



PREPARE FOR 2026 INDUSTRY HEADWINDS: STRENGTHEN RETAIL PROFITABILITY NOW

Thomas J. Blischok
Chairman and CEO,
The Dialogic Group, LLC

Thom.Blischok@thedialogicgroup.com

Anticipate 2026 headwinds—strengthen retail profitability now

2026 Thought Leadership Series

A Thought Starter...

The retail sector is undergoing a significant transformation, reshaping the industry in unprecedented ways, in which profitability has transitioned from a mere advantage to a critical measure of ongoing business viability. Why? Because challenges in the retail industry are intensifying. First and foremost, competition is expected to be fierce as retailers across all channels vie for every shopper's dollar. Although some relief is anticipated, persistent high interest rates are likely to continue posing challenges to the cost of capital and debt payments. Labor shortages will push wages higher. Lastly, retail leadership will continue to evolve quickly as technology-driven transformation becomes the new standard for organizations and operations. These industry pressures affect all retail sectors, from low-margin essentials like groceries to higher-margin discretionary items like clothing and electronics. Expect increases in industry-wide mergers and acquisitions, specialty retail bankruptcies, and business closures across all channels due to the inability to stay competitive. In addition, the maturation of e-commerce, the widespread adoption of AI-powered shopping assistants, and a shift away from broad, generous return policies will further challenge retail economics. The main goal for retail in 2026 will be to cut cost-to-serve while maintaining, and potentially increasing, the contribution margin.

Eight Trends to Watch in 2026...

1. Technology evolves into being the primary driver of growth and profitability, transcending mere functional automation.

- The trend is clear: companies are shifting from minor digital updates to an AI-first strategy, integrating intelligence at every stage from discovery to delivery. This results in more profitable growth and personalized, seamless, and unexpectedly human customer experiences. What's changing:
 - AI takes the wheel -- AI is no longer just automation in the background. It's the decision-making layer that senses demand, adapts in real time, and acts on behalf of both the retailer and the shopper.
- Predictive and autonomous agents: Are becoming increasingly common. These agentic commerce assistants can anticipate customer needs, manage subscriptions, replenish essential items, and negotiate deals, eliminating the necessity for customers to search manually. On the retail operational side, similar autonomous agents monitor inventory levels, initiate restock orders, and coordinate with carriers, all in accordance with a retailer's established policies.

In 2026, grocery retail must convert buzzwords into embedded business strategies

- Hyper-personalization at scale means transforming every interaction into a personalized conversation. This includes site searches that understand user intent and recommendations that account for factors such as weather, location, and occasion. In-store offers can be customized based on what customers viewed online. Picture curated bundles, dynamic content, and unique service experiences that feel genuinely exclusive and personalized, rather than generic.
- Operational intelligence to redesign operations: Using AI to sense demand and optimize inventory, labor, and pricing in near real-time. Expectations include significant improvements in demand forecasting and automated planogram checks via computer vision. Additionally, workforce scheduling will be aligned with traffic patterns, and pricing strategies will aim to protect margins while remaining competitive.
- Security and fraud-prevention capabilities improve: Both will be significantly enhanced by technologies such as robotics, computer vision, and transaction monitoring. These advancements help decrease shrinkage and checkout fraud. Additionally, AI improves the returns process by detecting abuse patterns, ensuring a smooth and reliable experience for honest customers.
- Stores evolve into tech-enhanced experience hubs: Technology transforms physical spaces to engage shopper senses and foster relationships more effectively, while utilizing digital tools to eliminate barriers and enhance connectivity. Digital and physical integration features interactive displays, QR/NFC product tags, and shopper engagement apps that provide instant access to content, sizing, availability, and loyalty benefits. “Endless aisle” setups connect the store to your full catalog and marketplace partners, ensuring the answer is never “we don’t have it.”

Customers have moved beyond thinking in terms of channels. By 2026, retail systems will unequivocally need to adopt a seamless approach to every transaction, prioritizing an ever-expanding omnichannel strategy. To compete and succeed, a retailer must create a unified, technology-driven journey with consistent data and logic at its core.

