

FUTURE OF RETAIL

# R.E.T.AI.L in 2025 and beyond – Five imperatives to win

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# Contents

**Introduction** 04

**Imperative 1: Respond**  
to the rise of e-Tailers 05

**Imperative 2: Embrace**  
the Next-Gen Shopper  
(Gen Z and Gen Alpha) 07

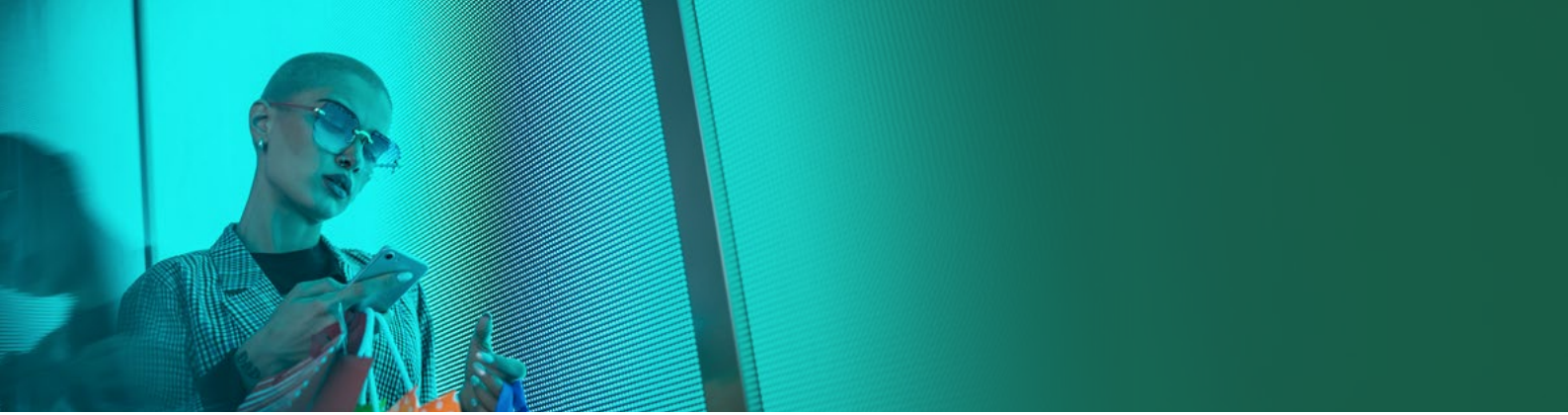
**Imperative 3: Thrive with**  
productivity improvements 10

**Imperative 4: Turbo-charge**  
retail with **AI** 12

**Imperative 5: Lead differently**  
in the new workplace 14

**Conclusion** 17





# R.E.T.AI.L in 2025 and beyond

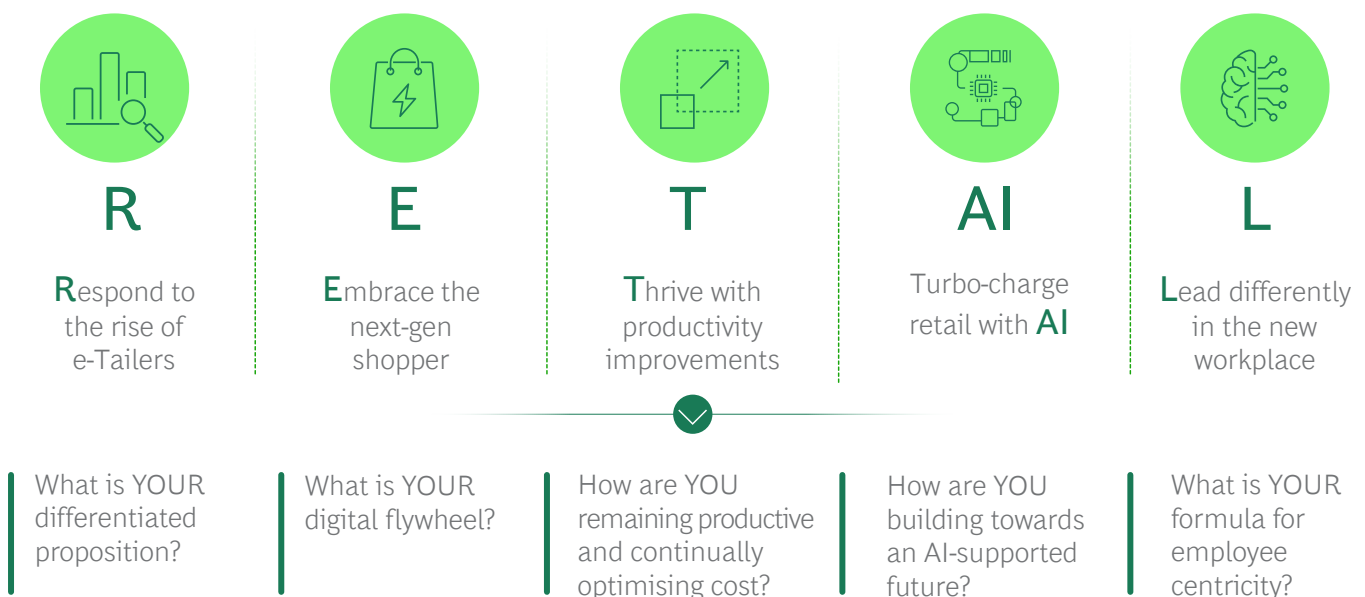
## – Five imperatives to win

Retailers in Australia today face a fundamentally altered landscape defined by five disruptive forces:

