



Deloitte Global Retail Outlook 2024

Navigating challenges and embracing opportunities -
insights from retail leaders around the world

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A foreword from Evan Sheehan



After the disruption that came about during by the COVID-19 pandemic, the rising costs-of-living, inflationary pressures and geopolitical tensions around the world, you could forgive retailers for being cautious about prospects for the year ahead. But the opposite appears to be true.

Buoyed by opportunities founded in technology – not least of which, the emergence of generative AI – which could reduce costs, improve productivity and enhance the customer experience, the retailers interviewed as part of the Deloitte Global Retail Outlook provided an optimistic outlook for both top- and bottom-line performance across the sector.

It would be a mistake to say that things will be easy for retailers this year – the economic outlook suggests that 2024 as could be a year of two conflicting halves and retailers report that their number one priority around the world is coping with inflationary pressures – but there is a sense that as the industry continues to evolve and adapt to changing market conditions, 2024 will likely be a year where retailers encounter plenty of opportunities for growth.

To achieve their growth objectives, retailers should work to manage a variety of systemic challenges, including climate change, a shrinking labor force and supply chain pressures coming to the forefront. I hope there is an improvement in trading conditions in 2024 to free up retailers to make longer-term strategic decisions and investments for the future. As a result, the decisions made this year by retailers will likely have a significant impact on their long-term performance.



The state of the global economy by Dr. Ira Kalish



A year ago, there was concern that the world was facing a new era of permanently higher inflation and imminent recession. Both expectations were wrong. In 2023, inflation decelerated sharply, major economies continued to grow, and labor markets remained tight. Still, as 2024 begins, monetary tightening has likely ended, potentially setting the stage for a global recovery.

There is a good chance that reality will be relatively benign. In most countries, inflation will likely continue to decelerate. Major central banks are expected to ease monetary policy sometime in 2024. In the United States, a recession will likely be avoided. In Europe, where Germany is likely already in recession, economic growth will be muted, but the economic catastrophe once anticipated by some as a consequence of the Russia-Ukraine war will not likely materialize. China's weakness will probably continue, and China's relations with the West will remain troubled. This raises questions about the future of trade patterns, cross-border investments, and the role of global companies in China.

Here is a 2024 outlook by major country/region:

United States

The US economy has shown remarkable resilience in the face of significant monetary tightening. The purpose of implementing a tight monetary policy was to weaken the economy sufficiently to reduce wage and price pressure. Inflation has come down sharply, but mostly due to other factors such as the end of pandemic-related supply disruption. Monetary policy was not as efficacious as intended, although high interest rates did disrupt the US housing market, cause an increase in bankruptcies, and reduce M&A transactions. Still, economic activity has been relatively strong, with both consumer and business spending either growing or steady.

Going forward, the Federal Reserve has signaled that it is likely done raising interest rates and will probably start to cut them later in 2024. The principal remaining obstacle to bringing inflation toward the 2% target is the tight labor market. However, wage inflation is decelerating as labor supply increases (due to rising participation and rising immigration).

The US economy will likely grow in 2024, but more modestly than in 2023. Consumer spending will be fueled by rising real incomes and employment, combined with only modest levels of debt. Business spending is expected to be sustained by strong cash reserves, relative immunity to higher interest rates due to long-term financing, and some government stimulus for investment in technology and clean energy.

Europe

The Eurozone has seen a sharp decline in inflation in the past year. Yet despite this, the European Central Bank (ECB) appears intent on retaining a tight monetary policy characterized by high short-term interest rates. Moreover, the ECB has suggested it will soon stop buying bonds, thereby putting upward pressure on bond yields. This is happening despite a sharp slowdown in the Eurozone economy. Indeed, Germany, the largest economy in the Eurozone, is already in recession, having had three consecutive quarters of declining real GDP. The ECB is worried that a tight labor market with rising wages will inhibit a return to 2% inflation. Thus, it intends to weaken the labor market with a tight monetary policy.

In 2024, it is likely that the Eurozone will experience modest growth. With real wages rising, consumer spending is likely to grow modestly. The region suffers from a range of factors that are stifling growth. These include the impact of gas prices that remain well above the pre-Russia-Ukraine war level, tight fiscal policies, and weak credit market conditions due to monetary tightening.

China

China's economy grew slowly in 2023 due to a combination of headwinds that are likely to persist. These include continued challenges in the residential property market; declining household wealth due to the property crisis, the result of which is a slowdown in consumer spending; dormant private sector investment due to uncertainty about government policy toward the private sector; declining exports due to a weak global economy and trade disputes with the United States; a sharp drop in inbound direct foreign investment due to geopolitical relations and Chinese policy toward foreign companies; an exodus of foreign capital from China due to perceived geopolitical risk; and a high level of debt that is impeding the ability of credit markets to expand.

In response, China's central bank has gradually eased monetary policy, but with little effect. Some observers suggest that China is in a "liquidity trap" in which lower borrowing costs fail to ignite more borrowing. Meanwhile, fiscal policy has been only moderately aggressive.

Longer term, the outlook is uncertain. China faces a sharply declining working age population. Moreover, internal migration has mostly stopped. Recall that such migration had a big impact on productivity gains in the past as workers shifted from farms to factories. Consequently, average annual growth will likely be modest for the remainder of this decade. That could have a big impact on the global economy. It will likely mean weaker exports to China for China's trading partners as well as weaker demand for commodities, thereby putting downward pressure on commodity prices and helping to suppress inflation around the world.

Rest of the world

Although the US, European, and Chinese economies drive global growth, there are other important markets for retailers. It is likely that, in the coming year, India could be the fastest growing large economy. In the Middle East, subdued oil prices are expected to drive modest economic growth, although declining interest rates in the West will likely boost investment in the region. In South Africa, growth will likely be modest, at best, as the country faces a range of headwinds, not the least of which is a troubled market for electric power. Finally, Australia will probably see moderate growth as China's weakness limits demand for commodities.

Dr. Ira Kalish

Deloitte Global chief economist



Retail outlook



Revenues and margins

After a prolonged period of suppressed consumer spending, macroeconomic and geopolitical uncertainty, and rapid changes in consumer behavior (among other things), the global retail industry stands at a crossroads; forced to make decisions about long term investments in new technology and business models while at the same time managing the rising cost of doing business and a decline in the spending power of consumers.

Within Deloitte US' The future of the consumer industry research¹, there is a focus on how businesses have agency and can make choices in order to determine their futures. Retailers can make decisions today that will likely stand them in good stead for the decade to come. The opportunities for growth mean that in 10, 20 or 30 years' time, we could look back at 2024 as a transformational year for retail, but another year of stagnation and a short-term focus on the challenging economic environment could leave retailers behind the curve for years to come. Much will depend on how the sector fares in the year ahead, with the appetite for investment linked to how optimistic retail leaders are about the health of their sectors.

