

Create a 'Connection' with Your Customer

Why Retailers Must Adapt to Changing Consumer Demands

Consumers are driving unprecedented change in the retail sector. Some of these changes are driven by technology but sociological and psychological drivers are increasingly influential. Customers no longer have the patience to wait to receive their purchases, but they are more concerned about the environmental and social impact of these purchases. In this report, we will explore the drivers of consumer change and the current response of retailers to meet this change.

In 30 seconds

- Today's consumers are becoming better connected and more demanding due to technological advances and societal and psychological factors
- Retailers have responded by introducing smart technologies to enable faster purchase processes and delivery
- To build trust they must go further to promote transparency and traceability throughout their supply chains, and consider locally-sourced, sustainable goods and produce

Customers are More Connected and More Demanding

It is no secret that everyone has become more connected. Next time you are walking in the city, look around and you will see people of all ages staring at their mobile or with their headphones plugged in. When you are next on the train, see how many people are actually talking. Or when you enter a conference room or are waiting for a meeting to start, how many people will be on their mobile or tablet? We are becoming increasingly connected and, at the same time, more isolated from human interaction.

The trend of digitalization, the process of becoming a digital business, is influencing how and when we obtain information about prices, products and trends that plays a part in deciding what we purchase.

We have all the information about brands and retailers within our reach. Recent research indicates that 72% of customers use their mobile in store to look up price or product information¹.

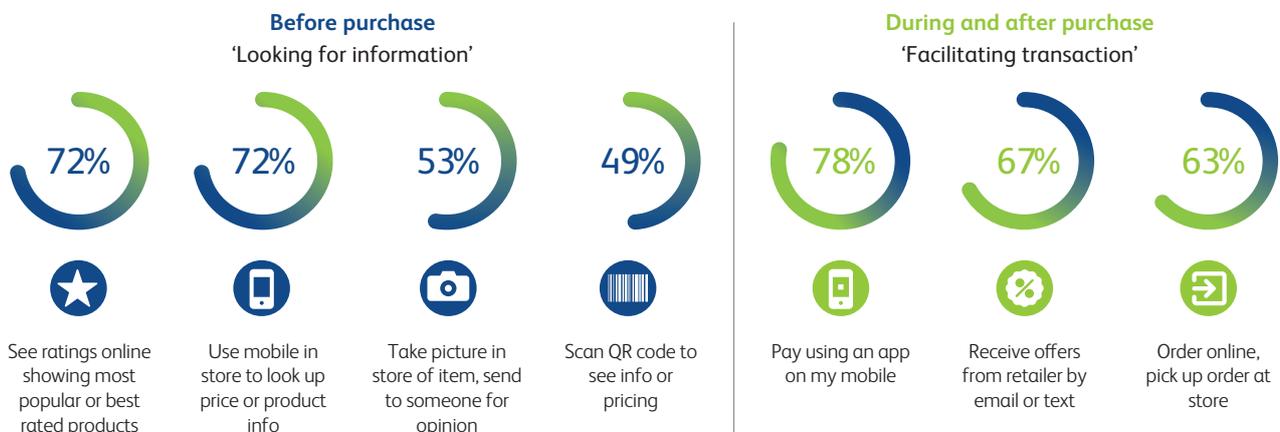
Contributing to that trend is the increasing value we place on the information we get from one another. Social selling is on the rise. For example, 50% of trendsetters, or those who quickly adopt new technologies, will watch product or service demonstration videos before they buy. And more than half of the same group have bought something directly from a social media page such as Facebook, Instagram or Snapchat.²

Live streaming is also influencing purchasing in many markets such as China, where its estimated value is \$5 billion, according to recent research. In comparison, the cinema market is worth \$7 billion and the mobile gaming industry \$10 billion. This increasing influence may also affect retail.³

Consumers are also becoming more demanding. The 'now' generation have become accustomed to instant gratification and this can influence their

Digital has raised awareness and demand of customers

Shopping Services Used Last 12 months



Source: WSL study for BearingPoint, 2017

choice of retailer. More than 60% of early adopters in the four countries surveyed choose a retail store because it has quick ways to check out. This jumps to 80% in China. Half of these same early adopters choose a retailer because shopping can be completed quickly, leaving them time for other things.⁴

Delivery speed is now considered a necessity. Naturally, the availability of products is key to faster delivery. According to the Chinese Post, the number of consumers using express delivery is expected to reach 250 million in 2018.⁵

Several examples illustrate the desire for increased delivery speed as a way to gain market share. In 2016, Whole Foods Market invested \$36m in Instacart, which enables your grocery shopping to be delivered to your home within the hour.⁶

In December 2017, Target bought Shipt, an Instacart competitor, for \$550m with the aim of offering same-day delivery to its customers in half its stores by 2018.⁷