- e-Tailers like Amazon, Temu and Shein, which were not considered sizeable competitors a few years ago, are growing their market share and reshaping consumer expectations
  - The Australian shopper base is more diverse than ever, and businesses are still learning about Gen Z and Gen Alpha who are coming online as new shoppers
  - Stagnating productivity and rising costs in Australia, coupled with the need to go toe-to-toe with eTailers that have ultra-cheap sourcing and operational models, are intensifying the need for operational reinvention
  - AI is moving rapidly from pilot and proof-of-concept projects to adoption at scale requiring changes in enterprise operating models to scale rapidly
  - Employees across industries are seeking flexibility, purpose and meaningful development at work requiring a change in the organisation–employee relationship
- These forces have reached an irreversible tipping point, redefining what it takes for retailers to compete. This paper explores five imperatives for retailers and consumer companies to respond and win (see **Exhibit 1**).

### EXHIBIT 1

Retail's next chapter - five imperatives to win in the 'new normal'



# Imperative 1: Respond to the rise of e-Tailers

Digital disruptors such as Amazon, Temu and Shein pose a threat to omni-channel retailers as they steal online retail share. In Australia alone, 9 in 10 households now shop on these platforms, spending \$1,600 annually on average and engaging up to 1-2 hours per week<sup>1</sup>. Temu, launched less than three years ago, now matches national retailers such as Mecca, Officeworks, Rebel Sport and The Iconic<sup>2</sup> in customer reach. Amazon is a top-5 non-food player and on track to represent 20% of the Australian retail online market by 2030.

These e-Tailers are winning by delivering clear, compelling value propositions. Amazon is known for speed with same-day delivery in select Australian cities, an incredibly wide range and reliable service. Temu is known for its wide

range and ultra-low prices. Shein is known for ultra-low prices and affordable trendy fashion, with thousands of new styles being added to its catalogue every day.

Despite ongoing consumer concerns around the product quality, brand trustworthiness and sustainability standards of platforms like Temu and Shein, purchasing behaviour suggests that these issues are not deterrents. In fact, their ultra-cheap proposition is resonating with cost-conscious consumers during the current cost-of-living crisis. Temu and Shein’s top categories are those in which consumer spend is declining more broadly, which suggests shoppers are actively trading down (see **Exhibit 2**).

**EXHIBIT 2**

## Amazon, Temu and Shein are redefining retail propositions



**-xx%** Reported declining consumer spend overall (2024 Roy Morgan report)      **+xx%** Reported increasing consumer spend overall (2024 Roy Morgan report)

1. Top categories based on Roy Morgan Future of Retail work 2024, Pattern 2024 Marketplace Consumer Trends Report

1. Source: Australia Post eCommerce Industry Report 2025, Roy Morgan Findings, Bloomberg news, BCG Analysis  
 2. Roy Morgan Findings, August 2024



## How should retailers respond?

**Articulate a differentiated proposition for your core shopper segments:** Whether through competitive pricing, differentiated experiences, or trusted brand equity, this must be supported by an efficient supply chain and a fulfillment model that delivers with speed and reliability (see **Exhibit 3**).

### EXHIBIT 3

## Responding to the rise of e-Tailers

R

Respond to the rise of e-Tailers

E

Embrace the next-gen shopper

T

Thrive with productivity improvements

AI

Turbo-charge retail with AI

L

Lead differently in the new workplace

### What is your **differentiated proposition** from e-Tailers?



#### Either compete on price or another differentiated CVP

- 'Value' range
- Experiences
- Loyalty programs



#### Invest in E2E supply chain (capability, network, technology)

- Fast, reliable fulfillment network
- Efficient cost-to-serve
- Frictionless shopping/ returns



