

Are Smart Stores Effectively Delighting Consumers with Digital Technology?

CHRIS CHEN
Consulting Partner, Ogilvy Consulting, China

Ogilvy

What is the current state of China's retail industry? What are some of the challenges facing retailers?



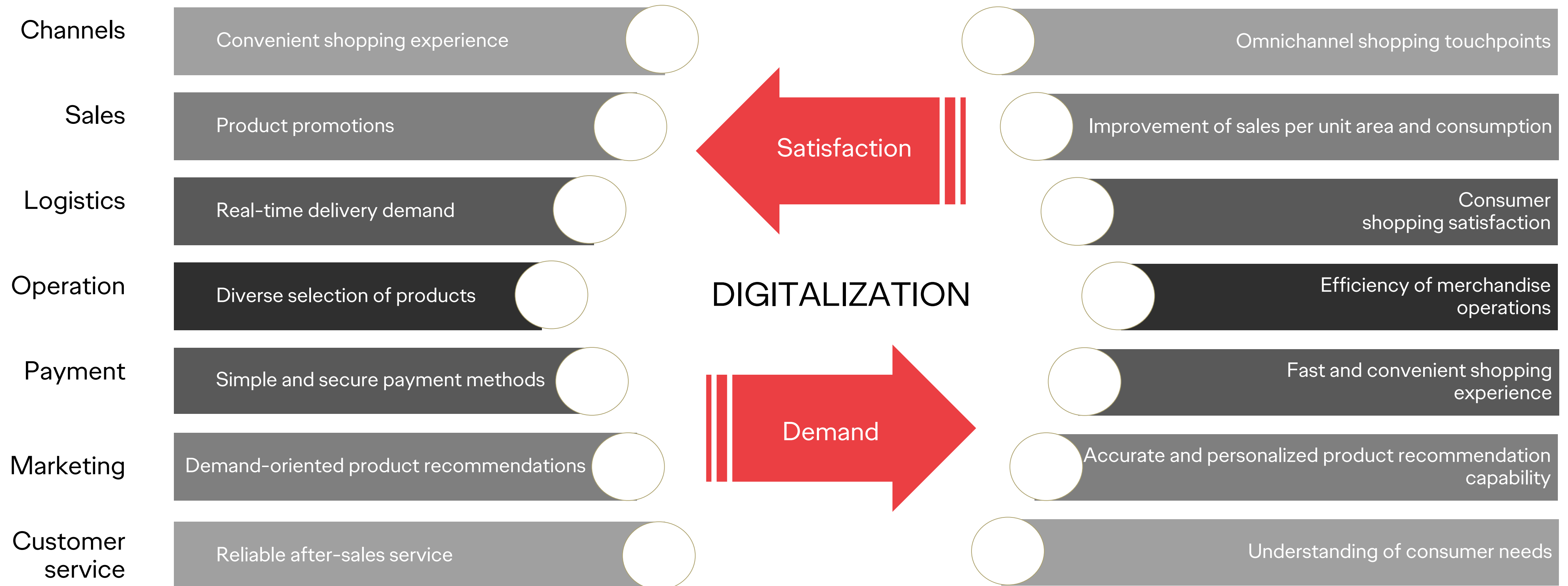
The development of e-commerce is progressively threatening the future of traditional retail stores, and the impact of the COVID-19 pandemic is depleting store traffic. In this context, more and more brands are realizing that necessity for their retail strategy to be transformed to a refined and personalized online–offline omnichannel model. With the development of 5G, cloud computing, IoT, big data and AI, digitalization is bringing more opportunities to reshape the retail industry, from omnichannel fulfillment, store digitalization to new business models and ecosystems, allowing companies to communicate with consumers in a more diverse way.

By improving store payment terminals, touchpoints and operational processes using digital technology, brands can innovate with diverse and precise consumer experience settings to provide consumers with a convenient, seamless and smart interactive shopping experience.

Consumers are demanding increasingly more from their shopping experience, and retailers are focusing more on digitally meeting these various consumer needs

What consumers are paying more attention to

What retailers are focusing more on



Smart stores present a business model for unmanned retail

Over the last few years, several retailers have seized the business opportunity presented by smart stores: Hema (Freshippo) created a fully-digitalized O2O business model; Uniqlo deployed a shopping experience where physical and virtual worlds converge, showcasing its technological recognition capabilities; physical and virtual shopping experience leveraging technological recognition capabilities; Bingo Box launched a scalable model of 24-hour autonomous convenience stores.

Digitization not only saves consumers time at checkout; it provides a comprehensive multi-touchpoint experience.



Considerations for retailers as they digitize their stores and consumer experience:

- 1. What does the smart store experience bring to consumers?**
- 2. What type of changes can digitalization bring smart stores?**
- 3. How can digitalization facilitate communication between brands and consumers and generate growth?**

Ogilvy identified 3 key trends and their impact for brands:

- 1. Digitalization facilitates insight collection and improves consumer satisfaction**
- 2. Digitalization effectively enhances the autonomy of smart stores**
- 3. Digital tools should be deeply integrated within the consumer shopping experience**

Viewpoint 1 : **Digitalization facilitates insight collection and improves consumer satisfaction**

The unmanned new retail model offers a new service framework characterized by increased efficiency and lower costs.

