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Better but Fewer Jobs

Today, most jobs in retail are still related to its traditional role of distributing products through stores. The work involves transferring goods from warehouses to stock rooms and from stock rooms to shelves; the tasks are typically low skill and often low agency, with a high degree of standardization and control. These jobs make a significant contribution to most economies, and retailers are the source of a significant proportion of entry-level jobs. Furthermore, retail jobs tend to be distributed around a country, often providing employment in places that offer few alternatives. For this reason, job losses from the collapse of traditional stores and chains have been a concern in many countries—and the shift to online sales is often seen as the culprit.

However, the idea that further growth in e-commerce will destroy jobs may be a red herring. In most sectors, selling online typically does mean fewer jobs compared with running stores—particularly if some of these stores are underperforming. But some of the biggest growth in online penetration from now on will come in the food industry, where many retailers are taking on labor-intensive item gathering and distribution work that customers previously did themselves and for free. The effect can be seen in the cost structures of pure-play online retailers such as Ocado, which, despite significant efficiencies at the head office, is less labor-efficient overall than physical incumbent competitors such as Sainsbury's. Moreover, online giants in both the food and nonfood sectors are now building a physical presence, adding jobs in the process.

What will remove jobs across the retail sector is task automation, a major trend in many industries. In particular, automation will hit low-skill store and supply-chain jobs, as well as repetitive tasks in head offices. The first casualties have been at supermarket checkouts, where a single employee can staff between four to six automated self-service terminals. Task automation will often be led by disruptors. It is no surprise for example that online supermarket Ocado is leading the pack in the automation of warehouses, or that Alibaba was fast on the heels of Amazon Go with its own fully automated convenience store, Tao Café. Traditional retailers will have to follow quickly in order to compete.

We see a silver lining, however, in the higher-skill, higher-agency jobs that will be created by many of the new business models we predict to grow. To stay competitive, retailers will have to improve productivity and drive out routine tasks—and, hence, lower-paying jobs—from the system. At the same time, completely new jobs will be created; for example, delivering packages to customers' front doors, where previously customers would have picked them up from a store themselves.

Product businesses will rely on expert teams of creative designers and skilled sourcing managers. They will also need strong frontline connections with customers to receive and analyze feedback. Choice intermediaries are likely to rely heavily on technology to provide customers with large numbers of high-quality recommendations, but they will also need a small number of highly skilled staff, for example, to direct algorithms and provide human advice on top. As these intermediaries' function is entirely new, so too will be these jobs. If choice intermediaries became a $40 billion industry across multiple retail sectors and had the same revenue per employee as Expedia or pure-play online apparel platform ASOS, this would create more than 80,000 high-skill jobs in the United States alone. Magnetic platforms, too, will likely create new, high-skill technology jobs.

Customer experience champions will need skilled store staff that may also use technology, for instance, to look up relevant product specifications or rapidly supply expert advice. Digital chat—which has long been used to field routine customer service queries—will also require remote salespeople who enhance the online shopping experience by offering high-quality advice. An example is the Gearheads at Backcountry.com. Fulfillment intermediaries may one day rely on automated delivery, but until then they will need a relatively large number of employees to pick products, pack them, and deliver them to customers' homes. And some will differentiate themselves by deploying drivers on stable routes, so they can get to know the customers.

These changing labor demands mean that retail jobs in the future will, on average, be more interesting and more rewarding. But the trend could pose challenges for society, as retail has long provided highly localized, entry-level jobs with relatively flexible hours. Other labor-intensive sectors, such as catering, and jobs requiring a human touch, such as social care, may well benefit from the increased labor supply, but only if people are able to retrain and are given support to make the transition.

HOME DELIVERY PRESENTS NEW ENVIRONMENTAL CHALLENGES

The growth of online shopping—and hence home delivery—has increased the number of delivery vehicles on the streets and led to a corresponding rise in emissions of carbon dioxide and pollutants, as well as in the noise and hazards caused by the extra traffic. On the other hand, home delivery—particularly of groceries—typically means fewer individual shopping trips by car. That said, online shopping has taken off fastest in cities, where customers are more likely to use public transport anyway. The net results of these effects are not yet clear, and they may vary between countries and between urban and rural areas.

Still, there is clearly significant potential for reducing waste. Now, multiple vans from different retailers often serve the same household on the same day, while a different set of vehicles serves the neighbors. Over time, new fulfilment intermediaries will need to find ways to deliver more efficiently, maximizing drop densities and consolidating orders from multiple retailers into a single run. If customers are flexible enough to allow retailers to plan efficient routes, the result could be a net reduction in vehicle emissions and traffic. This will be the case especially if the fulfillment business consolidates to a small number of winners in each area. Indeed, some local governments might even mandate such consolidation to increase efficiency and reduce traffic densities. Secondary packaging constitutes another potential environmental impact, as products are often shipped in cardboard boxes, paper, and foam—even though they are often already protected by the primary packaging they left the factory floor in.

Changing consumer attitudes toward minor damage to primary packaging would help reduce secondary packaging. But ultimately, the solution lies in a coordinated industry move to create secondary packaging standards that reduce wasteful duplication. Governments may step in to back this up with legislation, as they already have with mandatory charges for supermarket carrier bags in Europe. For instance, they could work with reusable bags and boxes that could be picked up on the next delivery run. Fulfillment intermediaries could prove instrumental in driving these efficiencies, just as they could play a consolidating role in routing.

DEPLOYING CAPITAL WHEN A BUSINESS IS IN DECLINE

In any industry disruption, some incumbents will reinvent themselves, while others go out of business. The story will be no different in retail. Successful reinventions are full of risks and unknowns, making the business case for them hard to write. For many retailers, there simply isn't one. In such cases, the most efficient way forward, both for investors and for society as a whole, is to recognize this early and allow resources to be redirected toward business models that can create value for society.

In practical terms, this means no longer reinvesting for the long term, but instead running these businesses as cash machines to fund innovation and new models elsewhere in the sector. One trap that often prolongs the decline of doomed retailers is the relative ease of pursuing short-term measures that boost performance.

These include new product development, promotions, and store refurbishment programs, and they can provide limited uplifts. However, they will not address the fundamental shifts in consumer expectations and, hence, behavior. Furthermore, management teams are often reluctant to manage decline; it is not what most went into business to do. It is the role of capital owners to nudge them in the right direction.