#### Reinforce your trusted & ethical brand positioning

- Transparency in sourcing, sustainability, & ethical labor practices

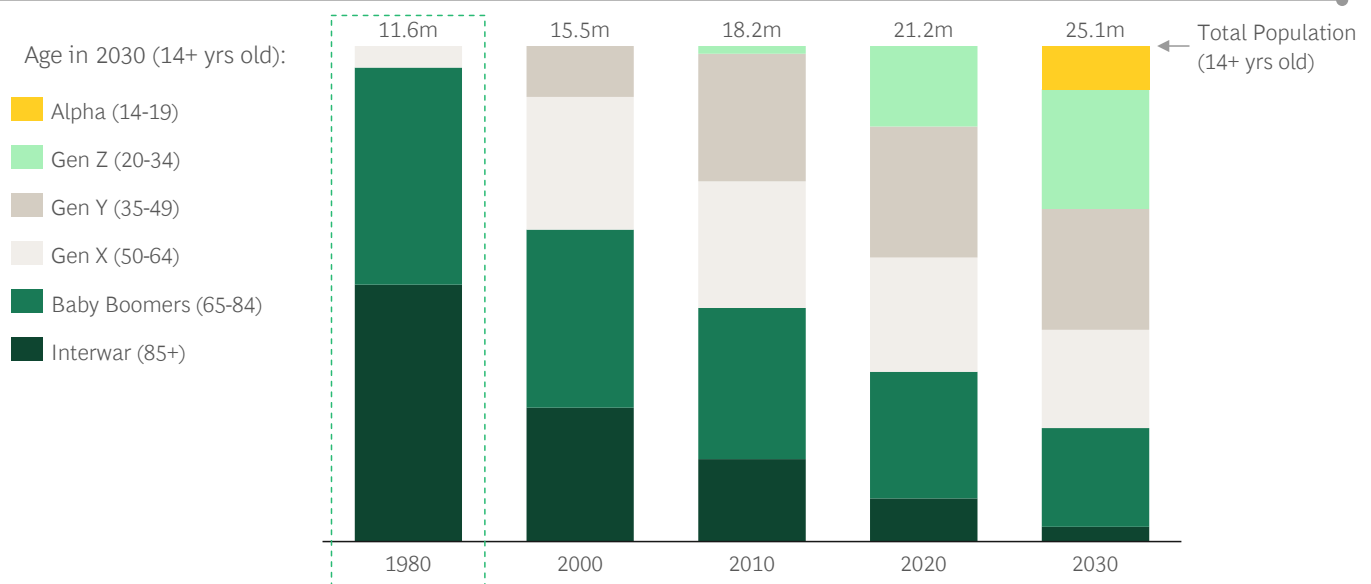
## Imperative 2: Embrace the Next-Gen Shopper (Gen Z and Gen Alpha)

Australia's shopper base is more diverse than ever. For the first time in history, retailers and consumer companies are serving six active generations, from Baby Boomers to Gen Alpha (see **Exhibit 4**).

### EXHIBIT 4

Serving six generations means the retail market has exploded in complexity

Generational share within the Australian population of shoppers



1. Australian Bureau of Statistics, Population Clock & Pyramid, accessed June 2025. Alpha = 2011-2024, Gen Z = 1996-2010, Gen Y = 1981-1995, Gen X = 1966-1980, Baby Boomers = 1946-1965, Interwar = 1945 or earlier



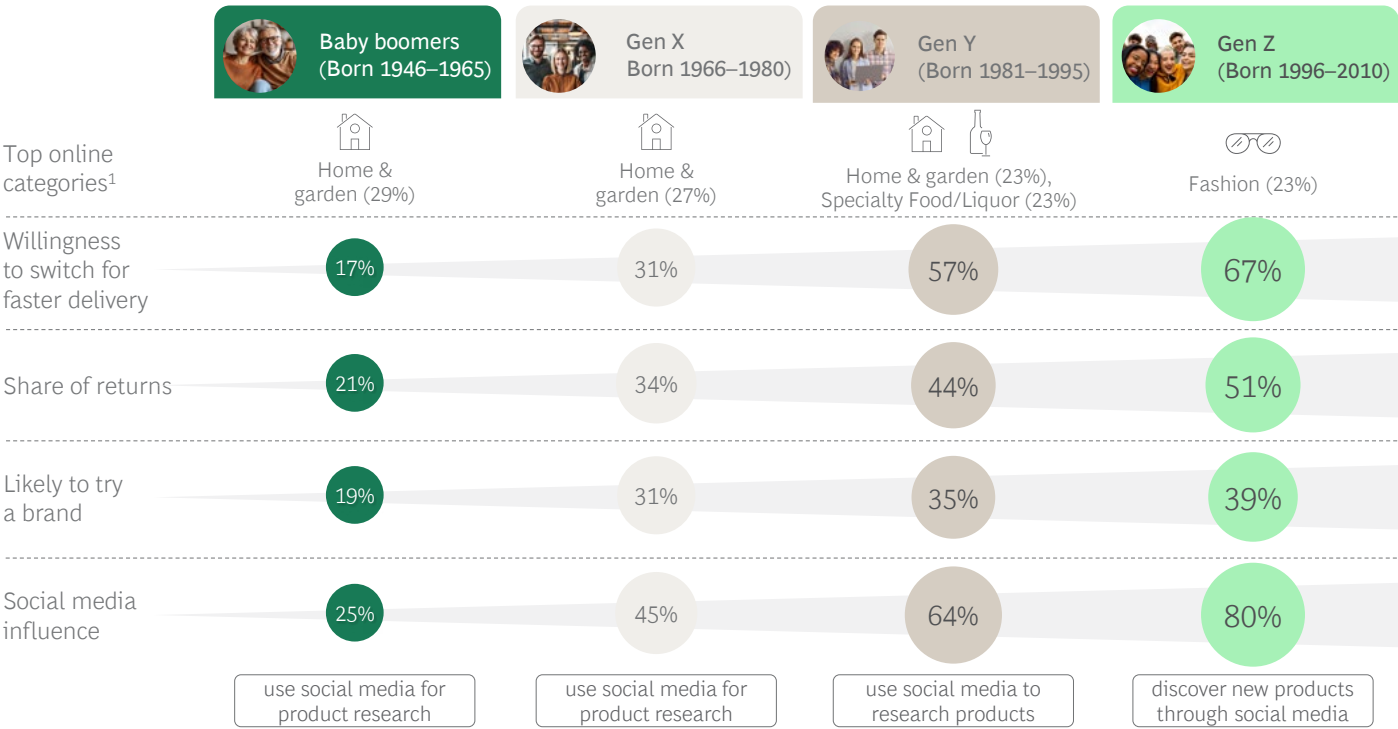
Gen Z and Alpha, in particular, are rewriting the rules of discovery, shopping and fulfilment. While fashion was one of the slowest categories to move online owing to the need to trial in store, Gen Z's largest online category is fashion. These younger cohorts are more willing to switch brands for faster delivery and are more likely to want to return products, reinforcing the need for seamless fulfilment and returns. They are also more likely to use social media to discover new products and are willing to try new brands (see **Exhibit 5**).