Traditional Retail:

Self-checkout tools help reduce the average duration consumers spend queuing

The proliferation of automatic vending machines allow consumers to buy whenever they want

Modern Retail:

Highly automated and intelligent technology helps reduce labor costs and improve retailers' operational efficiency




Digital technology helps develop new business models for smart stores

Digitalization enables retail upgrades and iterations as the industry embarks on an innovation and integration journey

The development of digital technology offers strong foundations for industry transformation.

The retail industry focuses on consumer experience optimization, omnichannel integration services, and smart technology innovation.



-  Using a consumer-centric approach to pay more attention to the diverse needs of consumers and optimize the overall consumer experience
-  Creating an online-offline omnichannel experience to allow consumers to buy anywhere, anytime
-  Connecting consumers and products in a smarter way to accelerate the matching process

Retailers are attempting to leverage the latest technology to provide innovative unmanned services

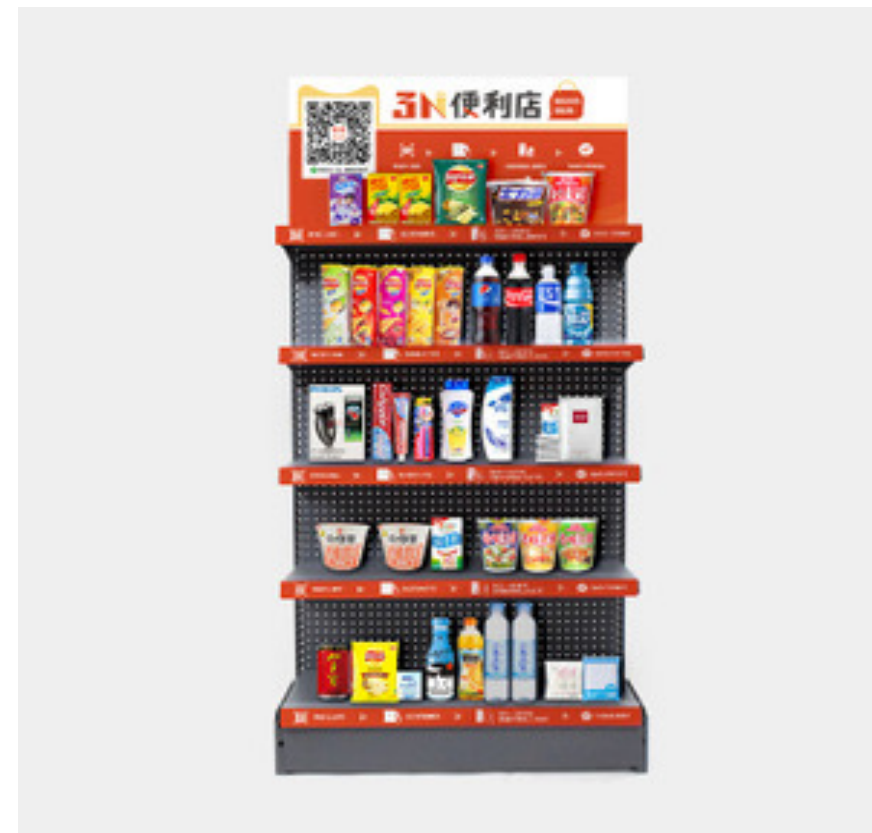
Unmanned retail provides a new service model that improves efficiency and reduces costs.

UNMANNED VENDING MACHINES



- Advertising-based revenue
- Mostly found in subway stations and street sides
- QR code or cash payment

UNMANNED SHELVES



- Low upfront investment, low entry threshold
- Mostly found next to office buildings
- Used by scanning a QR code

UNMANNED CABINETS



- Reduced merchandise loss and theft risk
- Mostly found in community markets
- Ensure better preservation of fresh products

UNMANNED CONVENIENCE STORES



- High upfront investment and operational cost
- Complex consumer behavior scenarios
- High-level digital integration

As retailers transition towards new retail, they need to consider the following:

- New retail does not prioritize any of the 3P (People, Product, Place) – all must be considered simultaneously and call for standardized, replicable and scalable operation systems
- How well a business understands consumers, how smart their product operations are, and how interactive can it the connection between online and offline channels all depend on whether the development of its digital capabilities can match changing business needs

Viewpoint 2 : **Digitalization effectively enhances** **the autonomy of smart stores**

The smart store of the future considers the store as a smart business system that integrates digital tools and proactively senses consumer needs.