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2. Supply chains become extremely transparent and more efficient.

Efficiency and trust go hand in hand. Shoppers want transparency about where products come from, while businesses look for flexible supply chains. Digital product passports and blockchain records verify provenance, especially for food, drinks, luxury items, collectibles, and regulated products. A quick scan of the origin, materials, and care instructions increases confidence and brand value. Automated fulfillment, with micro-fulfillment centers, autonomous robots, and AI-guided routing, reduces cycle times and costs, enabling more intelligent scheduling and real-time carrier changes. Plus, Agentic agents help shoppers select the correct size from the start and handle returns through refurbishing, reselling, or recycling, thereby protecting margins and reducing waste.

3. Data privacy and ethical AI are now in the spotlight.

As regulations like GDPR, CPRA, and the EU AI Act tighten, companies must adopt transparent data sharing and use models, obtain explicit individual-level consumer consent, and offer straightforward opt-in or opt-out options, avoiding dark patterns and hidden tactics. Governance measures such as model registries, bias testing, and human-in-the-loop reviews will become standard, clarifying where automation runs independently and where human judgment is necessary, especially in pricing, credit, and sensitive services. While AI will handle pattern recognition, predictions, and initial drafts, human teams will add taste, empathy, and creativity. In retail, success will come from workflows that use AI for efficiency and humans for nuance. This focus on data privacy and ethical AI ensures that responsible technology use remains a priority in the retail industry, giving reassurance to both businesses and consumers.

4. Multiple mergers, acquisitions, and bankruptcies are expected to affect both grocery and specialty retailers, while value retailers are expected to emphasize growth.

Across the grocery industry, mega-retailers will continue to invest in technology to create more cost-effective, efficient operating models. Their strategy in 2026 will focus on capability enhancements from the field to the store. Mid-tier grocers are expected to maintain their agility in serving regional markets through local sourcing and improved customer service offerings to attract shoppers. Independent grocery operators are likely to strengthen their connections to their communities, shoppers, and local vendors. However, 2026 is expected to bring significant mergers, acquisitions, and consolidations within the industry. Those competitors who do not dramatically improve their cost-to-serve while also enhancing the consumer shopping experience will face a challenging year – survival is uncertain.

Specialty retail is expected to face a breaking point in 2026 due to increasing vulnerabilities. The familiar forces are now adding up: high interest rates strain overleveraged balance sheets; consumer spending moves online and toward value options; and price transparency pressures mid-tier brands stuck in the middle.

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Value retail is anticipated to keep its strong growth in attracting shoppers. Factors contributing to this include innovations in private brands, expanding into new markets, consumers looking to maximize their spending, and the straightforward nature of value retail shopping. All these elements will make this channel a significant force across the industry in 2026.

Who's at risk? Retailers are saddled with heavy debt, slow inventory turnover, high fixed costs, and undifferentiated assortments. Early warning signs include stretched payables, rising shrinkage, and stale inventory. Chains owned by private equity, especially those using sale-leasebacks and operating with thin cash buffers, are particularly vulnerable.

Retailers can employ several tactics to prevent elimination or combat challenges:

- Double down on improving profitability across both physical and digital channels rather than simply maintaining a presence. Strategies like ship-from-store, curbside pickup, and same-day delivery require precise contribution-margin calculations that account for all logistic costs.
- Optimize physical footprints by closing or relocating consistently unprofitable stores, resizing formats, and adding shop-in-shop partnerships to increase traffic and share costs.
- Invest in unique shopping experiences and services that both traditional and online competitors can't match at grocery stores. It's all about making the experience simpler and more convenient – fresh and perishable items, localized assortments, in-store services, and a friendly, welcoming staff will play a crucial role in the winning equation. With specialty retailing, businesses can differentiate themselves by offering unique services such as appointments, classes, rentals, repairs, and trade-in programs. These initiatives foster customer loyalty and encourage repeat visits.
- Enhance store labor efficiency through technology. Equip associates with mobile tools to engage shoppers, broaden product choices via the 'endless aisle,' and accelerate checkout. Use AI and robotics to fundamentally reduce store and organizational costs, while redirecting labor toward improving the shopper experience. Align incentives to emphasize both enhancing the shopper experience and boosting profitable sales.
- Finally, if you're facing difficulties, prioritize enhancing liquidity and reducing debt. Consider out-of-court restructurings, SKU rationalization to free cash from inventory, vendor negotiations for improved terms, and targeted store closures rather than broad discounts that hurt value. In 2026, retail has less margin for error—survival requires decisive measures.