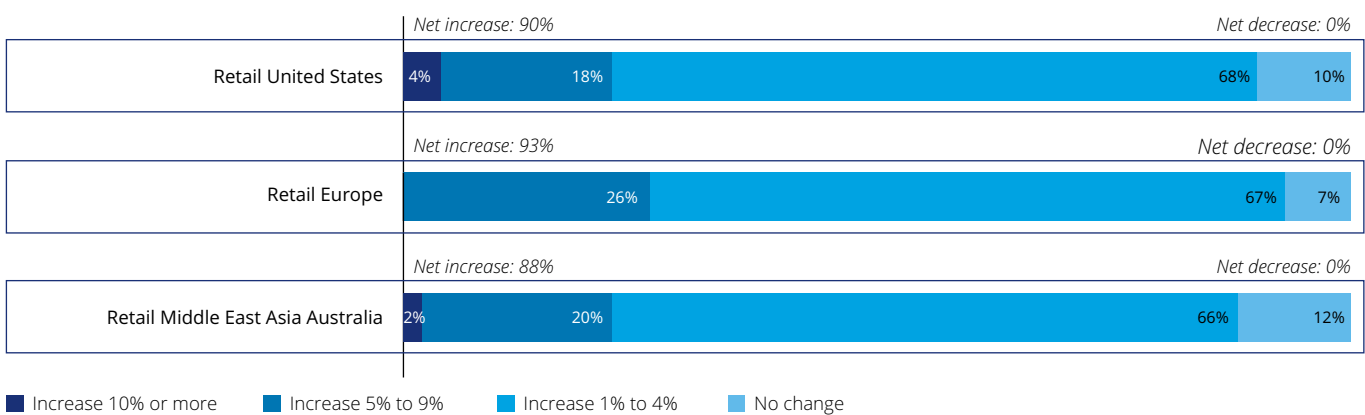
In order to assess the overall condition of the retail sector, we asked 200 retail leaders around the world to provide their expectations for revenue and operating margin – two key indicators of a company's financial health – for the industry as a whole.

Considering the uncertainty surrounding the global landscape, retailers' expectations are relatively optimistic for 2024. Indeed, the industry unilaterally anticipates a net increase in revenue growth (see Figure 1).

The majority of retailers foresee an increase in revenue from 1% to 9% (89%). European retailers are the most positive, expecting a slightly higher revenue growth compared to other regions, with a larger proportion anticipating an increase from 5% to 9%.

Figure 1. Revenue growth expectations

Expectation for year-over-year revenue growth in 2024 for the industry



Q. What are your expectations for year-over-year revenue growth in 2024 for the retail industry in the [region] market?
 Sample size (N) = 200 Retail United States (50) Retail Europe (100) Retail Middle East Asia Australia (50)

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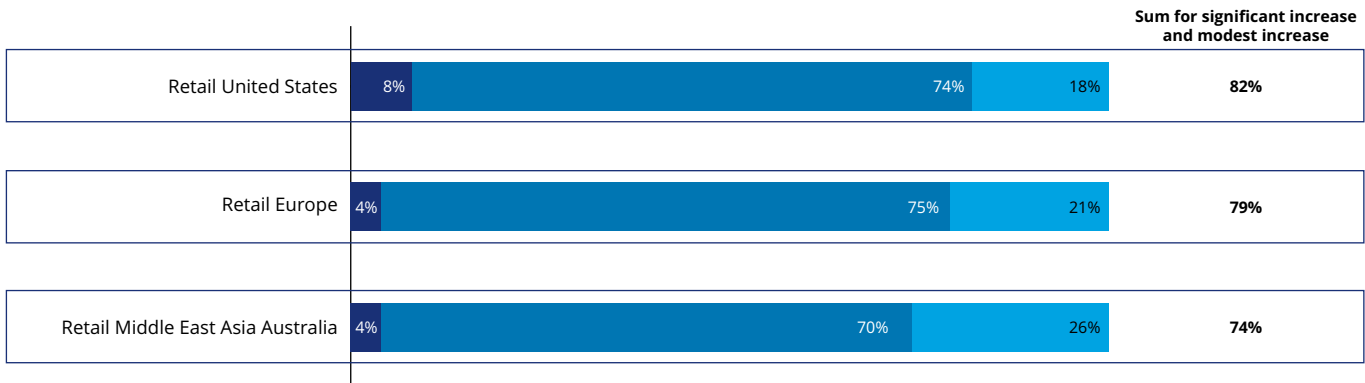
Source: ©Deloitte Global, Deloitte Global Retail Outlook 2024

The global retail industry also projects optimistic expectations for operating profit margins (see Figure 2). The majority of retailers (74%) foresee a modest increase, indicating overall confidence in the sector's financial performance. No respondent expected to see a net decrease in revenue across the sector.

When it comes to regional differences, retailers in the United States (US) and Europe show a similar sentiment, while Middle East Asia Australia (MEAA) demonstrates a slightly lower percentage expecting an increase in operating profit margins.

Figure 2. Operating margin expectations

Expectations for year-over-year operating profit margins in 2024 for the industry



■ Decrease significantly ■ Increase significantly ■ Increase modestly ■ Remain the same ■ Decrease modestly

Q. Compared to 2023, what are your expectations for operating profit margins in 2024 for the .. industry in the .. market?
 Sample size (N) = 200 Retail United States (50) Retail Europe (100) Retail Middle East Asia Australia (50)

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Source: ©Deloitte Global, Deloitte Global Retail Outlook 2024

So just what is it that is driving this optimistic outlook? The primary reasons for expected retail industry margin increase include a focus on e-commerce profitability (47%) and diversification into higher-margin revenue streams (34%).

Boosting operating margins: E-commerce

While e-commerce is a key contributor to top-line growth, retailers are increasingly focused on managing the challenge it presents to profitability. Securing bottom-line growth through e-commerce may prove challenging, but there are clear opportunities to improve profitability.

In retail sectors where margins are tight, the additional costs associated with delivery eat into profits. Logistics and last-mile delivery infrastructure and costs pose a distinct challenge in Europe, where cross border e-commerce is common. Meanwhile, the vast geographic expanse and varying levels of infrastructure

development in the Middle East add cost and complexity to an e-commerce business model. For some retailers, additional investments in logistics infrastructure and fulfillment centers are essential to address these challenges, and optimize e-commerce supply chains, but mean that profitability could remain a longer-term ambition. Likewise, the emergence of innovative delivery systems such as those that use autonomous vehicles and drones are unlikely to be deployed at scale within the next year.

Technology can create efficiencies, which can boost the profitability of e-commerce over the next decade, but consumer behavior also has a big impact on profitability. For example, the growing demand for speedy fulfilment is putting a strain on businesses. According to the survey, retailers expect that in the next five years, two-thirds of deliveries will be expected to be fulfilled either same-day or next-day.

Elsewhere, online returns have come to represent a substantial challenge for retailers, as consumers increasingly take advantage of free-return policies and order more products than they plan on keeping. The traditional approach to returns is both costly and often unsustainable. A product entering back into the supply chain after sale is considered an “exception” and is complex to deal with – it increases costs, reduces margin and masks true consumer behavior through reporting inconsistencies. But there are a number of potential solutions, supported by technology, that could be used in the year ahead to mitigate the impact of returns. In order to reduce returns and improve profitability, some retailers have begun charging for returns. However, this is a suboptimal strategy. Although charging for returns might reduce a small amount of impulse purchasing, charging a small fee for returns is unlikely to cover the full cost of reprocessing, cleaning or restocking products.