Most businesses that were set up over decades ago were not designed to serve this next gen shopper, which raises three questions:

- Who are your core shopping segment(s)?
- Are you leveraging the immense data available about your core shopper to anticipate and serve their needs with precision? Research indicates three in four<sup>3</sup> customers expect a personalised experience across digital platforms, but few retailers have been able to show success on their data and personalisation strategy with 60% customers saying they felt frustrated when they received irrelevant content or offers<sup>4</sup>.
- Are you optimising the end-to-end shopping experience, including discovery, to stay relevant to this new next-gen shopper?

EXHIBIT 5

Evolving consumer preferences necessitate a new playbook



1. Besides variety stores  
**Source:** Australia Post 2024 Inside Australian Online Shopping, Capital One Shopping Research 2025, Statista and Porch Group Media

3. BCG Publication – What consumers want from personalization, December 2024  
4. Adobe Digital Trends, 2024



## How should retailers respond?

**Adapt your fulfillment proposition across channels** to meet the expectations of your core shopper segment, as covered in Exhibit 3

**Activate your core shopper segments using a "digital flywheel"** of loyalty, personalisation and retail media – all powered by first-party customer data (see **Exhibit 6**).

### EXHIBIT 6

## Staying relevant to shoppers

R

Respond to the rise of e-Tailers

E

Embrace the next-gen shopper

T

Thrive with productivity improvements

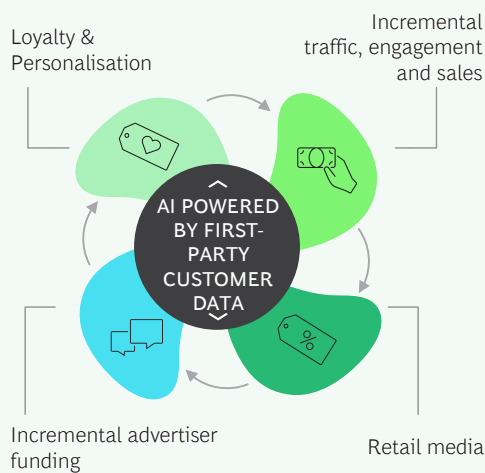
AI

Turbo-charge retail with AI

L

Lead differently in the new workplace

How are you **staying top of mind and relevant** to your target shopper using the digital flywheel?



- **Loyalty** | This drives incremental traffic and sales, and allows a retailer to gather valuable first-party data that tells you what your customers prefer
- **Personalisation** | This increases engagement and conversion through tailored experiences and offers
- **Retail Media** | In turn, a loyal customer base with detailed profiles will attract more brands to a retailer's media network, generating incremental advertising opportunities for a brand or incremental brand revenue for the retailer or that allows further investment in the loyalty and personalisation propositions – enabling the flywheel to take effect.

# Imperative 3: Thrive with productivity improvements





Wage growth in Australia is outpacing other costs and putting pressure on retailers when it comes to the cost of doing business. Labour costs are the second largest cost for Australian retailers after cost of goods sold (COGS), and labour accounts for nearly 40% of total operating costs in Australia’s retail sector<sup>5</sup>. This exerts pressure on retailer margins and creates an imperative to improve productivity to consistently provide the best prices to consumers amidst a cost-of-living crisis.

However, productivity growth in Australia has stagnated at just 1.1% over the last decade, well behind peers like the US and Canada (see **Exhibit 7**).

