Top Five Takeaways from Cowen's Future of the Consumer Conference: Convergence & Disruption

On April 4, Fung Global Retail & Technology attended Cowen and Company's third annual Future of the Consumer Conference in New York. The theme of the conference was "convergence and disruption." Key topics of discussion included:

1) What can withstand "Amazonification"?
2) Where is the opportunity for retailers in the supply chain?
3) Disruptors are not successful in absolute terms yet
4) Last-mile delivery in the restaurant space is going digital
5) Consumers crave being part of a community

Fung Global Retail & Technology attended the third annual Future of the Consumer Conference hosted by Cowen and Company in New York on April 4. The theme of the conference was "convergence and disruption." Below, we provide our top takeaways from the event.

1. What can withstand "Amazonification"?

Most in the industry seem to agree that mid-price retailers without a clear point of view represent a dying model and that prospects for them are not good. Consumers have become too well informed on price and fashion and have figured out the manipulation behind "one-day sales." They no longer trust certain retailers. Many, if not all, brands and retailers that operate on this model will likely not exist 10 years from now.

For retailers that offer commodity products, it is and will continue to be very difficult to compete with Amazon on the convenience front. For those that offer non-commodity goods, the experience will be paramount, and these retailers will need to look beyond the bells and whistles that technology can add via augmented reality and virtual reality experiences. More important will be the customer service they can offer in stores through their associates and their ability to help shoppers find what they are looking for. In addition to experiential offerings, a strong brand is key.

What defines a strong brand? A strong brand is one that can be explained consistently by a wide range of people and one that people would miss and care about if it were to disappear. A consistent point of view and consistent messaging are important, too, as is product differentiation.

The age of the megabrand, where brands offer all things to all people, is over. Niche and emerging brands are hypercustomized and cater to a specific group of consumers, which makes the experience and product better for that group.

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Ryan Cotton, Managing Director at Bain Capital Private Equity, discussed his company's investment framework and how it seeks to put together a purposeful portfolio. Bain Capital looks for retailers and/or brands that offer a strong price/value proposition, as today's consumers are well educated and know good value. The company also looks for firms that can reach consumers when, where and how they want to be reached and, ultimately, transact with them.

2. Where is the opportunity for retailers in the supply chain?

There was much discussion of Zara being the gold standard for retailers in terms of managing a supply chain with speed and turning over inventory faster than competitors in other retail segments (Zara turns over its inventory roughly six to seven times per year versus roughly three times per year for department stores). The company flows new product into stores on a weekly basis.

According to John Thorbeck, Chairman of Chainge Capital, retailers can drive a 30%–40% increase in their market value by addressing the "first mile" in the supply chain, as Zara has, as opposed to Walmart, which has mastered the "mid mile" in getting goods from distribution centers to stores, and Amazon, which controls the "last mile," getting products to consumers within days or even hours.

Two things need to happen to improve the prospects for retailers, according to Edward Hertzman, Founder of the *Sourcing Journal*. First, retailers need to offer a compelling brand, an interesting story and a good experience (as the off-price channel has done by offering a treasure hunt experience in stores). Second, and in order to achieve the first, retailers need to retool their supply chains to enable omnichannel fulfillment and on-demand replenishment rather than just shortening their lead times from nine months to six months. Hertzman said that companies need to change their culture as well, from the bottom up, rather than just speeding things up.

While the success of Zara's model has been proven, retailers cannot just copy what the company does and expect to achieve the same thing, as Zara's culture is all encompassing. The company's success has to do with how it manages risk across the organization.

3. Disruptors are not successful in absolute terms yet

There has been much discussion about disruption in the retail space and across specific subsectors that are dominated by one or two big players, such as eyewear, men's razors and mattresses, to name a few. While Warby Parker, Dollar Shave Club and Casper have offered competetive pricing in those respective subsectors, to the ultimate benefit of consumers, it is not yet clear that they have done so in a manner that is profitable and/or sustainable.

4. Last-mile delivery in the restaurant space is going digital

The CEOs of Homer Logistics, Just Salad and Olo (an online order tool for restaurants) shared insights on last-mile delivery in the restaurant sector. Looking at the country overall, restaurant delivery is under 3% of the total restaurant revenue and, excluding the pizza category, the penetration rate is less than 1%, so there is significant room to run. An attendee asked the CEOs whether deliveries are incremental to restaurant sales, and all three seemed to agree that they are, although the sales are hard to quantify. Either way, the executives said that delivery is the direction the customer is moving toward, and that restaurants need to accommodate that demand in order to be competetive.

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The panelists also talked about how some restaurant owners and operators are rethinking the layout of their locations in order to better accommodate delivery orders in a timely manner and still maintain a good in-store experience. A number of retailers have talked about reconfiguring their stores as well, in order to facilitate ship-from-store capabilities.

Many restaurants rely on third-party delivery services such as GrubHub, Postmates and DoorDash, as well as relying on Amazon and Uber. Since these platforms employ contractors, a big challenge for the restaurants is the contractors' reliability: the restaurants need those contractors to show up and offer a good experience to customers because they are a reflection of the restaurant.

Outside the restaurant space, an executive from indoor cycling company Peloton noted that customers were not satisifed with the outside delivery service that Peloton had been using, so the company brought delivery in-house in order to take control of the experience.

5. Consumers crave being part of a community

Executives from a number of companies talked about how consumers, now more than ever, are seeking to be part of a community and connect with others who share a common trait or goal. As more and more consumers are shopping online and spending more time online, they find themselves craving the social interactions they are missing, and they want to connect with others face to face.

John Foley, Co-Founder and CEO of Peloton, noted that what most surprised him in getting his company up and running was the community that members created among themselves. Members engage with each other on the riders' Facebook page and have even organized meet-ups in New York City, where riders from across the country get together and share their thoughts on their common lifestyle. Even attending a fitness class has a social component, Foley noted. He concluded by saying that, for riders, the experience is not just about fitness, getting healthy and the brand's content, but about the community that Peloton provides.

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