

THAT MAKES CENTS



Season 3 Episode 14

Radical reconfiguration of the consumer industry Future of Consumer series

Hosts: Bobby Stephens, principal, Deloitte Consulting LLP

Guests: Milen Mahadevan, president, 84.51°

Kasey Lobaugh, principal, Deloitte Consulting LLP

Bobby: Hi everyone, I'm Bobby Stephens. Welcome, or welcome back, to *That Makes Cents*. This is the podcast where we break down consumer industry trends and explore their impact on businesses and on all of us as consumers.

As part of the new series that we've been doing here on *That Makes Cents*, we are discussing all about the future of the consumer industry. We kicked off the series with an introduction to the six forces that are shaping the industry over the next decade. We then also talked about the rise of digital goods and services and the opportunities that rise presents for consumer companies.

In today's third installment of the series, we are taking a closer look at how the rise of "capability as a service"—in quotes, of course—is causing a radical reconfiguration of the consumer industry.

From automotive companies using chatbots for better customer support to retailers investing in enhanced supply chain capabilities for faster decision-making. Companies are increasingly relying on external capabilities for greater agility and faster speed to market. But how are companies of all shapes and sizes leveraging this phenomenon? What role can they play in the larger ecosystem?

A capability provider, a capability user, or some combination of both?

To chat through this, we have two excellent guests. Join me in welcoming Milen Mahadevan, president of 84.51°, a retail data science company, and Kroger's very own capability as a service. And to accompany him, we have my friend Kasey Lobaugh, chief futurist for Deloitte's Consumer industry, and a principal within our Consulting practice. Welcome both. Great to have you here.

Milen: Thanks, Bobby. Great to be here.

Kasey: Thanks, Bobby.

Radical reconfiguration of the consumer industry

Bobby: So Kasey, let's start with you. I know you have pioneered the Future of the Consumer Industry study and spent the last (almost) two years speaking to several industry luminaries to identify those six forces and talk about the implications coming from them that shape our consumer industry. Could you just share your observations on the radical industry configuration and the growth of capabilities of service to set the context for our conversation here today?

Kasey: Yeah, sure thing. As you know, we spoke to over 800 people across the industry. There's 120 secular trends, technologies, policies, issues that really come out of those conversations. We roll those up into what we call the six forces. Now, once we rolled that up, we really looked at it deeply and said, what are the implications that are coming from these forces? And one of those is really a reconfiguration of the industry. And it's based largely on this idea of capability as a service—the rise of capability as a service.

If you think about [how] traditionally organizations needed to own their own infrastructure, needed to own their own capabilities—in fact, those were barriers to entry. And if you look at retail today, you can see capability as a service, clearly you can see it with small and medium-size retailers who no longer need to buy or lease stores, no longer need to have the capability of humans in those stores.

Even down to the point of “I don't even have to own any of my own inventory. Frankly, we could set up a small retailer, a medium-size retailer, that could sell nationally today with nothing more than a credit card.” And what that implies is there's this whole host of capability as a service that comes online, especially when we digitize those capabilities as a service. As we switch from what I'd call traditional outsourcing as a possibility to this new platform—like when we platform those capabilities.

So, as that rises, that waterline rises of what capabilities have been digitized, what capabilities are really available in

the marketplace, and you play that out over the next five to seven years, you really begin to see the possibility to configure an organization in a very different way. To look towards the market more broadly for capabilities that we can quickly bring online and frankly drive our own agility and flexibility as an organization much higher.

Of course, this has implications to how we think about configuring our business model. It also has implications about how we think about what roles employees play, what roles business partners play, what our ecosystem looks like.

But it also brings down barriers to entry, which causes the competitive landscape by which we're competing to not only change but continue to change as we move forward.

So, really this idea about industry configuration is predicated on this idea. How do you get the piece parts to come together to build the business model? What's the ecosystem look like? How do we ultimately compete?