## EXHIBIT 7

### Lagging productivity is a challenge for Australian industries

Australian Labour productivity growth is slowing down compared to other OECD peers

<div>“</div> <div>A lack of productivity growth – not decade-high interest rates – is to blame for cost-of-living challenges</div> <div>Former Reserve Bank governor, Philip Lowe (March 2025)</div>		CAGR ('03-'13)	CAGR ('13-'23)
	 USA	+2.3%	+3.7%
	 CANADA	+1.6%	+1.6%
	 AUSTRALIA	+1.4%	+1.1%
	 UNITED KINGDOM	-0.3%	+0.9%

**Source:** Australian Bureau of Statistics, Estimates of Industry Multifactor Productivity 2025, The Australian, “Philip Low’s Vision for a Richer Australia”, March 2025, Office for National Statistics, Output per Hour Worked by Division, UK, Statistics Canada, Labour productivity and related measures by business sector, U.S. Bureau of Labor Statistics, Labor Productivity by Detailed Industries

**Note:** Labour productivity = GDP/Total Hours Worked and measures the amount of output produced per hour worked and indicates how efficiently labour is utilised

5. Australian Retailers Association, Submission to the Fair Work Commission Annual Wage Review 2022–23





## How should retailers respond?

### EXHIBIT 8

## Thriving with productivity improvements

**R** Respond to the rise of e-Tailers | **E** Embrace the next-gen shopper | **T** Thrive with productivity improvements | **AI** Turbo-charge retail with AI | **L** Lead differently in the new workplace

How are you **remaining productive and continually optimising cost?**



**Undertake a zero-based review of indirect (Goods-Not-For-Resale) costs** across marketing, logistics, facilities and technology to respond to rising wage costs that have come into effect from July 2025



**Redefine how workforce productivity scales with business growth** Where relevant, explore alternative labour models that balance service with efficiency (e.g., outsourcing, off-shoring, optimised part-time mix)



**Accelerate the adoption of automation and productivity-focused AI use cases, supported by shifts in** underlying operating models, to alleviate pressure on profitability in the medium to long-term (focus of the next section)

## Imperative 4: Turbo-charge retail with AI

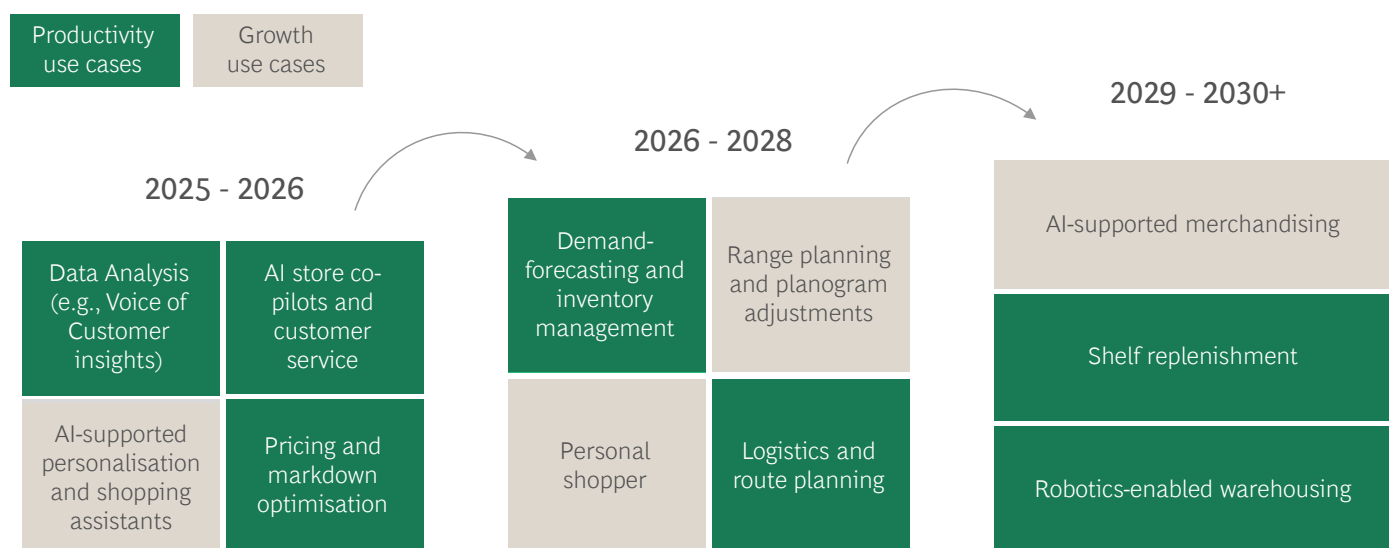
AI has progressed from concept to mainstream adoption at a pace that surpasses previous technological revolutions, including the electric engine and semiconductor. Retailers are already deploying AI and generative AI at scale to reshape customer and employee experiences. At IKEA, the “Billie” AI co-pilot has been able to handle nearly half of all customer enquiries<sup>6</sup> allowing call centre and remote support employees to focus on personalised design consultations and digital retail sales. KFC Australia’s limited Voice-to-Order trials have improved order accuracy and reduced staff workload, allowing team members to focus on food preparation and customer engagement. Early AI use cases are already delivering measurable business value by improving conversion, accuracy and employee productivity.

There is no doubt that more AI use cases, such as pricing and markdown support, demand forecasting and inventory management, range planning and logistics & route planning will be rolled out over the next few years (see **Exhibit 9**).