An alternate strategy to reduce the impact of returns would be to focus on the behavior itself—improving the consumer experience and increasing conscious consumerism. For example, using techniques to provide improved product information can decrease returns considerably by educating the consumer about whether a product is right for them. This can be as simple as improved sizing guides for clothes, or the use of product videos, avatars, 360 degree product views, FAQs or chatbots to help consumers choose products that they are much less likely to return. Using virtual or augmented reality for placing a product in the home, or virtual try-on software can also help the consumer make a clearer decision about whether they really want the product. The emergence of generative AI has the potential to make this a much more effective way of reducing returns.

Boosting operating margins: Diversification into higher revenue margin streams

In their quest to find alternative sources of revenue, retailers are increasingly looking at how their existing assets can be used. For many retailers, one of the most valuable assets they own is their customer data. Combined with valuable advertising real estate – at the point of purchase both online and in-store – this presents a huge opportunity for retailers to grow their retail media businesses. With many internet browsers phasing out the use of third-party cookies, the ability of retailers to leverage their own first-party data to help brand advertisers connect with consumers in compliance with local laws and regulations, is becoming more valuable than ever before. Retailers can benefit from this opportunity by either creating a new revenue stream or finding ways to cut existing advertising costs. In addition, the use of targeted, relevant retail media can lift sales, and improve the seamless experience of omnichannel shopping.

In addition to their retail media services, an increasing number of retailers will look to expand their B2B service offerings. Indeed, according to our survey, 27% of retailers around the world are looking to make acquisitions of relevant companies in this space. As well as acquisitions, more retailers are likely to attempt to consolidate all of their B2B services (e.g., cloud, cybersecurity, logistics, media, etc.) under one roof as they attempt to distinguish between their core retail businesses and the higher margin services they offer. Consolidation of technology services will likely provide retailers with the ability to make independent investment decisions that can benefit that part of their businesses.



Priorities for the year ahead



An optimistic view on overall revenue and margin growth is all well and good, but in order to achieve their revenue and operating margin goals, retailers should carefully prioritize their actions and investments. In order to understand what retailers were most focused on, we asked retail leaders to identify the top priorities for their companies in 2024 (see Figure 3).

A common theme emerged, with retailers around the world reporting that their main focus was on laying a foundation for future success. Retailers recognize the need to address

fundamental systemic challenges to their businesses such as cost pressures, fragile supply chains and climate-related matters ahead of other priorities. By addressing these areas now, retailers are able to lay foundations for growth in the future. We are also reminded that short-term performance matters, with growing market share, maintaining operating margins and other performance metrics ranking high.

Companies' top five priorities in 2024:



Managing inflationary pressures and reducing costs

Given ongoing economic uncertainty, there continues to be a strong focus on addressing inflationary challenges and stringent cost reduction measures. Especially in business operations, cost reduction can be enhanced by implementing (new) technology including AI – even if this accompanies a longer return horizon.



Improving supply chain resilience

Less than half of retailers say they effectively manage supply chain disruptions. As a result, companies, particularly in Europe, are looking to improve operational supply chain efficiency, reduce vulnerabilities, and help ensure more agile responses to disruptions. To this end, one in four retailers is looking to acquire logistics capabilities.



Becoming more environmentally sustainable

In response to consumer interest and regulatory developments, retailers are prioritizing ESG matters this year. As a result, there are more major investments in the development and execution of this strategy.



Growing market share

Amid these challenges, there is an unwavering commitment to drive business growth by expanding market share across geographies. This is not just about overcoming challenges, but strategically positioning companies for sustained success and competitiveness to thrive. This also means exploring additional revenue streams in adjacent industries.

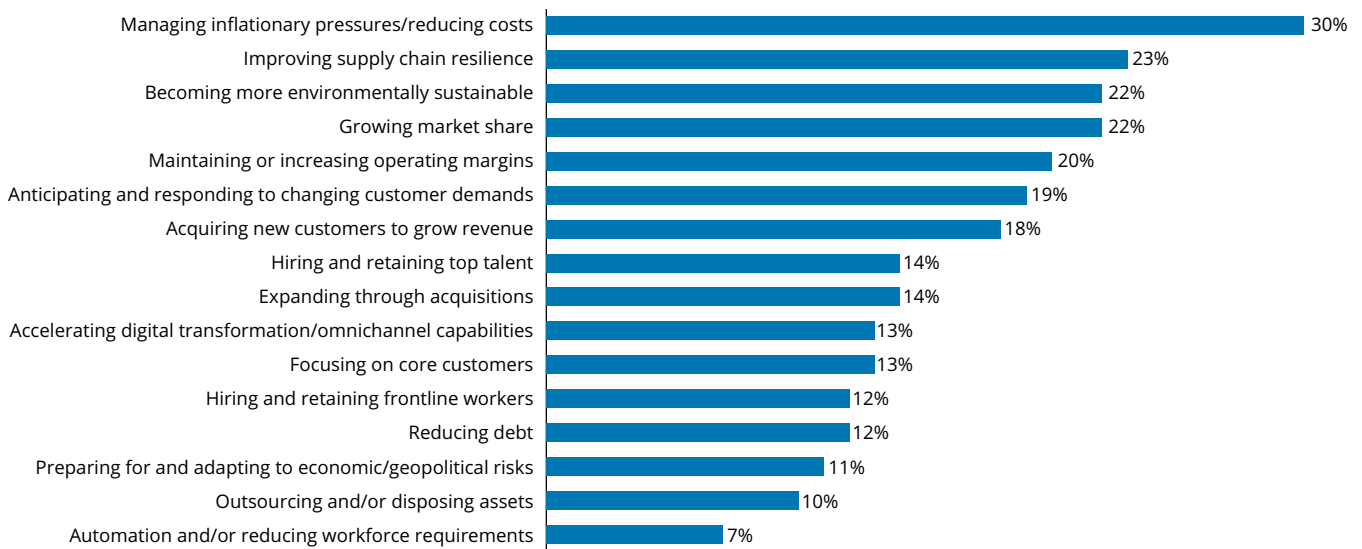


Maintaining or increasing operating margins

Changing market conditions and ongoing inflationary pressures create an additional incentive for retailers to reinvest in their businesses. Whether in keeping prices low, or investing in technology to future-proof their business, prioritizing operating margins gives retailers more flexibility around these investment decisions.

Figure 3. Company's top priorities

Companies' top priorities in 2024



Q. What are the top priorities for your company in 2024?
 Sample size (N) = 200

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Source: ©Deloitte Global, Deloitte Global Retail Outlook 2024

Priority number one—taming inflation

One third of survey respondents stated that managing inflationary pressure and reducing costs was a top priority, making it the number one priority of retailers around the world. But with signs pointing to inflation being in retreat, why does it remain such a pressing issue for retailers?

According to ConsumerSignals data, since 2022 consumers have demonstrated resilience in the face of challenges globally. In recent months, however, the Global Wellbeing index suggests that consumers are losing financial steam².