Bobby: Excellent. Thanks for the background, Kasey. And as luck would have it, we're doing this today on a recording studio as a service. So, here's another [laughs] proliferation of that trend for something that might have been really difficult 10, 20 years ago.

And as part of that capability as a service, that can include large companies and retailers turning internal services into external offerings. Kroger is building quite a capability in retail data science and insights with 84.51°. So Milen, can you tell us more about how you took that internal capability and really turned it into a service for your CPG [consumer packaged goods] partners and other CPG companies with 84.51°?

Milen: Sure. More than happy to do so. So 84.51°, as you described it, Bobby, is a wholly owned subsidiary of the Kroger company. And with essentially the data

science arm of the Kroger company, we have the privilege to be able to leverage all the data that exists from running an awesome grocery retailing business. And what we are starting to realize and focus on was really how we use that information to make Kroger as relevant as possible to its customers. Whether that's the products that we put on particular shelves, how we think about the digital shelf and what to present to a customer, the types of prices we might put out there. How we reach those consumers in the right way.

And over time, as we got—I would say—we're pretty good at doing that and understanding people based on how they're purchasing and being able to be more and more relevant. We also realized that we are not the only player in that ecosystem. We also have a whole bunch of partners that are bringing new products and want to introduce them to customers and that want to understand their assortments.

And so, one of our realizations, for want of a better word, was we could create an approach for collaboration between retailers and manufacturers by providing the same lens on the business. So, everyone seeing the same lens. That led to us creating insight platforms that enabled CPGs to really understand their consumers, how their products were performing. [We] started to leverage our media platform, our digital commerce platform, to really enable CPGs to reach those consumers at that moment of truth when they were purchasing.

And so, that started to become an internal set of services really helping support Kroger's growth to actually create a win-win-win: A win for the customer because we're bringing highly relevant things to that customer. A win for Kroger because they're able to understand those dynamics and improve and optimize the experience for their customer. And a win for the CPGs because they can participate through the lens that Kroger uses to reach those consumers, to bring the right products to those consumers.

Radical reconfiguration of the consumer industry

So, really creating that, I think Kasey called it the “ecosystem” around which everyone can collaborate as one.

Bobby: Another thing that has fascinated me about the ability to use data is, just capability-wise and volume-wise, how do you actually turn those experiences into personalized, relevant things in the one-to-one human instance that’s hard to scale? So, technology is starting to play a role there. And there’s one technology that, kind of, everybody’s talking [about]. It’s come out of the technology space and kind of made it now to the front page of your daily newspaper. And your grandma, your dad might be talking about it as well. And that’s AI [artificial intelligence] and generative AI.

So, we have seen a few examples, I would say, of how consumer companies are using AI to improve personalization, inventory management, maybe customer service or the checkout process—basically trying to find traditional friction points maybe in the overall shopping experience.

But Kasey, in your research, how do you see AI, and specifically generative AI, really evolving in the next few years? And Milen, once Kasey’s done, we’d love to hear your take as well. I think this is a topic we could spend a couple minutes on.

Kasey: Yeah, it certainly has sort of exploded onto the scene. But I love the word Milen used: relevance. Because I want to really focus on that word because part of the evolution of the industry is the shift from being a supply-driven industry really to being a demand-driven industry. In a demand-driven industry, the customer preferences, customers’ desires, are really paramount because they have a lot of optionality. And really when we start to look at gen AI, it’s really the ability to amplify that. I like this idea that the marginal cost of content, copy, creative, and code just plummeted, with generative AI.

And a lot of the limitations that have to do with relevancy really have to do with the high cost of serving different consumers in different ways, having different products in different stores. Really driving relevancy. It’s this friction that exists between what I’d call as the traditional mass model and this new relevancy model, which I’ll call as the micro model.

So, it’s the shift of the industry also from mass to micro. Now, and if you look at gen AI and what’s come onboard just in the last six months, it’s sort of crazy to think about not only what’s come online but how fast it’s progressed.