When implemented purposefully, AI can be a force multiplier by freeing up teams for more value-adding tasks and lifting productivity through human-AI collaboration models. However, to unlock AI’s full value, retailers must move beyond isolated pilots and deploy multiple use cases at scale. Doing this involves more than tools and algorithms – it is dependent on evolving the broader organisation operating model. Retailers who build a clear lead in the market will be the ones that scale AI and embed it within a fit-for-purpose operating model with the right organisation structure and roles, talent strategy (for upskilling and performance management), governance and change management.

### EXHIBIT 9

#### AI in retail will scale rapidly



If deployed properly, Human-AI collaboration models could alleviate some of the labour productivity pressure in the long run

6. Ingka (Ikea) Newsroom and press search



## How should retailers respond?

### EXHIBIT 10

## Turbo-charging retail with AI

R

Respond to  
the rise of  
e-Tailers

E

Embrace the  
next-gen  
shopper

T

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productivity  
improvements

AI

Turbo-charge  
retail with AI

L

Lead differently  
in the new  
workplace

How are you **building towards an AI-supported future?**



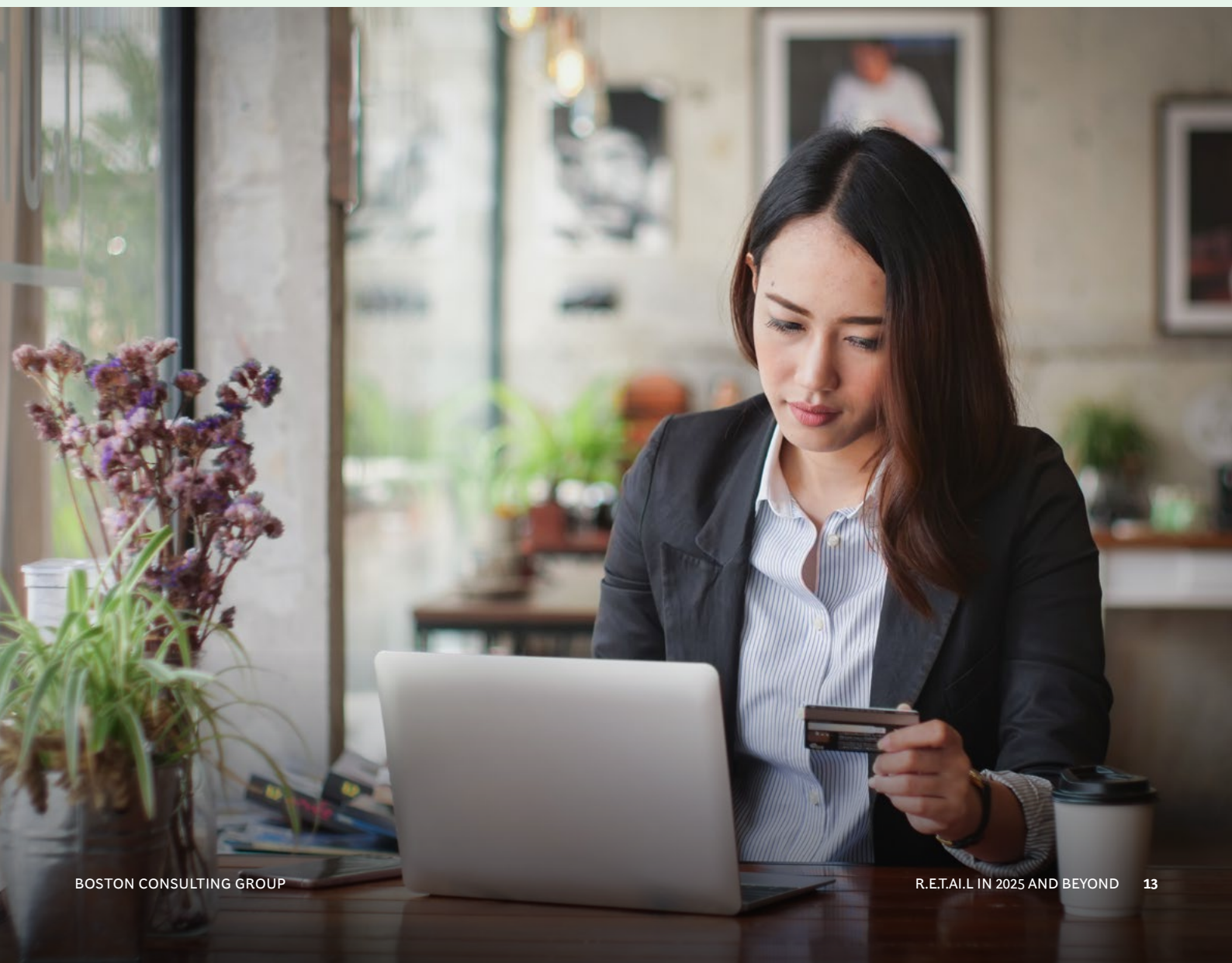
### Plan to launch these three no-regret AI enablers that can boost productivity

- AI-powered customer service and virtual assistants
- Markdown optimisation with real-time pricing to reduce waste and maximise sell-through efficiency
- AI-supported personalisation to automate engagement, and optimise marketing effort