Another B2B2C example uses advanced sensor technology. In May 2015, Audi, DHL and Amazon launched a pilot for direct-to-car parcel drop-off. The system, Audi

Connect Easy Delivery, was successfully implemented in 2016.⁸

Customers are Becoming Less Consumeristic and Want to Trust Retailers

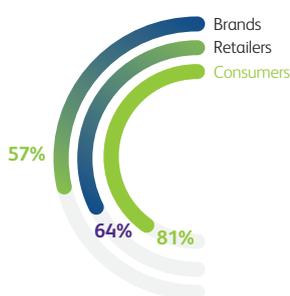
Trust is playing a greater role in shaping customer preferences and buying behaviors. However, an interesting paradox exists here. One of the first reasons a customer decides to shop at a retail store is because they trust it. But therein lies the paradox; customers are losing trust in retailers, as well as in brands. Trust can be destroyed very quickly amid frequently occurring scares or scandals. Examples include the Chinese baby milk contamination scandal of 2008 or, more recently, Fipronil insecticide being used on eggs in Europe in 2017. There are still concerns about food safety in China although there have been improvements.⁹

Findings

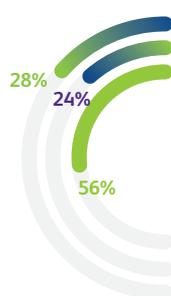
- Customers are more connected and more demanding (technology, non-technology, instant gratification, retailer, friends, location)
- Customers are becoming less consumerist and more conscious of the societal impact of what they purchase
- Retailers have made significant advances in improving customer experience
- Retailers find themselves at the center of a rapidly-evolving ecosystem of manufacturers, influencers, technology providers, disrupters and customers
- To fulfil consumers' need for 'belonging', retailers should invest in personalization and adapting retail space to support daily working life and leisure needs

Customers want to trust retailers, but this need of trust is not very well met

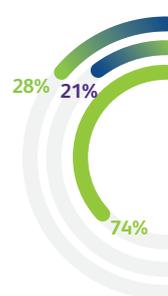
Who do you believe is trustworthy? Brands or retailers?



In China, 81% of consumers think it is important to trust retailers, and 64% do



In Japan, 56% of respondents think it is important to trust retailers but only 24% do so



In South Africa, 74% of consumers trust retailers, but only 21% actually do



In Nigeria, 77% of respondents think it is important to trust retailers, and 57% do so

Source: WSL study for BearingPoint, 2017

Traceability and transparency is another factor eroding trust in retailers. Today's customers want to ensure they understand where and how products are made along the entire supply chain. They want to understand the sustainability of raw materials and the working conditions and labor standards to produce the goods. And they want to understand the price before they buy. Over three-quarters of the buyers we surveyed in the Chinese market (77%) will scan the QR code to see information or pricing before buying¹⁰, an increasingly important factor in a global market, where growing pressure on international sourcing has led to initiatives such as China's new 'Silk Road' trade corridor.¹¹

More examples of companies aiming for greater transparency are appearing and it's a trend that looks set to continue. Customers want to trust retailers but need reassurance. There are two ways that retailers can respond.

The first is through open communication about product traceability and transparency. This is an objective approach. Some retailers are already responding to this trend. Clothing and accessories store Everlane promotes something called 'radical transparency' where the cost of each material used to make the final product is completely transparent to buyers, and the production cost is used to justify the sales price.¹²

“With low barriers to entry, thanks to e-commerce, m-commerce and social media buzz, new brands can be brought to market more quickly.”

The other method to reassure buyers is to choose to stock more local products. This carries a more subjective appeal for the customer. More than 50% of early adopters in China, Japan and South Africa prefer buying products made by a local artisan.¹³

Niche, independent brands, while not necessarily 'local', are taking on these characteristics, which are widely acceptable to shoppers compared with national corporations. With low barriers to entry, thanks to e-commerce, m-commerce and social media buzz, new brands can be brought to market more quickly. Smaller, more agile companies can respond faster to market trends and satisfy shoppers who want products now, rather than those that may take months to produce in traditional supply chains.

Local products represent a unique value proposition compared with slower product development from larger corporations. For example, handmade or small-batch products that are traceable,

Recommendations for Retailers

Develop the use of traceability technologies, like RFID, NFC or QR codes, to gain consumer trust:

- Italian shoe designer Ferragamo puts RFID tags in the sole of most of its women's shoes to verify their authenticity
- Thanks to RFID tags on each package, Chronofresh, a French express food delivery company, can monitor its cold chain in real time

Focus on transparency through dedicated communication and events:

- Nestlé provided open access to factories and back offices during its 'I Manufacture it Myself' campaign in France
- As part of a 2016 campaign to show customers the authenticity of its advertising promises, supermarket Waitrose shared live footage from GoPro cameras fitted to farm suppliers' cowherds

fresher, healthier, free from preservatives, sustainable and fair-trade can often boast a unique founder's story.

