an embedded service provider, reflecting strategic market shifts.

	Key success factors	Reinvention advantage
Channel disintermediation	• Chewy's success hinges on its direct engagement with pet owners. • Its growth relies on diversifying into services like grooming, training and pet sitting as it moves toward a holistic service model.	• Chewy has successfully expanded its operations beyond the US market, leveraging its CRM system to offer complementary pet-related services to a broader customer base. • This expansion requires balancing innovation and scale, enhancing product assortments and delivery, as well as managing costs effectively.
Ecosystems orchestrator	• Chewy's "Practice Hub" positions it as a facilitator in the pet care ecosystem, connecting veterinarians and pet owners. • This marketplace leverages Chewy's delivery and subscription services while enhancing its pet care experience.	• Building strategic relationships and a cohesive platform to cater to the pet care ecosystem's diverse needs has helped position Chewy strategically for the future. • More than just facilitating retail transactions, the company can actively contribute to the development of an ecosystem that seamlessly integrates the varied aspects of pet care.
Value chain shifts	• Chewy's digital initiatives, such as "Connect with a Vet" and "Practice Hub", are central to its strategy. • As tangible steps toward a service-oriented model, they both underscore Chewy's increasing role as an ecosystem orchestrator.	• By growing and integrating services beyond its existing product portfolio, Chewy can transform its existing digital initiatives and offer a more expansive range of embedded services.

In responding to the dynamic shifts shaping today's business landscape, Chewy is proactively shaping the pet care landscape. By evolving into a holistic service provider, the company is set to maintain its growth and influence the future of pet care.

Tractor Supply Company: A knack for niche

Established in 1938, Tractor Supply Company has carved out a niche in the market by focusing on farmers, ranchers, outdoor enthusiasts and homeowners. Despite competition from larger retailers, it has achieved significant growth by operating over 2,000 stores across 49 states and acquiring businesses like Orscheln Farm and Home and Petsense. Its success stems from a careful product mix and a community-oriented approach that helps distinguish it from mass retailers.

	Key success factors	Reinvention advantage
Anything as a Service (XaaS)	• Tractor Supply goes beyond selling products by offering services like Mobile Farm and Fleet Services, Livestock and Pet Services, and hosting events like mobile veterinary clinics. This enhances customer convenience and interaction.	• By growing its XaaS services and improving digital product integration, Tractor Supply can connect its physical and digital offerings for seamless customer experiences.
Connected products	• Using geolocation technology, Tractor Supply can streamline services like Buy Online, Pick Up in Store (BOPIS) and propane tank filling to help improve customer and team interactions.	• Connected products, including its geolocation technology, help further connect Tractor Supply's services to improve customer interactions and team efficiency. • This integration can help inform product mix strategies and can also lead to enhancements such as automated personalized recommendations or newly identified niche products.
Value chain shifts	• The company has embraced e-commerce, developed online shopping, in-store pickup and home delivery. • The Tractor Supply app, featuring product search and local promotions, complements this digital shift.	• Its community-driven atmosphere is one of the keys to Tractor Supply's sustainable growth. • Strategic partnerships and expansion of its services offer continuous opportunity to align with industry trends and new growth opportunities.

In summary, Tractor Supply's growth as a retailer depends on integrating embedded services, enhancing digital and connected products, and adapting strategically to industry shifts. By innovating and maintaining its community focus, Tractor Supply can navigate the evolving retail landscape and reinforce its position as a market leader.

Apple: Rooted in technology, driven by experience

Apple, a tech giant known for its innovative products like the iPhone, MacBook and AirPods, has been a pioneer in consumer electronics since the 1970s. Its commitment to innovation, user-centric design and understanding consumer needs has made it one of the leaders in shaping consumer experience and technology.

	Key success factors	Reinvention advantage
Anything as a Service (XaaS)	• Apple's success with on-demand subscription models for its services business (Apple Music, Apple TV+) has created new dependable revenue streams.	• Existing service models with automatic renewals and a loyal customer base enable further expansion of subscription offerings across Apple's growing product portfolio.
Connected products	• Apple's digital lifestyle hub strategy and closed ecosystem allows for seamless connectivity between devices, products and services.	• Apple's collaborations and product expansions in the realm of Internet of Things and AR/VR further enhance its customers' integrated experience.
Channel disintermediation	• Apple's experiential stores and Genius Bar serve as the face of the brand which helps strengthen customer relationships, reduce its reliance on intermediaries, and enable Apple to maintain control over pricing and profit margins.	• By creating bespoke in-store experiences for new products such as the 1:1 immersive Vision Pro demonstration, Apple strengthens its relationship with customers and gathers valuable feedback to help improve the buying experience.

Apple's path involves balancing its successful strategies with innovative shifts. By continuing its customer-centric, technology-driven approach and embracing new trends, Apple is positioned to strengthen its role as one of the leading tech companies and experience exemplars across the dynamic tech landscape.

What's your reinvention advantage?

Discovering your reinvention advantage begins with defining your archetype and understanding how to leverage its strengths as the foundation of your business. Critical to the success of today's leading companies has been their ability to choose their archetype and commit to it. Having recognized the imperative to act, these companies' leaders made the critical investments needed so they can foster enterprise-wide transformation.

What does it take to win through transformation? To start, stay laser-focused on these four areas:

- Identify your archetype and develop a plan to commit to it.
- Make mutually reinforcing investments in your business, operating and technology models
- Continuously reduce friction both internally and with your external ecosystem and managed services partners
- Confirm that your leaders are equipped to recognize and seize upon threats and opportunities.

By embracing these strategies, emerging technology and your workforce, you can help position your business for successful reinvention and sustained growth in today's business landscape as well as tomorrow's.

Thank you

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