### Build the right foundations to scale AI

- Align AI investment with business goals
- Re-think E2E enterprise operating model including re-designed workflows and processes based on where and how work is being delivered, talent re-skilling, governance frameworks and change management



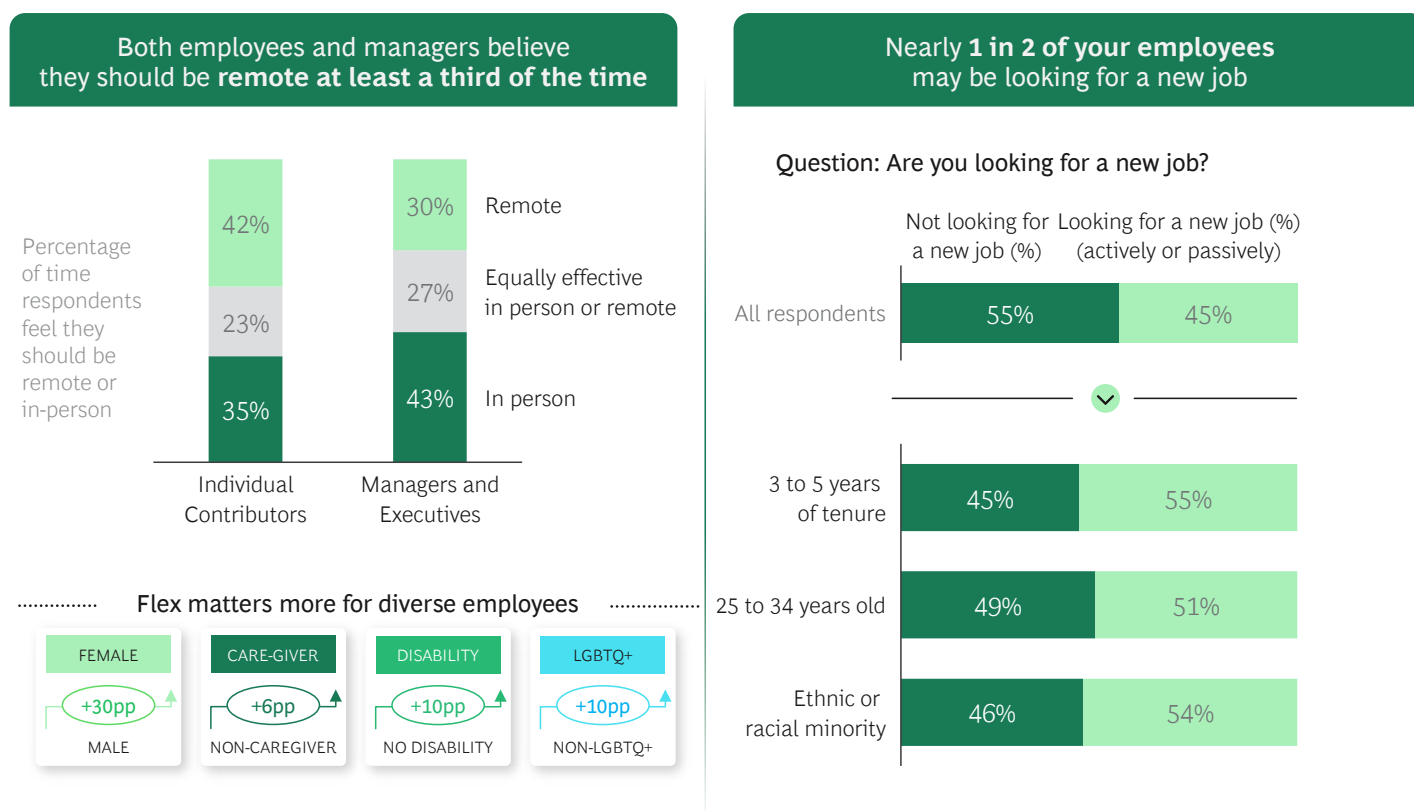
## Imperative 5: Lead differently in the new workplace

For employees today across all industries – including retail – flexibility, purpose, inclusion and development are just as important as pay. One-third of employees and managers globally want to work remotely at least one-third of the time, and this number rises in diverse employee groups

(such as women, care-givers). In addition, nearly one in two employees state that they are actively or passively looking for a new job (see **Exhibit 11**). The same study also shows that younger members of the workforce are seeking meaningful development and inclusive cultures.