Examples include: Etsy, an online platform selling artisan goods from retailers including Macy's and Whole Foods; Peligourmet, a similar offering specialising in French artisan foods; Marie's Baby Circle, a Korean store which features products made for moms by other moms; and the Organic Pharmacy, a global brand which sells batches of beauty products that are made that week.

Another interesting example is Farmy, an e-commerce start-up that collaborates with 400 producers across Switzerland to promote e-commerce primarily for regional products. Farmy guarantees its customers local products collected directly from the producer, without intermediaries. The locavore¹⁴ customer fills his shopping cart online and the company delivers orders using electric bicycles throughout the city of Zurich.

How Can Retailers Build Consumer Trust?

Develop products' traceability

For 55% of customers, 'sustainably sourced products' are an important factor in deciding where to shop

52% of customers say a 'wide selection of natural/organic products' is also an important factor

45% of customers like to know who made the products they buy or how it was grown



Smart communication
Objective way
Subjective way



Customer trust



Develop local production

79% of customers like to buy products made in their country

50% of customers like to buy products made by a local artisan

For 47% of customers, 'locally sourced products' are an important factor in deciding where to shop

Source: WSL survey for BearingPoint, 2017

Why are more customers sensitive about traceability? Because they want to make meaningful purchases. They have become less consumeristic and are searching for the right reasons to buy. They may be concerned with the sustainability of the planet. This has led to the explosion of organic products. For example, UK supermarket chain Tesco, reported that sales of organic goods have risen by 15% in the past year. The UK home delivery service, Ocado, stocks more than 3,000 organic products and its sales increased by 16% last year.¹⁶

Recommendations for Retailers

- Prioritize local sourcing, which may mean greater store accountability, and may require simplification and decentralization of sourcing processes to register a new vendor in a few days, rather than weeks. By setting up a decentralized organization, Whole Foods Market works with more than 700 local producers and sells more than 80 million local products.
- Rethink stock management by setting up store clustering more precisely and/or incorporate new data analysis methods to complement or replace customer analysis.
- Consider complementary distribution models, such as franchises or co-operatives, to meet the needs of consumers who favor a stronger local presence. In 2014, for example, Belgian distribution group Colruyt launched an initiative called Cru that devotes 700m² of retail space to food from selected producers that are limited to a thousand references rather than premium quality.¹⁵
- Focus on flexible production units to manage short series goods and quicker time to market to address customers' local needs and desires. As an example, Adidas Speedfactories produce bespoke running shoes for cities such as New York, Paris, London, Shanghai, Tokyo and Los Angeles, adapted to local needs using 3D printing.

What is Needed to Address the Customer Desire for ‘Belonging’?

Customers want a convenient shopping experience that fits their busy lifestyles. Retailers have made significant inroads in this area. Digital tools and software have made shopping faster and easier while removing some of the inconvenience, and examples abound in today’s society. Ordering has been made hassle-free by using Click and Collect – ordering online and picking up at the store. Over two-thirds of Chinese early adopters (67%) have done this at least once in the last 12 months.¹⁷ Scanning products through self-checkout kiosks or mobile phones is also common. Swiss coffee company, Nespresso, uses RFID to enable a self-checkout process without customers even needing to remove the articles from their bag. Paying for purchases has become less of a hassle too. For example, Alibaba launched a virtual reality payment system where users can make a purchase simply by nodding their heads.¹⁸

Our research shows that these innovations are widely used in China by early adopters. 81% choose a retail store because they can pay with an app.¹⁹ Other examples include easy returns, the rise of home delivery, subscription services and automatic replenishment, as well as the ability to shop directly from social media channels such as Instagram.

Furthermore, retailers must either reduce or eliminate the wait at checkout to meet the demands of customers whose connected, busy lives mean patience and attention spans are decreasing. The Dutch supermarket chain, Albert Heijn, is testing an NFC card on the electronic labels of selected products which automatically debits purchases as the buyer exits the store, resulting in no queue to pay for purchases.

Finally, retailers must respond to consumers’ desire for immediate receipt of their purchases by developing an ultra-fast delivery capability. Those without this facility or expertise should consider partnering with specialized companies. For example, Walmart purchased Parcel to deliver to its customers in less than two hours.

But even these actions are not enough and retailers must raise the bar further. Customers are looking for a personal connection or a sense of ‘belonging’ when they shop. In response, retailers are already using predictive analytics to determine a customer’s personal data, lifestyle information and preferences, based on purchase history, past behavior and comparison with other shoppers.

