

Spotting New Opportunities for Service Firms

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Customer experience is a critical differentiator in the service sector—and the path to growth means that businesses must protect it while also managing costs. That balance is becoming more difficult as consumers tighten spending. The Federal Reserve’s July 2025 Beige Book notes a shift toward lower-priced goods and more meals at home, while a 2025 BCG survey found that consumers worldwide expect economic headwinds over the next five years.

With demand softening, B2C service firms must rethink how every dollar is spent. The result is a push toward automation and AI—tools that can ease labor shortages, stabilize costs and elevate the customer experience.

Service firms are getting squeezed from both ends

Rising input costs and unpredictable demand are key challenges. Labor and property are their largest expenses, and hourly compensation rose in 28 of 31 service industries measured in 2024, according to the US Bureau of Labor Statistics. Real estate costs remain elevated as retailers compete for limited space, and new tariffs have raised prices on everything from packaging to uniforms.

“Between those two forces—rising input costs and uncertain demand—there has to be a lot more focus on how service companies can manage their costs,” says Tiffany Yeh, Managing Director and Partner at BCG.

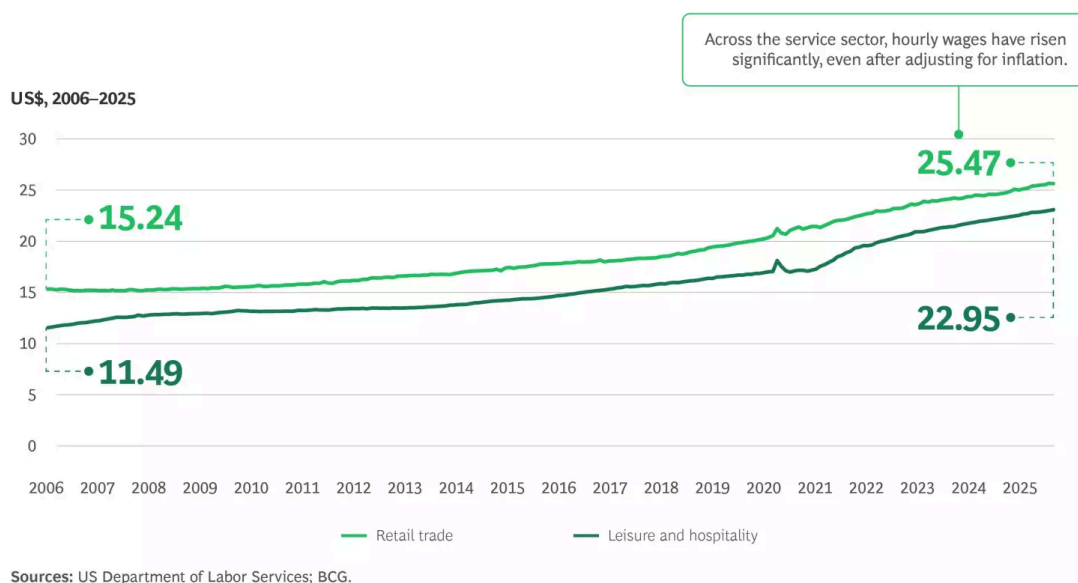
Tariff volatility is also affecting logistics, with fluctuating shipping and freight rates complicating inventory planning for retailers and restaurants. That uncertainty translates into price swings and inconsistent stock, putting further strain on margins.

Retailers could find an edge

Retailers, often the first to respond to consumer behavior shifts, have been cutting costs since late 2022. Now, many are seeking growth through margin-boosting strategies like private-label and limited-edition products. “You have more cost control if it’s your own brand,” Yeh says. “It also creates exclusivity that draws the consumer to your particular store.”

At the same time, automation is reshaping the workforce. High-turnover industries such as hospitality and retail are using AI-powered tools to streamline repetitive work, improving efficiency and freeing up employees for higher-value tasks. “Automation and AI are making existing teams more productive, so companies can grow without growing the cost base,” Yeh adds.

Average Hourly Earnings of Employees in Services, Seasonally Adjusted



Automation has a wide-ranging impact

Across the service economy, automation is driving both cost optimization and better customer interactions. Bloomberg research shows 41% of European insurers rank cost optimization as their

top technology-spending priority. On global earnings calls, AI is now among CEOs' most-mentioned topics, often cited as a route to greater throughput and efficiency.

Generative AI is already quickening inventory processing by up to 75% for leading retailers, according to Bloomberg Intelligence. In restaurants and grocery stores, digital kiosks, frictionless payments and self-checkouts are improving service speed and accuracy while enhancing the customer experience. Lowe's, for example, has deployed AI assistants to help store associates and customers alike, streamlining service and guidance.

Cost management means strategic reallocation

The future of cost management in services will hinge not on restraint, but on reallocation. Automation and AI free up capital that can be reinvested into areas with the highest impact: prime locations, new formats and tools that enable employees to deliver more personalized service. By embracing these technologies strategically, service leaders can build a sustainable cost advantage and redefine what stellar customer experience means.

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