### EXHIBIT 11

Workforce expectations are changing, with flexibility, purpose, inclusion and development just as pay



Source: BCG "What the Flex" employee surveys; BCG Henderson Institute research on the Future of Work

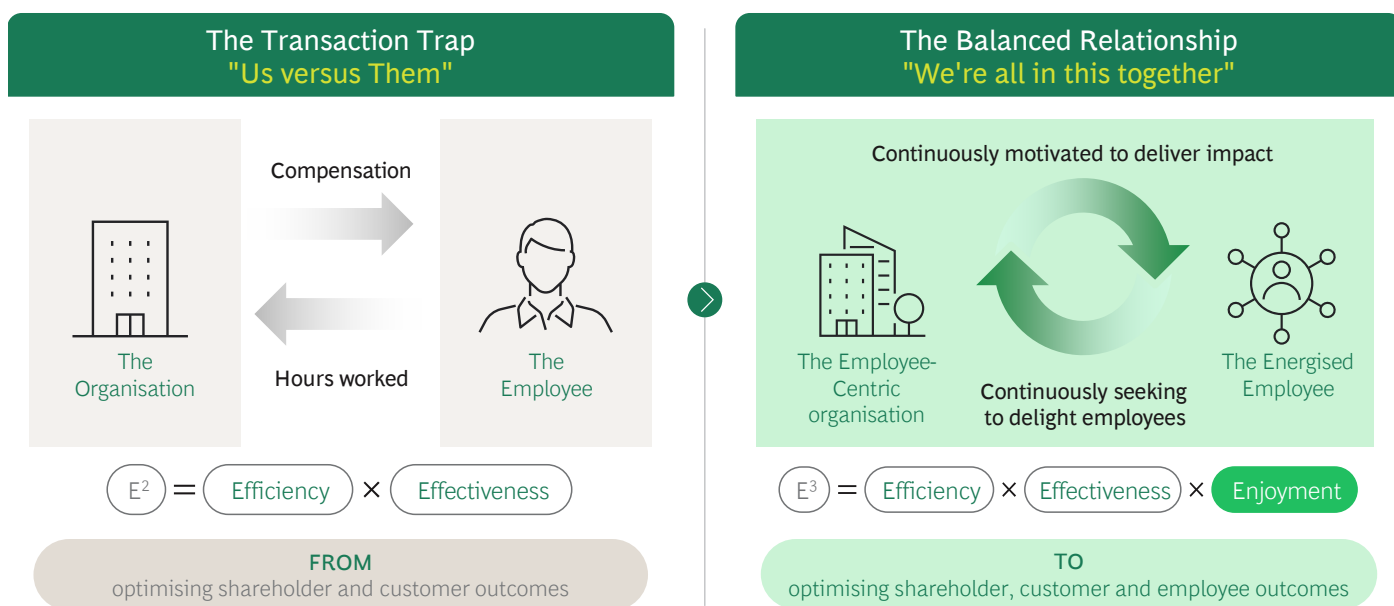


Organisations that remain anchored in output-focused models are losing ground on employee engagement. Leading players are moving towards a more balanced relationships, where employee outcomes matter, along with shareholder and customer outcomes (see **Exhibit 12**).

This means adopting workforce models that elevate flexibility, purpose and inclusion which yields stronger retention, unlocks discretionary effort, and makes consumers want to engage with the retail brand more.

## EXHIBIT 12

Rethinking the workforce model will require a paradigm shift from output to outcomes



## How should retailers respond?

### EXHIBIT 13

## Leading differently in the new workplace

R

Respond to  
the rise of  
e-Tailers

E

Embrace the  
next-gen  
shopper

T

Thrive with  
productivity  
improvements

AI

Turbo-charge  
retail with AI

L

Lead differently  
in the new  
workplace

How are you **building towards an AI-supported future?**



#### Invest in upskilling employees

- Set aside budgets for L&D and equip employees with skills to stay relevant as automation reshapes roles (e.g., AI assisted decision-making and analytical thinking)
- Enable continuous learning and personalised training using adaptive learning platforms and regular feedback



#### Change the nature of your employee relationships... from a transactional mindset to a balanced relationship

- Support hybrid and remote work models to employees in above-store functions when role design allows for it, recognising flexibility as a key driver of engagement and retention
- Redesign work to reduce low-enjoyment, repetitive tasks and increase time spent on high-impact, fulfilling and purposeful activities treating employees like customers: listening to their needs and designing solutions around them





# Conclusion

Winning in the next half-decade will not be a linear extension of past strategies. Retailers must go beyond incremental change and directly address the disruptive forces reshaping the sector:

- **Respond to the rise of e-Tailers by crafting a differentiated proposition** that can stand up to Amazon's service leadership and the ultra-low-cost models of Temu and Shein; retailers must double down on experiences, speedy fulfillment and returns, trusted brands and value-added services that foster loyalty.
- **Embrace the next-gen shopper by defining a core shopper segment(s) and build a high-performance digital flywheel to activate them.** This means leveraging advanced loyalty programs, hyper-personalised offers, and retail media platforms that resonate with target customers and drive repeat engagement.
- **Thrive with productivity improvements** by launching zero-based reviews of indirect costs and targeted automation and AI deployments.
- **Turbo-charge value-led AI deployment-at-scale** that supports productivity and growth underpinned with the right operating model.
- **Lead differently by adopting a new organisation paradigm** that optimises for shareholder, customer and employee outcomes to energise workforces.

These five imperatives that re-shape R.E.T.A.I.L. are both a challenge and an opportunity. Retailers who move decisively, combining bold transformation, innovation, and organisational agility will purposefully accelerate their next chapter of growth and long-term relevance.

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