The next step is to move from predictive to prescriptive analytics to influence customer decision-making, such as the ability to push relevant information to the consumer when they are present in a physical or virtual store. 71% of Chinese early adopters want their stores to provide personalized recommendations.²⁰

Predictive targeting and personalized ‘prescriptive’ recommendations are becoming more widespread using such innovative tools as Tiny Clues, Dynamic Yield, Relevance, and LuckyCart.²¹

Personalization is increasingly applied to the product itself, regardless of whether it is bought on the internet or in stores. And it doesn’t have to be high-tech, like 3D printing – it can also be low-tech, such as the St. Ives pop-up in New York where you can create your own face wash.

Finally, customization can also apply to product price. Through mechanisms such as loyalty programs, special promotions, and continuous price adjustment on internet sites, consumers are accustomed to price variations for the same item. But the price can also be customized by the customers themselves, such as with Jet.com, bought by Walmart in 2016. On the Jet.com website, the price of the customer’s shopping basket varies according to different factors – the price is lowered if the customer renounces the free return option. It is ultimately the customer who determines the price and remains the sole arbiter of their decisions.

Recommendations for Retailers

- Ensure you have exploitable raw materials: reliable, exhaustive internal data (such as CRM data and material reference data) and external data (such as from social networks or competitor price records), with frequent updates and the internal data-scientist's skills to exploit this information. Define your « data roadmap »: which use cases must be prioritized? Where are the real sources of performance?
- Review your products assortment, based on data analytics: Quickly define an « omni channel category management », building a store range considering the possibility to enrich it online, switch effects on different channels and influenced sales
- Do not stop at personalization of the customer experience and the product. Consider going further by personalizing the price online and offline, playing with price sensitivity and considering price elasticity. Also commit to promotion personalization, as this is particularly welcomed by consumers: 87% are happy for brands and distributors to use their data to personalize offers as long as the content is relevant, according to a study by Experian Marketing Services, UK. ²²
- Aim to manage more of the value chain to nurture closer personalized relationships with your customers. As an example, on Nike's website, you can create exclusive designs by choosing the color of your laces, or other attributes of the shoe. A company can only consider such an approach if it manages the end-to-end value chain, from design to distribution. The retailer must become a manufacturer as well.
- Invest in helping your in-store sales force through training, customer applications, product availability checks, mobile payment, and decision-making based on real-time information, to simplify and personalize customer and store staff experience. Customer/staff interaction is still the ultimate form of personalization, a belief that is supported by the numbers: For 74% of customers, getting good customer service is an important attribute when they go shopping. ²³
- Stop thinking commerce! Adapt retail space to support customers' daily life and leisure needs. Stores or shopping malls must be much more than just a place to buy. Customers must be able to eat, play, discover or exchange with other buyers. The successful conversion of the Villa Italia Mall in Colorado, USA, now renamed Belmar, is a good example. What used to be a 40-hectare shopping center has been transformed into an urban center of 22 blocks where people live and work, with pedestrian public streets, bus lines, ecological buildings, offices, two schools and 2,000 apartments. Another example is Fico Eataly World, in Bologna, Italy, which comprises over 100,000m² of retail space entirely dedicated to Italian food. Part shopping mall, part interactive amusement park, part cultural experience, the intention of this ambitious hybrid is to instill a playful and inspiring atmosphere. There are 40 manufacturing workshops, over 45 restaurants and kiosks for food and drink, 200 animals and 2,000 different plants exposed to the open air. Six million annual visitors are expected by 2020.

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Key markets

China represents an interesting 'test 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. 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, apart from a very different culture, is distinctive due to a more equal measure of technology and business. 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 unbridled potential of China or Nigeria.

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

Recommendations

Create connections with your customer in every sense of the word: beyond creating a seamless customer path and multiplying connection points, make your customer feel really special thanks to a personalized relationship

Harness technology including traceability and transparency of production and distribution processes to engender trust

Use local sourcing and meet local needs wherever possible

Exploit data management to personalize customer experience, product information, online and offline, but also to personalize promotion and pricing

Develop living spaces in your stores and malls to enable customers to exchange, learn, discover, eat, work and relax.

“To fulfil consumers’ need for ‘belonging’, retailers should invest in personalization and adapting retail space to support daily working life and leisure needs.”

Conclusion

Today's retailers must attune to the needs of an ever more demanding consumer, and take immediate action to implement the necessary technology, processes, and people to simplify the purchase process. Paradoxically, consumers are ever more connected with technology but are in search of trust, personal consideration, and a sense of belonging.

Our next reports will explore how retailers in selected countries in Asia (China, Japan) and Africa (Nigeria, South Africa) are giving different answers.

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Acknowledgements:

The authors would also like to thank Tanja Schwarz and Sharon Springell from the BearingPoint Institute, Angélique Tourneux from BearingPoint, Michael Agar from Agar Design, Daryl Newman from Grist and Benedict Cooper, as well as the team at WSL who conducted the research.

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