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INSTITUTE

Retail 4.0: moving from hard power to soft power

Retailers: Moving from Hard Power to Soft Power

From mass-distribution of the 'era of efficiency' to community-facilitation of the modern business, retailers must adapt and develop increasingly-complex relationships with their customers of tomorrow

Era of efficiency

Birth of mass-distribution utilizing bricks and mortar outlets shaped by retailers using an inside-out approach

Rise of Big-box retailing:

- 1st shopping mall in 1954 (Michigan)
- 1st Walmart in 1963 (Arkansas)

Enabling technologies:

1st credit card in 1958 (Bank of America)

1st bar code in 1974

Era of experience

With the rise of digital, retailers need to urgently transform into real omni-channel retailers

Digital disruption:

72% of customers use mobile in store to look up price or product information*

90% of Alibaba's 'singles day' purchases in 2017 on mobile

*WSL Study for BearingPoint, 2017

Era of belonging

Tomorrow's customer is more complex – not only because of advances in technology – but ideologies, lifestyle, personal views, and ecological concerns are making customers more aware and more demanding

Psychological and sociological customer:

Why Millennials choose a retail store*:

80% Convenience

80% Good customer service

81% Trust

80% Products fit their lifestyle

*WSL Study for BearingPoint, 2017

2000s – today

1950s – 2000s

Increasing complexity of retailer/customer relationship

Tomorrow...

Key recommendations

Don't sell products, sell a vision, and federate communities of people and businesses around it

Gain customer trust through traceability and transparency

Do more with less in a world of limited resources

Make Your Choice: Reorganize your stores for practicality and necessity (new definition of convenience store) OR living spaces that provide amenities of work, play, eat, share, discover

Go beyond omnichannel with big data & analytics, new generations have never shopped in a purely bricks-and-mortar way

Source: BearingPoint Institute

Why retailers must leverage 'belonging' to gain market share.

The Retail 4.0 report set focuses on three emerging markets and one mature market in Asia and Africa. Much research has been done about established markets, especially in North America and Western Europe. BearingPoint believes that the emerging markets of China, Nigeria, and South Africa along with the mature market of Japan where a superior customer experience is a priority provide potential for retailers. [See: Key Markets side bar]

In 30 seconds

- Retail is undergoing significant disruption. The digital revolution has sparked more than a technological shift; it has brought about a sociological and psychological change in how people shop, and in their expectations of retail experiences.

- The power in the relationship is shifting very much towards the consumer and away from retailers. Those that don't respond to emerging customer demands risk losing customer loyalty and business.

- This series of papers, with a global view and a focus on four countries, will help today's retail executives understand how their companies can be part of the change at hand, and ready for the future.

Findings

- Neither ecommerce offerings nor bricks-and-mortar outlets are designed to meet the changing preferences of today's customers.

- Shopper preferences are shifting due to digital innovation, disruptive technologies, and emerging sociological and psychological patterns.

- Customers are becoming less consumerist in an environment that is ripe with choice.

- Customers are beginning to engage with retailers on a deeper level. They're looking for a greater sense of community and belonging in their interactions with brands.

- Some retailers are focusing on technology to address the growing change in customer preferences, and enhance their market share and profitability but also re-assess their product ranges and service offerings.

The Bricks-and-Mortar Paradox

There is a current belief that the digital revolution has brought about the end of bricks-and-mortar shopping. But is this really the case? Or have rumors of its demise been exaggerated?

Research from IHL Group published last year predicts a somewhat clearer future for physical retail space, contrary to mainstream reports of store closures and decaying high streets.

IHL found net US retail store openings to be steadily increasing. A survey of 1,800 chains with 50 or more stores revealed a net gain of 1,326 units during 2017. Combined with restaurants, this rose to 4,080.1

Instead of a gradual decline, the figures forecast a steady increase in new store openings. Such is the paradox facing retail today: if the future is digital, why are retailers opening new stores? And why are digital giants like Amazon and Alibaba embracing bricks-and-mortar?

Generational Factors

Today's customers are made up of many generations. While some of these generations have more disposable income and must be seriously considered as today's buyers, retailers must also look forward into the future to understand some of the preferences of the new generation. BearingPoint believes that Millennials are having an impact on the preferences of other generations. But how will the new generation be different? How will Millennials influence the future of customer experience? And how should retailers respond?

Millennials are socially conscious in almost every sense of the word – a factor that will influence their preferences and buying behavior in new and very different ways.

For today's young consumers, social media and constant connectivity are second nature. As a result, they expect a great deal from the retail experience. Products availability anywhere at any time is now a basic requirement for Retailers, therefore they must raise the bar: experiential commerce tends to become commerce of influence, Retailers having to seduce their customers, ensuring a strong link with them and, more than that, giving them meaning in their purchases.

Innovations like Alibaba's 'magic mirrors' demonstrate that even the keenest digital adopters don't only want to buy online. They're still seeking meaningful, connected and tangible relationships with brands.

From connection to belonging

E-commerce offers speed and convenience for shoppers and retailers alike. With social shopping already happening at scale in markets like China, it is bound to become even slicker in the future.

But however rich the e-commerce experience gets, it will always lack something fundamental to human psychology: face-to-face interaction.

