



RETAIL INDUSTRY

The AI-First Retailer

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This article and the accompanying slide deck are part of a series exploring how companies in specific industries can adopt the mindset, expertise, and ambition required to win in an AI-first world.

AI isn't coming to retail—it's already here, and it's rewriting the rules. To win in this new environment, retailers must move as fast as consumers and technology. The best way for them to do that is to become AI-first by making AI and agents central to how they operate and make decisions.

Why Now?

Four converging forces are creating momentum and urgency for retail to go AI-first.

- **Consumers are already shopping with AI.** Almost two-thirds of US consumers have used AI tools in their shopping journey. Walmart's announcement that it will allow its customers to make purchases within ChatGPT—and the subsequent stock price increase—shows the speed and impact of this change.
- **Technology is enterprise-ready.** AI models are faster, cheaper, and more accurate than ever. AI agents can reason, act, and automate entire workflows.
- **Competitors are investing aggressively.** After a slow start, retailers are playing catch up. Retail has moved into the top three industries increasing their AI spending.
- **Talent is scarce.** Forty percent of major retailers have added senior AI leadership roles. Slower movers will face challenges in attracting the best people in a scarce talent marketplace.

What Next

AI is rewriting both sides of retail: how consumers shop and how retailers run.

External: AI Redefines the Consumer Experience

AI is upending the consumer journey. AI platforms like ChatGPT, Google's AI Mode, and Perplexity don't just browse—they recommend products and allow consumers to buy goods directly. Nearly half of consumers already trust product recommendations made by AI more than those of their friends. Retailers risk being left on the outside looking in as AI becomes a primary way consumers shop.

Retailers face a strategic choice in how they work with AI platforms to connect with their customers. Do they play the destination or evaluation game or a hybrid approach?

The Destination Game. Some retailers can convince consumers to shop their own channels directly—sidestepping the AI platforms—to protect their brand and margins. They win on uniqueness: brand strength, product assortment, captive loyalty programs, or rich shopping experiences. Trader Joe's plays this game by staying off Instacart, leveraging its own brands and store experience to attract customers to their own channels.

The Evaluation Game. Alternatively, retailers can integrate with AI platforms to participate in a rapidly growing channel and attract new customers. To get recommended by agents, they must win on utility: the lowest price, the fastest delivery, or the best product fit for a specific user need. For example, Publix plays this game through Instacart, gaining share as the largest grocer on that platform.

The Hybrid Game. This is not an either-or choice. Winning retailers can achieve both reach and relevance—attracting customers from AI platforms, while converting to their own channels. They must decide which SKUs, promotions, and loyalty benefits to put on AI platforms, and which to keep exclusive to their own channel. For example, Sephora sells through Instacart but saves its best promotions for its own app.

Regardless of the game retailers choose, they should be highly visible on AI platforms. The winners will master answer engine optimization: generating content so chatbots can understand, trust, and recommend their products.

Internal: AI Agents Are Transforming Functions

Most retailers are rapidly introducing AI and agents to transform functions end to end, generating radical gains in speed, quality, and cost.

Retailers are seeing tangible returns in a wide range of functions. Retailers like Walmart are using AI to automate negotiations with smaller vendors, while Starbucks's Green Dot Assist platform uses AI to onboard new baristas.

AI-first retailers aren't just automating tasks; they're orchestrating decisions. For example, the merchant of the future will manage a team of AI agents: one negotiating contracts, one shaping prices, one allocating stock to stores, and one localizing assortments.

How to Become AI-First

Becoming AI-first is not just about building AI; it's about transforming how work gets done. Realistically, most AI transformations do not fully achieve their goals. Retailers can flip the odds by

focusing on three moves drawn from the industry's early leaders.

Rewire the operating model. Agents allow employees to take on more responsibilities and make faster decisions. Consequently, retailers can move away from function-led hierarchies to become flatter and more cross-functional. Decision making shifts from slow approval chains to real-time action as agents and humans work collaboratively.

Change leadership behaviors. AI transformations are more likely to succeed when they are led from the top. Senior leaders show with their words and actions that AI is a top strategic priority, not a side project. They demonstrate usage: showing they are an AI leader, not an AI cheerleader.

They also focus the organization on a few high-value bets at a time and track tangible outcomes. They understand that success depends on people and change management—about 70% of the effort—not just technology.

Redirect technology spend. Leading retailers are using AI to reap efficiencies by, for example, automating manual tasks such as reporting and contract audits and upgrading legacy systems. They reinvest those savings in the building blocks for AI: high-quality data and scalable agent infrastructure. The goal isn't to spend more, but to spend smarter.

Retail is entering an era when AI reshapes how consumers shop and companies operate. AI-first retailers will meet consumers not only in stores or on websites but inside AI platforms, while running better, faster, and leaner organizations behind the scenes.

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