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White Paper

Digital hypermarkets

New customer expectations drive
new business models

Nearly everything hypermarket retailers know about their business is in flux. Consumer preferences are changing dramatically. New technologies are expanding the range of what's possible, even imaginable. And new business models are redefining what it means for a hypermarket retailer to succeed.

In this fast-changing environment, hypermarket retailers — also known as superstores or big-box stores — are looking to better cater to consumers' evolving digital lifestyles. Facilitating that change are technologies such as artificial intelligence, machine learning, virtual reality, robotics and the internet of things (IoT).

After all, customers are in charge of where and how retailers succeed. They use their wallets and social networks to influence and decide on purchases — even of everyday items. Retailers that can sense the shifts, have the agility to make the right products and offers available at the right time (across any channel), and also provide excellent customer service, can remain relevant and profitable.

The store of the very near future will be less about shelves and displays, and more about imagination, desire and the virtuous cycle of hyperefficient automation that lowers costs while raising customer satisfaction. Benefits include sales growth, cost reduction, improved staff efficiency and highly satisfied customers.

Changing customers

What will tomorrow's consumers look like, and how will they behave? That question is driving the hypermarket industry's digital transformation.

Today's customers shop all channels — mobile, online and in-store — at any time. They often combine channels, too. Customers can order online, then pick up in the store. Or they can order online, get goods delivered to their home, then go to the store for returns and exchanges. This is leading to exponential growth in the volume of physical products, transactions and data that retailers need to handle.

One company transforming customer expectations is, of course, Amazon. The online retailer has set standards for ease of use, anywhere/anytime availability, speed and reliability. Returns and exchanges are also quick, easy and effective. Amazon engages customers with suggestions, offers buyer reviews, and lets visitors compare products by features and prices. All this is done with a standard, consistent and easy user interface — and Amazon is now exporting this experience to its physical storefronts such as Amazon Books, Amazon Go and Whole Foods. As consumers become accustomed to Amazon's superior customer experience, they expect — even demand — the same level of experience from hypermarket retailers.

Escalating consumer expectations are resulting in relationships that would have seemed strange a few years ago. For example, Google partnered with hypermarket retailer Carrefour of France whereby the duo will enable consumers to shop for Carrefour groceries through a variety of mobile and web channels, including voice assistants and connected speakers,[1] providing powerful new channels. But for retailers, this type of partnership poses new challenges, especially on the question of customer ownership and logistics.

While there is no question consumer expectations will continue to evolve, it's worth noting that different groups will have different needs. Retailers should strive to understand consumers at the individual level; they'll also have to balance different expectations. For example, some demographic groups do not want a radically new shopping experience, so to protect their market share with these consumers, retailers will need to continue serving traditional needs.

4 waves of retail disruption

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First Wave — the late 19th and early 20th centuries: Retail was transformed by the rise of department stores and catalog retailers. Early pioneers include Marshall Field's in the United States and Selfridges in the United Kingdom. They were later joined by the likes of Bon Marché in France, Sears in the United States, and GUM in the then-USSR.[6]

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Second Wave — the 1950s: The end of World War II ushered in an era of new supermarkets and shopping malls. Expansion peaked in the 1980s, a decade during which the industry built more than 16,000 new malls in the United States alone.[7]

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Third Wave — 1995: Everything changed the year Amazon launched its online retail site. Starting as an online bookstore, Amazon went on to expand its catalog quickly. Today the retailer offers appliances, gourmet food, video games, computers, clothing and much, much more — in all, over a half-billion unique products.[8] Amazon also owns Whole Foods, having acquired the high-end supermarket chain and its 400+ stores in 2017.

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Fourth Wave — now! The era of customer-centric shopping is upon us. Now is the time for retailers to prepare for on-demand shopping, omnilocation capabilities, virtual stores, smart supply chains, mobile payments and much more.

Given all this change, hypermarket retailers can't sit still. They will need to rebuild their business models around understanding customers down to the individual level, gathering data to gain insights into customer demands, creating seamless user experiences, and providing Amazon-class websites and mobile apps.

A key element of the new business model is the customer-focused supply chain. Traditional supply chains have had a business-to-business (B2B) focus. Since consumers had only one way to buy goods, it was difficult for a retailer to differentiate its customer experience. Now, a business-to-consumer (B2C) focus is also needed, because customers have so many ways to buy and consume — online, in-store, order online then pick up in store, and so forth. As a result, a superior customer experience will become a major competitive differentiator.

Retailers are nowhere near that today; 70 percent of organizations recently surveyed by the Business Continuity Institute, a professional network, said they lack full visibility into their supply or distribution chains.[2] This means they're unable to see where their people, assets, shipments and vehicles are deployed.

Moving to a customer-focused supply chain can deliver major benefits. It will enable hypermarket retailers to have the right products available at the right time, replenish stock quickly and effectively, and proactively suggest and supply new products to customers. In one example, a major retailer optimized its supply chain for click-and-collect service — where the customer orders online and then picks up the order in a bricks-and-mortar store. The company designed and implemented new processes, and automated its warehouse, which led to an increased performance in click-and-collect sales.

A new user-centric business model will also require hypermarket retailers to rethink real estate within their stores. In today's anywhere, anytime shopping environment, the business is no longer centered on shelves and displays. Hypermarket retailers could rent unneeded space to partners and develop an entirely new source of revenue.