More recently, financial well-being and spending intentions have started heading south again. After a prolonged recovery, the trend suggests consumers have collectively reached yet another turning point globally.

Easing inflation's early psychological boost might have run its course and consumers are no longer optimistic enough to forecast an improvement in their sentiments. Many consumers may have hit their limits with price increases and budget stretching. At the same time, the global economy that in the past years focused more on goods trade and consumption due to the pandemic restrictions is shifting back to services³.

In this environment, uncertainty among consumers is still high⁴ and inflation will likely continue to be a challenge in 2024, forcing consumers to buy less. Retailers should assess the potential lasting impact of high prices. Many consumers have made changes to where and how they shop, trading down to cheaper brands or private label products in response to the cost of living changes. This is expected to endure throughout the year – according to the Global Retail Outlook 2024 survey, retailers expect lower prices to be a stronger purchasing driver rather than brand loyalty or sustainability.

Challenges and opportunities



2024 will likely see the retail industry face a number of systemic challenges head-on. At the same time, changing consumer behavior and disruptive technology can help them seize opportunities for growth. We explored these contrasting themes throughout the survey, exploring how businesses were planning to respond to challenges and where they saw opportunities. Here we evaluate three systemic challenges and three opportunities that could define the retail industry, not only in the year ahead, but into the next decade and beyond.

Systemic challenge #1: Climate change and the credibility of retailers' commitment toward the green transition

According to the United Nations (UN), climate-related disasters increased globally by 83% from 2000 to 2020⁵. The climate change challenge intensified during 2023, when Earth experienced its hottest year on record⁶. The intensification of extreme weather conditions affects multiple aspects of daily life of consumers and companies alike.

In particular, retailers may incur multiple risks as a consequence of climate change. Potential harm to physical assets – such as stores and warehouses – delivery challenges, uncertain supply chains, and the growing costs of insurance are just a few.

In the face of these events, 68% of retailers are certain that climate change will significantly increase the cost of doing business in the next five years, with a peak of 74% from MEAA respondents.

Adapting to climate change and meeting customer and regulatory demands for more sustainable practices in retail also mean that it is essential for companies to adopt ESG-related practices that deliver transparency and traceability in their supply chains. This includes using technologies such as blockchain to improve end-to-end supply chain visibility. By tracking transactions and product movement along the supply chain, companies reduce the risks of fraud and unethical practices. It's no surprise, then, that 52% of retailers expect blockchain to be more widely adopted in the next years.

This level of transparency not only meets the expectations of increasingly eco-aware consumers, but also helps companies comply with regulatory reporting requirements such as the Corporate Sustainability Reporting Directive (CSRD)⁷. To increase corporate accountability, the EU has extended mandatory and standardized reporting affecting approximately 50,000 companies

operating in the European Union (EU) as of 1 January 2024. This includes EU subsidiaries of larger US-based companies. Although the first CSRD-related reports are not due for another year, given the complexity of the regulation, 2024 is the time to prepare to meet the requirements.

However, this is not the only regulatory directive on ESG practices. As sustainability becomes more important to consumers, environmental claims and labels are on the rise, too. To avoid the risk of greenwashing and to strengthen consumers' trust in brands, there are new regulations that strictly define environmental claims and communication. To verify and substantiate these claims, companies have to increasingly rely on independent third-party certifications. Evidence of this trend is the number of Certified B Corporations that has accelerated in the past three years, reaching more than 8,000 companies in 95 countries⁸ at the beginning of 2024. According to the survey, 60% of retailers expect companies to rely heavily on these certifications over the next five years.

Although the cost of adapting to ESG-related market evolutions is quite high (10% are expecting to make major financial investments and 64% are expecting moderate investments this year), early compliance with regulations can also lead to strategic benefits such as leveraging data for insights and transparency, reducing reputational risks and enhancing relationships with key stakeholders. Overall, the majority of retailers (62%) agree that sustainability represents an opportunity for growth, as they also expect more revenues to come from circular business models in the next five years.

Systemic challenge #2: A shortage of workers

According to forecasts, global retail sales will exceed US\$30 trillion this year⁹. At the same time, the world's advanced economies face a persistent labor shortage. In recent years, this has been exacerbated by the COVID-19 pandemic which preceded a sharp

decline in labor force participation and a drop in migration. Although participation and migration has rebounded, labor supply remains lower than needed. It's not just the existence of long COVID that limits labor supply, but also a decline in the size of working age populations in some countries due to aging populations and declining birth rates in certain regions, such as Europe¹⁰. This compels companies to invest more in automation, labor-saving and labor-augmenting technologies, thereby accelerating productivity growth.

With labor shortages persisting across economies, competition in an understaffed labor market is intensifying.

Looking at 2024, retailers already anticipate increased competition for skilled talent globally. In response to the dynamic workforce environment, retailers are prioritizing hybrid work policies to retain talent, while also recognizing the potential impact of staff shortages on the customer experience. Despite the pervasive competition for skilled talent, more retailers in Europe (71% versus 66% in MEAA and 62% in the United States) plan to invest in hiring, but also invest more in retaining and future-proofing their workforces. This is could be because retailers in Europe are less confident in their ability to effectively upskill and reskill their employees than retailers in other geographies.

However, with the need for automation becoming more apparent, the industry should strategically focus on reskilling and upskilling employees to align workforce skills with emerging technology trends. Retailers, especially in Europe, are therefore embracing AI as a strategic tool to improve workforce management, hiring processes, and employee training, underscoring their commitments to leveraging advanced technologies for sustainable growth and competitiveness.

Systemic challenge #3: Supply chains under pressure

During the COVID-19 pandemic, global supply chains were disrupted by a surge in consumer demand for goods combined with pandemic-related restrictions on production and distribution. Most of that disruption has evaporated, but the experience convinced global companies that their supply chains were more fragile and vulnerable than previously known. Consequently, global companies, while still focused on low cost and high speed, are increasingly focused on supply chain resilience. The result is more investment in supply chain diversification, with a focus on reducing exposure to China. Global companies are responding to geopolitical tensions and are shifting processes from China to Southeast Asia, India, Mexico, and elsewhere.

Meanwhile, governments are playing a role in the redesign of supply chains. The United States and its allies have restricted trade and capital flows with China regarding high technology. Plus, the United States and others have provided subsidies for the reshoring

of high-tech manufacturing and clean energy investment. This is part of a trend toward using industrial policy to promote specific types of investment. This has been true, especially in the United States as well as in Europe and Japan.

Retailers recognize the need to address fundamental systemic challenges to their businesses such as cost pressures, fragile supply chains and climate change. Less than half of retailers say they effectively manage supply chain disruptions. As a result, companies, particularly in Europe, are looking to improve operational supply chain efficiency, reduce vulnerabilities, and help ensure more agile responses to disruptions. To this end, one in four retailers is looking to acquire logistics capabilities. Retailers also expect to significantly increase data sharing and collaboration with value chain collaborators to improve forecasting effectiveness, essential to create efficiencies along whole supply chains and to anticipate demand for goods.

Opportunity #1: Health and wellness on the rise

Health and wellness are growing trends for consumers, as a result of more conscious behaviors and a greater attention to their health. Eight in ten consumers declare to seek foods that offer nutritional profiles personalized to their needs¹¹.