And it feeds in what I talked about earlier about this waterline that’s rapidly rising. In particular, take something like natural language processing, which before, if I wanted to use capability as a service, I’d look to an outsourcing company that would have their humans answering the phone instead of my humans answering the phone.

But suddenly, with natural language processing, the marginal cost of being able to customize and deliver those sorts of conversations just plummeted.

So, it’s large language models, it’s natural language processing, it’s generative AI for images. All of that has really changed the economics. And we’re at the very beginnings of understanding what happens to an industry when the economics of copy-code-creative plummets.

And so, I think all of these topics we’ve talked about so far—whether it’s relevancy, which is a competitive topic; capability as a service, which is a configuration topic; or generative AI, which is really an enabler—these all feed each other and really set us up for the next five, seven years’ worth of a really radically changing, competitive environment.

Bobby: Milen, would love for you to build on that a little bit.

Milen: Well, I’m not sure I can! I think Kasey just [Laughs] nailed that! I mean that was... I actually wrote it down: the copy, creative, code, and the impact that can leverage, it can create.

I’m going to hit on one part, which is we’re still really early. I mean, Kasey said it so well. We’re still really early. And I think for anyone listening, it’s how do you start to play? How do you start to think about use cases?

I think Kasey used the word “explosive” at the start. I think in a good way, it’s mind bending what you’re seeing out there. I’ll hit, for your listeners, a few things around data and data quality. And the difference between general AI and domain-specific and understanding your options, almost starting with a strategy for how you want to—what use cases you want to look at [and] which providers.

A great example of capability as a service is so many players out there with some great capabilities, and how general do you want them to be, and how domain-specific do you want them to be.

The data needs that you may have, your own data: What is it you want to highlight? What data can you train models on if you want to be really domain-specific?

But I’m also going to hit on a couple things that I think probably people don’t talk about as much, which is the environmental potential here. Gen AI requires heavy levels of compute. And I think it’s, we’re going to find a balancing act as we explore these opportunities between where do we want to leverage that compute and scale and how do we balance the potential impact that that can make environmentally.

I think, Bobby, you started by challenging me on, “Hey, how do you use data? What do you share? Where are the lines in that?” And I think privacy, data, security are going to be key parts.

Radical reconfiguration of the consumer industry

So yes, without doubt, in my head, explore the opportunities, explore the use cases, start to build the foundations of a strategy. But include in that strategy some of those other components of where you want to be from an environmental standpoint. How do you think about privacy and data security. Some of those other building blocks that go alongside it.

But my answer probably a little bit more boring because like Kasey hit it out of the park with his response.

Bobby: No, I think it made sense. And what you talked about there, to me ties back into that win-win-win you mentioned as well. So, even the compute and the environmental impacts, like, those are all things that consumers care about. And the win-win-win has to sort of be full circle, in some case.

So privacy, a good experience, no additional harm to culture, society, environment. That's all important to today's consumer.

So, I think you hit it spot on there. And I think we're all very excited about the future that AI presents to us. I think many people are still a little unclear as to the route it will take, and I think that's OK. But I agree, the stress on the speed, the explosiveness, the just general rapidness that this trend has come on, has taken a lot of people... I mean, some people probably expected it, but I think the general public and the general consumer probably [were] not expecting the rise of it so fast. And so, that's going to make a big impact. So, it's really exciting to spend a few minutes on that.

Here on That Makes Cents, we do have a bit of a—I guess I'd call it a "tradition" after three seasons here—of our final question being either fun, maybe a bit more personal, or both. So, here goes that! Our study focuses on how consumers are spending dollars in general to effect the change they want to see in the world. This concept of buying into better, which is something that we mentioned throughout

the study and throughout a lot of it, and certainly seeing it as another trend.