That's the approach being taken by two major European retailers, Carrefour and Fnac Darty. Under the partnership, Darty has started selling appliances and consumer electronics in two of Carrefour's hypermarkets in France. The Darty stores-within-stores range in size from 700 to 1,000 square meters (approximately 7,500 to 10,800 square feet) and offer some 3,500 unique items.[3]

This is aligned with the evolution toward the marketplace model, championed by the likes of Amazon and Alibaba. Unlike the traditional retail model, where sellers strive to buy products to offer at the right time and price, in the marketplace model retailers open their physical or online space to other sellers, then connect them with customers. Unfortunately, not all retailers will have capabilities in place to support this capability.

Bevy of new tools available

The good news is hypermarket retailers have access to a host of new technologies

that can help them respond to consumer demands and deliver superior customer experiences.

Consider virtual stores, which let retailers combine the familiarity of in-store shopping with the convenience of going online. Tesco uses the concept in South Korea, where young consumers are tech-savvy but work such long hours they have little time to shop. The company opened more than 20 virtual "stores" that consist of digital screens displaying virtual products in subway stops and bus stations. Using a Tesco mobile app on their smartphones, customers scan the QR codes of the virtual products and the app loads the scanned items into a virtual basket and helps the customer schedule a time and date for delivery.[4]

Another technology poised to change the retailing rules is 3D printing. By allowing instant production of nonfood products onsite, 3D printing eliminates the concept of "out of stock." The technology also empowers retailers to greatly expand their inventory of custom, made-to-order products. 3D printing can also be used to drive foot traffic in physical stores, as customers can order 3D-printed products online, then pick them up onsite.

Many of the technologies that will reshape the retail environment revolve around better use of data and increased visibility into both products and customers.

The IoT, for example, will enable hypermarket retailers to employ connected sensors, beacons, motion-sensing cameras, radio frequency identification (RFID) tags and more, to capture data from both stores and the supply chain. Behind the front-line IoT devices a panoply of edge computing systems, cloud infrastructure, data analytics and machine learning systems will let retailers do everything from analyze foot traffic to improve visibility of inventory, track and optimize on-shelf availability, offer in-store wayfinding, and even maintain the temperature of food storage areas.

Omnilocation capabilities empower retailers to track anything in the supply chain at any time, notifying them when a shipment is delayed and why. Problem-solving can be done in real time, too. When there is a delay, a retailer can make adjustments up and down the supply chain to mitigate the delay's fallout. The same information can be reused later to prevent the problem from happening again. Omnilocation monitoring can be used in physical stores, too, creating a "digital picture" of the space that is updated to reflect a customer's experience.

When it comes to the demand signal, cameras and weight sensors on shelves will identify replenishment requirements in real time, shifting that signal back in space and time from the point-of-sale-based demand sensing used today. And soon the demand signal will be pushed back even further, into the customer's smart home, leveraging the use of connected consumer devices.

Even the checkout experience is changing dramatically thanks to visual sensors, and authentication and rapid payment services. They're enabling cashier-free, even checkout-free shopping. Convenience drives the need for speed. Amazon Go, Sam's Club Now and Walmart Mobile Express Scan & Go are just a few examples. They let customers simply grab or scan their items, then leave the store — all without standing in line or stopping by cashiers to pay.

Down the road, emerging technologies such as facial recognition may provide insights into the customer's state of mind. Walmart is experimenting with technology that uses video cameras to monitor customers' facial expressions and movements as they stand in line to check out. If the system detects an unhappy or confused customer, it can alert employees to report to a register.[5] While this is technically feasible, retailers will need to recognize the associated privacy challenges and address them carefully.

Two ways ahead, with help

What's the best way forward? Hypermarket retailers can basically opt for one of two basic approaches. 1) They can incorporate aspects of these new models into their thinking, essentially disrupting their own businesses; or 2) they can instead work harder on conventional approaches to improving the customer experience, strengthening customer relationships and personalizing services. This might include new revenue streams from customization of products and the addition of new service elements before and after purchase.

Which approach is right? Like so much in business, it depends. But all retailers should start their digital journey with both an understanding of the new opportunities on the horizon and a commitment to catering to shifting customer demographics and needs.

Navigating this path can be tricky. Delivering a digitally transformed customer experience can result in many benefits. But considering and understanding the needs of a range of customer segments with different needs, expectations and technological abilities remains important, too. Some retailers have experienced a drag on either sales or market share (or both) due to their inability to serve all generations of consumers. At the other extreme, some retailers offer a plethora of customer services that are both costly and ultimately unsustainable. For example, some supermarkets offer as many as four methods for processing a customer's basket.

Fortunately, hypermarket retailers looking to meet the needs of today's consumers needn't go it alone. Instead, they can team with partners that have deep experience in digital transformation, retail supply chains, mobile technology and more.

An ideal partner can offer a digital retail framework, a network of technology partners, and a catalog of best-of-breed solutions. The best partners also offer software and solutions that help the hypermarket industry embrace business models capable of responding to the fast-changing customer landscape. In this way, retailers can optimize the customer retail experience, improve business and operational processes, increase productivity, reduce costs, and meet performance and timing targets at all their operations.

Are you ready to move to customer-centered digital retailing? Find out how DXC Technology can help at www.dxc.technology/consulting.

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