Also, digital spending for health and wellness digital goods and services, such as apps for telehealth and fitness tracking, is an emerging category in consumers' wallets according to Deloitte Global's ConsumerSignals. Roughly one in ten consumers spent on products and services in this category over the last month, with young consumers (18-34 years old) being the heaviest spenders across generations¹².

As a result, retailers expect an increase in consumers' use of wearables to monitor their health and integrate personalized nutrition into their shopping selections, with a particular emphasis by US retailers (68% vs. 61% for European retailers and 60% for MEAA retailers). This might be an opportunity for retailers to invest in digital functionalities to help consumers make healthier choices. Also, consumer adoption of weight loss drugs like Glucagon-like peptide-1 (GLP-1) has the potential to change demand patterns in several of retailers' product categories. The use of weight loss drugs could drive up the sale of other discretionary categories (such as complementary dietary products).

More specifically, consumer adoption of weight loss drugs like GLP-1 is being actively addressed by retailers in the United States and in Europe by either developing action plans or business strategies to manage potential changes in demand patterns at a category level brought on by use of the drug (44% in the United States and 50% in Europe), or by already having a strategy up and running (10% in the United States and 3% in Europe).

What are weight-loss drugs (GLP-1) and how are they impacting retailers?

In the past couple of years, a new class of medications used to treat Type 2 diabetes has gained attention because of their impressive weight loss results: these are the glucagon-like peptide-1 (GLP-1) receptor agonists. Clinical research found that these drugs can contribute to satiety and can regulate appetite, ultimately helping support weight loss .

The market for weight loss drugs is potentially big: there are roughly 750 million obese people worldwide. In the United States it amounts to about 42% of adults, and obesity-related illnesses lead to billions of dollars in health care costs each year.

Pharmaceutical companies are testing GLP-1 drugs for other uses, such as preventing cardiovascular disease among obese adults.

Some retailers with pharmacy businesses, have announced that GLP-1 prescriptions have already helped boost sales for the second quarter of 2023 , and are driving more people into stores, where they are purchasing products in other categories, such as consumables and health and wellness goods . At the same time, there might be a reduction in grocery spending as consumers of GLP-1 drugs may reduce their consumption of grocery goods .

Opportunity #2: Technology supports a shift from mass to micro

Nowadays, consumers are becoming increasingly distinct from each other in their purchasing preferences and in what they want from retailers, driving the industry to consider shifting its paradigm from mass to micro, or from supply-driven to demand-driven retail. Retailers should consider their consumers as individuals, and as a consequence marketing, promotions, and processes should become increasingly targeted.

Switching from mass to micro means creating personalized experiences for customers and service modes in channels. The expectation is that assortments, provided in a combination of digital and in-store experiences, will likely match individual needs more precisely. Mass to micro also means there shouldn't be just one successful format but there will be a greater blend of digital and physical, delivery and in-store, niche offerings, and high volume, configured around different consumers' priorities (e.g., quality, value, choice, convenience, etc.)

In this evolution, technology plays a crucial role. Retailers have many expectations regarding the main technological changes happening in the next five years, mainly related to improving forecasting effectiveness and improving and tailoring the overall shopping experience.

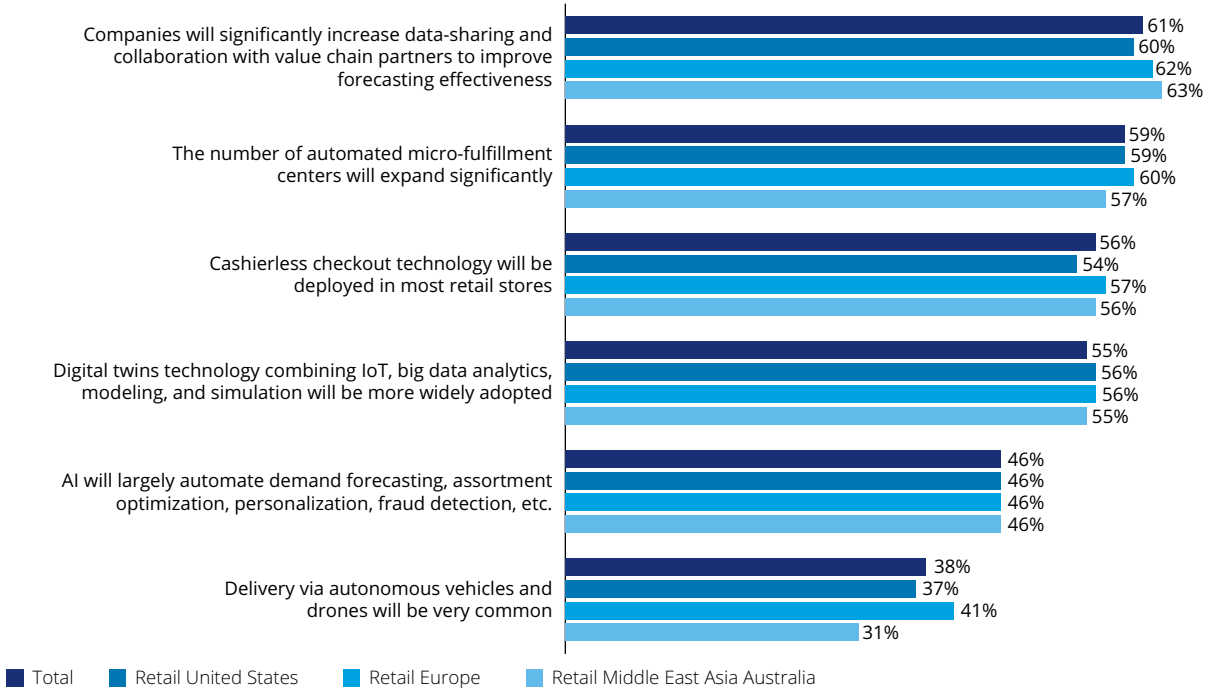
First of all, retailers will significantly increase data-sharing and collaboration with value chain partners to improve forecasting effectiveness, essential to creating efficiencies along whole supply

chains and to anticipating demands for goods. We will also likely see increased speed of forecasting, with almost half of the retailers involved in the survey identifying artificial intelligence (AI) as a key tool in automating this process.

In the attempt to bring the storage and distribution of goods closer to end consumers and shortening the time it takes to deliver products ordered online, the number of automated micro-fulfillment centers is expected to expand significantly. In the next five years, e-commerce sales will almost surely witness a strong emphasis on quick delivery, with 64% expected to be fulfilled on the next day or on the same day. This shows a significant consumer preference for quick and efficient shipping options in the evolving retail landscape. In the delivery phase, autonomous vehicles and drones have yet to become heavily adopted over the next year, as only 38% of retailers believe that they will be very common. Technology to improve customer experiences, such as cashierless checkout, is a growing reality and is expected to be deployed in most retail stores, making shopping faster and easier. Also "digital twins" technology combining the Internet of Things (IoT), big data analytics, modeling, and simulation will likely be more widely adopted by retailers. Considering e-commerce growth and the potential increase in social commerce and direct-to-consumer platforms, digital twins are getting a relevant role for retailers. By using such technology, retailers can collect valuable insights not only about customer preferences and experiences, but they can also enhance overall efficiency – from supply chain management to store operations.