So, on a personal note for both of you, how are you personally buying into better? What are some things you're doing in your everyday life that are sort of impacting or hopefully that you're influencing at a micro level, macro trend? So Milen, let's begin with you, and then Kasey, I'll give you a couple of seconds to think about it.

Milen: Great question. Buying into better. Well, I mean, it starts with understanding what you're buying, who made it, understanding really what's that supply chain impact through it. So, when you say, personally, what am I doing? I'm probably doing more research on things than I've ever done before.

And, in fact, it's easier than ever before. It feels like a really complicated thing when people say, "Well, you might want to understand the carbon footprint." I'm like, "Well, like that's just blown my mind right now. How am I going to understand that?"

And then you realize that actually we are reaching this age of transparency where anything's almost "findable," for want of a better word. And so, the opportunity to actually understand not just what I'm buying but how was it created, for want of a better word. And were there any ethical or environmental or other concerns with it? And so, I think doubling down on the focus of really knowing, being well-thought through in what I'm purchasing, what I'm doing as one individual, can make a difference over time, if we each lean into understanding that.

Kasey: Milen, I love the idea of we can all make a difference. One of the quotes that we surfaced through our research was this idea—and I'm sure I'll get it wrong here but—the idea that the future isn't to be predicted, the future's to be created. And I've really taken that idea to heart.

The idea that we have agency. I mean, just think about the agency that we represent just with us here on this podcast: We work

for large companies. We spend a lot of time trying to help shape the strategies of those companies. It's just a very large reach that we have, just ourselves alone.

And if you think about the listeners on this podcast, now you spread the wings and you sort of, you know, the web of influence gets bigger.

So, the idea that we have the ability to shape the future, I take that to heart, and I take it to heart in my personal life as well. I've got a 16- and 17-year-old at home, and in fact, we were visiting colleges just the last couple of days. So, we're getting ready to launch them into the world.

But we actually spend a lot of time at home talking about the work that we've done. There's research that we've done, because for me, it's been very eye-opening learning about what's really going on below what I'll call the "pedestrian level" of understanding.

But then how do we act on that at home? We have those active discussions, and it shows up in things like what we're purchasing, decisions that we're making about travel, etc. But I've embraced this idea of agency. I've embraced this idea of choice. And I encourage us all to play our role in shaping the future that we all want.

Bobby: Milen and Kasey, really appreciate you sharing those personal insights there. I always think that brings it to life for our listeners. And then in general, this was just an unbelievable conversation with a ton of insights in a short period of time. Textbook podcast, I must say—exactly what you're looking for in a podcast! Get a lot of information, don't take up a lot of time of our end listeners. So, that was unbelievable.

We spent some time discussing the growth of capabilities of service coupled with the advancement of certain technologies like AI and how that is really driving a reconfiguration of the consumer industry. And we talked about things like relevancy and personalization. We hit on

Radical reconfiguration of the consumer industry

the concept of a win-win-win: that win for the company, win for the partner, win for the consumer. And I thought that was all really interesting.

And then just that notion of transparency and how that even came to life in Milen's personal story about the ability to find the carbon footprint of a particular product or find a lot more origin information in today's world. If you're willing to look for it, you can find it. And I think more and more consumers are willing to look for that.

And so, as this trend continues to evolve, I think organizations will need to or already

are determining the role they play in the larger consumer ecosystem and will focus their attention on systems, capabilities, and that capabilities of service that are truly differentiating to them.

So, thank you, Milen. Thank you, Kasey, for a great conversation.

Kasey:

Oh, Bobby, thank you for having us.

Milen:

Yeah, thank you very much, Bobby.

Bobby:

Thank you, guys. You guys are awesome. And for our audience, we have reached the end of the episode. If you want to gain more insights into the Future of the Consumer Industry study, simply search with keywords, "Deloitte future of consumer," anywhere on the internet. Or feel free to connect with Milen, Kasey, or myself on LinkedIn. All of our names with spellings will be in the show notes. Thank you for tuning in, and see you on the next episode of That Makes Cents.

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