Friends still want to be with friends. All of us, regardless of age, crave a sense of community that goes beyond digital connections. Only by understanding these sociological and psychological needs can retailers begin to offer experiences that meet them.

BearingPoint sees an emerging trend in today's retail market that is moving from connection and community to a sense of "belonging". It demands that retailers understand the sociological and psychological factors of buying and that they identify with their customers, focus primarily on the personal, relationship with them, and provide them the sense of intimacy they seek.

Our *Future of Retail* series

The big questions for today's retail executives are: what can they do to take advantage of digital technologies? And how can they harness sociological and psychological trends to influence buyer behavior and increase market share?

Over a series of three reports, we will explore this complex and challenging environment through the lens of our research among consumers and retail executives. We'll take a global view, while focusing on the four markets outlined above, to truly understand the modern consumer.

- Report 1 will explore how digital technology is driving the connection between retailers and shoppers, and between shoppers themselves. It will look at the move towards a new kind of consumerism, and how this is influencing buyer behavior. It will also consider the achievements retailers have made to date, and what they need to do next.

- Report 2 will examine how the future of the sector is being shaped in each of our four markets. Is China defining the future of retail? How are Nigeria & South Africa developing specific usages to overcome a lower level of physical infrastructure? How do Japanese retailers leverage the personal technology their customers love to create quality experiences?

- Report 3 will envisage the global retail landscape in 2030. The final part in our series will ask: are today's emerging consumer habits a blueprint for the future? What lessons can be learned by studying China, Nigeria, South Africa and Japan? What must retailers know now so as to understand what lies ahead? And most crucially, what must they do to be among the winners?

Key markets

China can be seen as a 'laboratory case', given its growing and increasingly affluent middle class, its rapidly changing retail environment, and the stimulus of actors who focus on new technologies and new models of retail. Plus, with around 10% of the store density of the US market, it is a still relatively blank page in terms of the evolution of the sector.

Nigeria shares some characteristics with the Chinese market but in a completely different part of the world. It is distinct in that includes technology and business in more equal measure. It, too, has a rising middle class, and represents a blank canvas of possibilities. In addition, there is a shortage of physical retail infrastructure – an issue that's often resolved through the smart use of technology.

South Africa is another country with a rising middle class, and an undeveloped physical retail presence. But as a more established market, it lacks the untold potential of China or Nigeria.

Japan has, of course, been a highly-developed market for much longer than the other three countries. And it is highly focused on the latest personal technology, and on offering a superior customer experience.

Recommendations

Faced with changing customer preferences and behaviors, retailers must:

- Restructure the shopping experiences they offer to foster business and people communities, connections and belonging

- Define their identity clearly and identify the space they want to be recognized for while leveraging big data and new partnerships to develop "soft power"

- Consider the impact of sociological and psychological patterns, and organize their resources to meet the resulting demands

- Do more with less in a world of limited resources

- Go beyond selling products through channels, to provide seamless, lifestyle-driven customer journeys with greater human interaction

- Gain the trust of their customers through the traceability and transparency of their entire supply chains deploy technology in innovative and disruptive ways that suit how customers think and buy

About the authors

Bertrand Clemencin, Partner, BearingPoint Paris

Bertrand is the Global Leader Consumer Goods & Retail. He joined BearingPoint in 1989 and has over 25 years' professional experience. He provides many retailers with assistance in developing their business using recognized expertise in the distribution sector, such as category management, customer relationship management, supply chain optimization, performance management and information systems.

Xavier Baudouin, Associate Partner, BearingPoint Paris

Xavier, an Associate Partner at BearingPoint's Consumer Goods, Retail & Luxury team, has over 20 years of experience in consulting and in startups, mostly focusing on innovative B2C projects. He has a strong track record in carrying out and supervising digital and customer management transformation assignments for various clients. He is the author of a white paper on the impact of eCommerce on shopping malls, and of another BearingPoint Institute report "Will PreMillenials Save Retail?" (2015).

Elisabeth Denner, Partner, BearingPoint Paris

Elisabeth, a partner at BearingPoint's Consumer Goods, Retail & Luxury team, has over 20 years of consulting. She has a strong track record in carrying out and supervising organizational transformation assignments. She helps companies develop and transform their business using recognized sector expertise, such as marketing-assortment-planning, omni-channel development, sales performance improvement, as well as HR and Finance operations optimization.

Project team

Xavier Baudouin, Romain François, Julie Short, Sophie Todeschini

Acknowledgements:

Notes and Bibliography

1. 1 IHL Group, Debunking the Retail Apocalypse, 2017

About the BearingPoint Institute

At the BearingPoint Institute, our ambition goes beyond traditional 'thought leadership'. We aim to contribute original ideas to the science of business management whilst equipping decision makers with practical advice gained in the field and through our research projects.

www.bearingpointinstitute.com

About BearingPoint

BearingPoint is an independent management and technology consultancy with European roots and a global reach. The company operates in three units: Consulting, Solutions and Ventures. Consulting covers the advisory business; Solutions provides the tools for successful digital transformation, regulatory technology and advanced analytics; Ventures drives the financing and development of start-ups. BearingPoint's clients include many of the world's leading companies and organizations. The firm has a global consulting network with more than 10,000 people and supports clients in over 75countries, engaging with them to achieve measurable and sustainable success.

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