Figure 4. Technology expectations

Technology changes potentially occurring in the next five years



Q. Considering the retail industry, what are the chances of the following occurring in the next five years in the market?
 Sample size (N) = 200 Retail United States (50) Retail Europe (100) Retail Middle East Asia Australia (50)

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Source: ©Deloitte Global, Deloitte Global Retail Outlook 2024

Opportunity #3: Unlocking the power of artificial intelligence

There is an expectation that generative AI (GenAI) can be used to unlock business value, supercharge efficiency and productivity, and open the door to entirely new products, services and business models. According to Deloitte US' AI institute, 79% of cross-industry business leaders expect GenAI to transform their organizations within the next three years¹⁷.

The opportunities in retail are exciting. Among GenAI's capabilities is the ability to automatically create compelling content on demand and at scale. With GenAI created text, images, marketing campaigns, product offerings, and more, retailers can hyper-personalize customer engagement across a multitude of markets and channels. In addition, GenAI serves as another powerful tool that can help improve data analysis, pattern recognition, and predictive modeling. It excels in processing vast volumes of data at high speeds, extracting insights, and identifying opportunities. The rapid tempo of decision making in the retail industry and other consumer sectors demands faster analysis of enterprise data, including structured information (e.g., sales) and

unstructured information (e.g., customer feedback and design trends). Given the scale of the data, as well as the reality that data is sometimes siloed or geographically dispersed, GenAI can help businesses more rapidly and easily query datasets to find the answers to questions more quickly and understand their market at a level of granularity and speed that was previously considered unachievable.

Over the last year, many use cases and tools for GenAI in retail have been identified and developed¹⁸. The year ahead will likely see retailers begin to adopt and implement these at scale. According to this year's respondents, areas of prioritization could include the use of AI/GenAI to enhance end-to-end supply chain visibility (46% of respondents), enabling personalized product recommendations (42%) and improving workforce management, hiring and training (41%) (see Figure 5). Each of the top three priorities identified in the survey link to distinct parts of a retail business – supply chain, marketing, and talent – demonstrating the potential impact that GenAI might have on a business. It also suggests the need for retailers to take a holistic, strategic view about how they implement and use GenAI across their organizations. If tools are

going to be implemented in different departments, then universal guidelines should be put in place and adhered to, and tools and collaborations should be considered for their potential to serve

multiple parts of a business. The race to deploy this technology quickly risks tools being siloed in different departments, potentially creating unnecessary inefficiencies.

Figure 5. Artificial Intelligence use case priorities

AI/GenAI usage most likely to prioritize in 2024



Q. Which of the below uses of AI/GenAI is your company likely to prioritize in 2024?
 Sample size (N) = 200 Retail United States (50) Retail Europe (100) Retail Middle East Asia Australia (50)

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About the survey



The Deloitte Global Retail Outlook 2024 is based on research carried out by independent market research agency Coleman-Parkes on Deloitte Global's behalf. The survey was conducted by telephone and online with 200 retail professionals comprising

c-suite and senior decision makers with direct responsibility for strategic initiatives within their organizations. The survey was conducted between 10 November to 7 December 2023.

North America	50 respondents	United States
Europe	100 respondents	United Kingdom, Germany, France and other European countries
MEAA	50 respondents	UAE, KSA and other Middle East countries, South Africa and Australia



Industry perspectives



Nancy Mahon
Chief Sustainability Officer
The Estée Lauder Companies

Sustainability and social impact in the beauty industry: A conversation with The Estée Lauder Companies' Chief Sustainability Officer

In the dynamic world of consumer goods, the role of sustainability and social impact has become increasingly crucial. Nancy Mahon, Chief Sustainability Officer at The Estée Lauder Companies, sheds light on the company's efforts, the impact of partnerships, and the involvement of internal stakeholders in helping to foster a greener future.

The power of consumer businesses

For The Estée Lauder Companies, sustainability isn't just about reducing environmental impact, it's about creating social impact with and for key stakeholders. Nancy emphasizes the unique and influential position consumer goods companies have in that regard. "Consumer goods companies have an incredible opportunity to connect with not only employees, but also consumers, and that collective power of people and brands can lead to impactful change," she states. This power, she believes, positions organizations like The Estée Lauder Companies as pivotal players in helping to address global challenges.

Driving value for stakeholders

In order to use this influence, sustainability efforts must be aligned with the brand, with retail messaging and in the employee experience. "We need to talk about our work in a way that's relevant to all stakeholders and is valuable to them" she says, emphasizing the need for an approach that benefits employees, consumers, investors, and governments alike.

Partnerships for progress

It's clear that partnerships play a role in The Estée Lauder Companies' sustainability journey. Nancy highlights the collaborative efforts with both industry peers and partners from various sectors who share The Estée Lauder Companies' commitment to sustainability. The beauty giant has engaged with packaging suppliers, competitors, and even those in unrelated sectors, illustrating that sustainability is a collective effort. "It is a team sport," says Nancy. "And our scale helps to initiate and create meaningful change."

Environmental ratings, regulations and reporting guidelines

Nancy proudly mentions The Estée Lauder Companies' recent achievements in the environmental ratings. The company earned high marks in the climate, water, and timber categories from the CDP (system for sustainability reporting).

When discussing the evolving landscape of Corporate Sustainability Reporting Directive (CSRD) Nancy has a positive outlook. While recognizing the challenges, she welcomes the potential for standardization in the reporting field. Standardized reporting would not only simplify the process for companies but can also provide a harmonized narrative that can be shared globally. This, she believes, will help facilitate a more transparent and impactful way for us to tell their sustainability stories.

Empowering internal stakeholders

At The Estée Lauder Companies, employees play an important role in the sustainability journey. An internal survey called "ELC Listens" revealed that employees really value having "green" buildings, for example. As a result, the company amplified internal communication about its sustainability initiatives and has empowered employees through the creation of green teams in various offices. This helps to foster a sense of involvement and ownership among employees.

Education is another way for The Estée Lauder Companies' sustainability strategy to filter down to its employees. Several teams from different departments recently took part in a training initiative focused on understanding Scope 3 emissions and there's a climate hackathon planned with the IT team, recognizing the significant impact IT decisions can have on sustainability.

Personal connection to sustainability

Nancy's personal connection to sustainability goes beyond her professional role and is also clearly present in her family life. "We were blessed as a family to not be heavily impacted during the COVID-19 pandemic, but it did become a time for us to reevaluate priorities and consider the broader impact we have on the world. Whether it's using recycled plastic or cardboard, or minimizing water usage while brushing our teeth, my family now actively engages in sustainable practices wherever possible. "Obviously in a large company, the complexity of working on sustainability is very different but the principles are essentially the same – it's about making conscious choices, understanding the impact, and actively contributing to positive change."