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5. *Agentic Shopping explodes, driven by shoppers' inquisitiveness and perceived value.*

Artificial intelligence is set to transform how consumers find and purchase products significantly. By 2026, approximately 25% of shoppers are expected to use highly interactive and personalized technologies known as Agentic Shopping Assistants. By 2030, it is projected that 74% of American shoppers will engage with these AI-driven shopping agents daily. These virtual assistants will serve as the initial point for various tasks, including guided product discovery, product selection, fitting and compatibility assessments, price comparisons, stock notifications, and post-purchase support. For example, a customer searching for a specific item can interact with a chatbot that helps explore options, provides detailed product information, and assists throughout the buying process.

The trend toward agentic shopping is clear. Recent announcements from major retailers launching their own assistants and integrations with top platforms are early signs of what will expand in 2026. The lesson: view AI assistants as a key customer touchpoint, not just an add-on feature.

6. *2026 signifies the conclusion of lucrative e-commerce business models.*

The tide is shifting against liberal return policies. We anticipate that many retailers across multiple retail sectors will tighten their return policies in 2026. High processing costs, the complexity of reverse logistics, and shrinking margins have rendered long return windows and free returns on all items financially unsustainable. While "keep the item" policies for low-value returns helped reduce costs in the past, they are now increasingly being exploited. The next phase in return policies focuses on accuracy, not generosity. Retailers will use machine learning to segment returners and customize policies, with end-to-end e-commerce profitability as a key driving force.

7. *Prepare for major packaging and labeling updates in the U.S. food sector in 2026 - urgent action is necessary.*

California's Date Labeling Law (AB 660), PFAS restrictions in food packaging, USDA "Product of USA" claims, national date labeling standards, FDA labeling initiatives, and simplified front-of-package labeling in 2026 will all impact manufacturers' operations and, ultimately, consumers.

Therefore, the grocery retail industry should prepare for increased complexity due to varying state regulations -- quick adaptation is essential. Different packaging solutions may be necessary, or a standardized approach might be required to meet the strictest standards. Moving away from PFAS will require new materials, so be prepared for the associated costs.

2026 is a pivotal year for updates in labeling and packaging. Prioritize standardizing processes when possible and implementing changes smoothly to stay compliant and keep operations running smoothly. Act now to set a leading example across state lines!

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8. [The profitability pivot: what it means for you](#)

The key theme across all these trends is a shift from pursuing growth at all costs to prioritizing sustainable, cash-generating growth. This shift in mindset influences how you plan, invest, and operate. The question is: where should you focus first?

- Understand your actual cost to serve by developing a contribution margin view that considers go-to-market strategies, order types, and customer segments. Include all costs to identify where profits are generated and where they are not, enabling you to de-invest in unprofitable areas and reinvest in more promising ones.
- Streamline your offerings to boost profitability by trimming SKUs, promotions, and go-to-market strategies that don't meet your profit targets. Simplifying your product lineup enhances in-stock levels and speeds up inventory turnover.
- Rebalance efforts between acquiring new customers and keeping existing ones. Focus spending on retaining high-value customers, increasing their share of wallet, and lowering churn. Use first-party data to personalize experiences responsibly.

[Final Thoughts...](#)

Retailers entering 2026 should focus on profitability – the winners will succeed. The industry faces complex challenges, including bankruptcy risks, AI adoption, reforms to return policies, and shifting consumer behavior in food and social commerce, all of which demand decisive action. Success relies on investing in innovative technologies, maintaining operational discipline, eliminating practices that reduce profit margins, and crafting unique customer experiences that foster loyalty.

The Pace of Change has never been this fast; yet it will never again be this slow!