Wouter Kolk
CEO
Ahold Delhaize Europe and Indonesia

Inflation, affordability, and consumer behavior: Navigating the retail landscape

The European retail market has faced considerable challenges over the past 12 to 18 months, dealing with inflation and cost pressures. Wouter Kolk, the CEO of Ahold Delhaize Europe and Indonesia, sheds light on some of the strategies employed by Ahold Delhaize to help navigate these challenges. He also talks about sustainability initiatives, consumer behavior, the impact of digital transformation, and the evolving leadership landscape.

Inflation and costs dominate the agenda

Heading straight into the topic, Wouter emphasizes the delicate balance required to help manage public sentiment and create industry unity in the face of inflation. "The rise in inflation has posed challenges for the retail sector, both for companies and for consumers. We must address rising costs without compromising the customer experience. And we need to do that together."

Shifting consumer dynamics

Consumers are increasingly price-conscious, gravitating towards private brands, and seeking promotional deals. Ahold Delhaize, recognizing this shift towards more economical alternatives, uses loyalty programs and tailored promotions to help cater to the evolving preferences of these price-conscious consumers. "We have also sought industry unity in order to face the new market dynamics. New buying alliances have helped us to purchase more efficiently, ultimately leading to lower prices for customers."

Sustainability is of growing importance

Sustainability is also at the forefront for European retailers, gaining even more prominence over the last five years. While acknowledging the progress made to integrate sustainability into business strategies, with commitments and tangible actions becoming more prevalent, Wouter advocates for even greater alignment among retailers and suppliers to collectively help address some of the challenges in this field. He envisions a collaborative approach where retailers and suppliers join forces to help reduce their carbon footprints and drive sustainable practices. "This doesn't have to be a competition; with common standards, a common agenda, and more alignment within retail and among suppliers, we can move the needle together. As an industry, we can lead the way."

The digital transformation and its implications

Ahold Delhaize, having initially operated predominantly through brick and mortar, underwent the journey into omnichannel retail. The adoption of digital platforms and mobile applications has become integral to their strategy. "We need to ensure consumers feel the seamless customer experience across digital and physical touchpoints." But the digital shift in retail also poses profitability challenges, for example, due to the additional costs associated with online retail. "Online delivery, etc. definitely doesn't help your profitability, but it helps your growth. So it is definitely an integral part of our business."

Wouter embraces the impact of digital technologies like Chat GPT on the retail sector. He sees opportunities in areas such as supply chain optimization and employee engagement, emphasizing the need for responsible data usage and protection. "I think there will be massive opportunities. Some processes can be accelerated so much by it, which is cool."

Leadership in the age of change

But as the retail business changes, new priorities emerge and customers evolve, what does this mean for the role of leadership in the retail sector? Technology and sustainability are increasingly incorporated into the executive agenda and Wouter predicts that technology officers and digital officers will likely play a more prominent role in executive teams. "Leaders should continually keep learning and staying curious about emerging technologies. The shift towards a more diverse executive team, including technology officers and sustainability experts, for example, reflects the industry's recognition of the significance of these aspects in shaping the future of retail."

Wouter ends on a word of advice for ambitious employees in retail, "keep on learning, be curious, and embrace the fascinating dynamism of the retail industry."



Scot Case

Vice President for Sustainability - National Retail Federation (NRF)
Executive Director - NRF Center for Retail Sustainability

Navigating the future of retail: A sustainable revolution

The retail landscape is undergoing a transformation, with sustainability emerging as a pivotal force shaping the industry's future. In an exclusive interview with Scot Case, the Vice President for Sustainability at the National Retail Federation (NRF) and the Executive Director of the newly launched NRF Center for Retail Sustainability, we explore some of the profound impacts of sustainability on retail and the strategies retailers are adopting to navigate this topic.

Sustainability beyond regulation

In Scot's extensive retail experience he has seen the economic cycles go up and down. "The retailers that have survived and thrived were the ones that prioritized their investments in times of economic uncertainty," says Scot. He argues that sustainability is not a pause-button activity. "Rather, it's a continual improvement cycle that yields substantial dividends. Retailers who prioritize sustainability, even in uncertain economic times position themselves for long-term success". This is why Scot is pleased to note that the NRF, as the world's largest trade association for retailers, is responding to an increasing demand from its members to actively engage in sustainability conversations. "The results of the Deloitte global survey also show that when asked what their top priorities are, retailers list sustainability right after managing costs and inflationary pressures and ensuring supply chain resilience."

Consumer behavior

This increasing focus on sustainability is contrary to the assumption that economic challenges can lead to reduced consumer and corporate spending on sustainability. In fact, Scot points to a growing consumer interest in buying slightly worn, used, or refurbished products. Retailers seizing this opportunity are not only meeting these evolving consumer preferences but also helping to create new revenue streams and customer generation opportunities. "There are plenty of examples, where we see that the financially smart decision for both retailer and consumer also happens to produce free sustainability benefits."

Sustainability a question of definition?

But what constitutes a smart decision when it comes to sustainability? Scot underscores some of the challenges of aligning the many perspectives on sustainability within the retail landscape. Each retailer has its own definition of sustainability, and consumers

have differing expectations across the different product categories. What they consider sustainable in electronics is likely different than what they consider sustainable in fashion or when purchasing a car or a home.

Retailers should bridge this gap by understanding specific product attributes, understanding consumer choices and effective communications. The retailer needs to know why a customer picked product X and not product Y. For example, in some cases, consumers may indicate they are prioritizing higher quality because they'll be able to use a more durable product for longer. But some retailers might not consider 'quality' as a sustainability attribute. "It's really a definitional issue," continues Scot. "Knowing which specific product attributes are involved in a purchase and ensuring retailers and consumers are talking the same language."

A holistic approach to sustainability

The NRF recently launched the NRF Center for Retail Sustainability, focusing on the circular economy, supply chain sustainability, and consumer insights. Interestingly, when it comes to sustainability, the NRF Center for Retail Sustainability collaborates not only with sustainability executives but engages with various departments. "Because sustainability done properly is embedded throughout every aspect of a retailer's strategy and the execution of that strategy. This means we actively talk about sustainability with the people in finance, the people in merchandising, the people in our supply network, the people in marketing. Without collaboration we won't make it happen."

Is AI the magic wand?

Scot talked about the impact of generative AI and technology in supporting sustainability efforts. From mapping interconnected supply networks to analyzing product attributes and the flow of goods, technology can certainly help retailers to understand and work with the intricacies of sustainability. Moreover, sophisticated AI tools can provide insights into consumer behavior, providing greater granularity about the product attributes of the goods that are being sold and giving an insight into consumer patterns. "Ultimately, data and insights can help to optimize the kinds of sustainable offerings retailers put in front of consumers. But to call it a magic wand..."

Nuances require tailored solutions

"Broadly speaking, all sustainability challenges are similar in

nature. We saw this at our recent conference on the future of retail circularity". The first aim of the NRF Center for Retail Sustainability is developing a roadmap for the future of the circular retail economy. By engaging executives across diverse roles and industries, the project hopes to further foster collaboration, innovation, and systemic solutions that transcend sector boundaries. "So although you're talking to people across all the different roles and sectors within retail, we saw many similarities in how supply chains are organized, how they operate, the kinds of data needs they have, the tools and solutions and the channels they use. There's enough similarity to learn from each other and share innovations for future business models." But while acknowledging the uniformity of sustainability strategies at a high level, Scot emphasizes the sector-specific nuances needed for the different retail sectors when it comes to the details. Each retail sector likely faces distinct challenges and each sustainability

strategy looks different from retailer to retailer, because one size doesn't fit all. The sustainability challenges in the electronics sector are inherently different than those seen in the food sector or the fashion sector. "What we do see across all sectors, is that great strides are being made in optimizing the sustainability solutions."

Sustainability in each aspect of the retail landscape

As sustainability permeates each aspect of the retail economy, Scot highlights its increasing prominence in conversations in the retail space. "Even in conversations unrelated to sustainability, we see sustainability weaving itself into the retail narrative. So, whether you're delving into strategies for business growth or talking about data analytics, you can't escape the topic of sustainability in these discussions." Scot was happy to conclude that "Sustainability has become an integral part of the retail language."





Tim Stracke
CEO
Chrono24

Timeless passion, sustainable watches, and the future of luxury marketplaces

Chrono24, founded in 2003, drawing an average of 9 million users monthly, is the leading online marketplace for luxury watches worldwide. Tim Stracke, Chrono24's CEO, shares his views about growth, customer experience and the long-lasting appeal of a luxury timepiece.

Tim's fascination with mechanics started when he was young. "I spent a lot of time building technical Lego and radio-controlled planes and cars. The first time I saw a Swatch watch with a glass floor, revealing its fine mechanics, I was hooked. And now, at Chrono24, I can bring together this passion for mechanics with my passions for entrepreneurship, watches, and marketplaces. It feels like being in a playground; it doesn't feel like a job."

Customer experience

But Chrono24 is certainly not child's play. Tim, who took over in 2010, attributes its success to being in the right place at the right time. "Of course, some purchases will always be made in a physical store," he says. "But we've proven that the digital realm has a very important place in the luxury shopping experience."

Personally, Tim admits that the retail store experience often doesn't quite hit the mark for him. "Sure, it exudes a sense of luxury but I don't think it's relaxed. It sometimes feels like more like 90s kind of luxury. Where you may get a free glass of champagne or a free espresso, but when you really want to talk watches, a lot of sales people don't really have that experience but still try to sell you something. I really dislike that pressure. And in the same time it takes for the shop assistant to come and get you at the door of the physical store, you can see hundreds of watches while scrolling on our platform. I think that's is luxury to me, even if I don't get a free espresso."

The rise of the smartwatch: helping or hindering the luxury market? Tim then delves into the tech-meets-tradition discussion around the impact of smartwatches on the luxury watch market, suggesting that, contrary to what people might think, smartwatches might actually have contributed to the success of luxury watches in the US. "In the midst of the smartwatch success story, luxury watches seem to be holding their ground, if not thriving even more."

In fact, according to Tim, the shift from 44% to 55% of people sporting wristwear is primarily propelled by the smartwatch trend. Having both a smartwatch and a luxury timepiece, is a trend particularly prominent in the US at the moment. "The luxury watch industry would rather see people having a smart watch than having an empty wrist. And since the smart watch has a very high penetration in the US, that was likely also a driver for the success that we're now seeing in the luxury watch market in the US."

Understanding Chrono24's consumer landscape

Chrono24's consumers predominantly skew male, with a notable emphasis on the 18 to 34 age group. Tim acknowledges the challenges in attracting female consumers but does see an increased number of female customers in the US, potentially fuelled by the growing availability of female-focused models. "We are seeing more unisex models in the market, which our female customers are fond of. Interest among our female customers has shifted, with nearly one-third now opting for unisex watches featuring a case diameter of 40mm or larger. This preference has seen a consistent upward trend over the past five years. But studies show that women often also appreciate something that is specifically for them."

The role of trust in online luxury purchases

Online luxury purchases bring their own challenges. With two-thirds of Chrono24's transaction volume generated from pre-owned watches, customers particularly have concerns about authenticity. Tim therefore underlines the significance of trust and the role of data and technology in achieving that trust. "We put great effort into establishing trust through secure transactions and we are committed to safeguarding customers' funds until they are fully satisfied with the purchased watch."

Trends, challenges, and the future

Discussing current trends, Tim sees stable prices in the luxury watch market and applauds Chrono24's resilience during market disruptions. When discussing the stability and future of the watch industry, he expresses long-term optimism despite some of the short-term uncertainties. This optimism is partly related to the sustainability of luxury watches. "Watches have an enduring appeal and they'll probably outlive you and me and even our house. Probably everything that I own will be outlived by my watch collection, and that's a fantastic feeling," he concludes.

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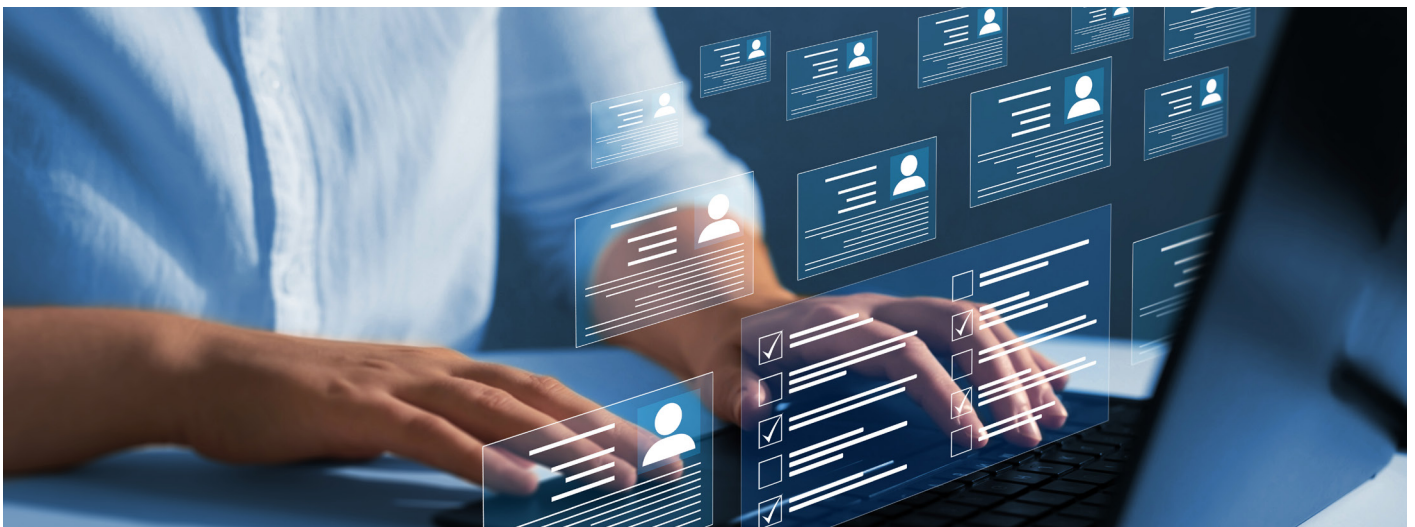
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Acknowledgements

Lupine Skelley, Anup Raju, Brijesh Brijesh, Nandika Kaura



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