Digital Stores:

Enhance the shopping experience with a variety of devices to assist the shopping needs of consumers

Improve operational efficiency through various digital tools

Smart Stores:

View the store as a smart business system

Fully replace manual labor with unmanned technology to provide diverse and personalized services to consumers

Services offered by smart stores: consumer and retailer perspectives



ENTERING

- Access to the store should be gate-free and not require any identity verification, such as scanning QR codes or credit cards or registering for membership through an app, in order to cut down the time waiting in line to enter the store
- Personal information obtained through video should be treated in accordance with regulatory requirements

BROWSING

- Proactive prompting of product information as an aid should be possible, such as production date, shelf life, origin, presence of additives and allergens, supplier, etc.
- Product display, traffic arrangement, and in-store security should be considered

SELECTION

- Supply of best-selling products and replenishment of out-of-stock products should be timely
- Personalized recommendations should show the promotion campaigns and best-selling items
- Discount and loyalty points can be calculated automatically

CHECKOUT

- Contactless checkout experience should be provided, i.e. price calculation and payment should be made without any manual or machine operation to cut down the time waiting in line for checkout
- There should be a clear support process for returning and exchanging products after leaving the store



PRODUCT SELECTION

- Data-driven product selection recommendations based on historical store sales, advertising effectiveness, and analysis of best-selling products near the store

TALLYING

- Proactive alert system for product theft, low supply and replenishment
- Ability to forecast sales and early inventory alerts

PRICING

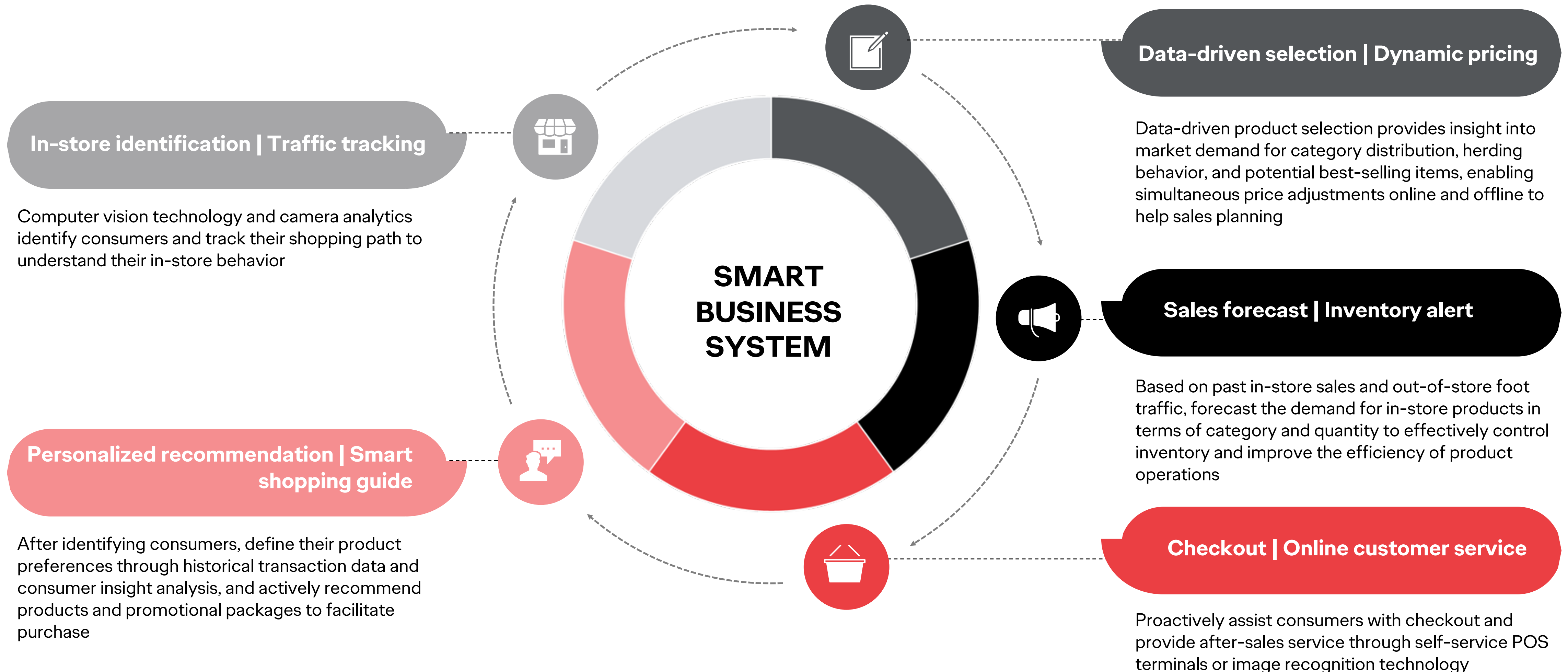
- Ability to show the attractiveness of products with electronic price tags and shopping guide screens
- Ability to synchronize price adjustment between e-commerce platforms and offline stores
- Pricing strategy suggestions for best-selling items and competing products

CONTROL

- Analysis of consumer behavior in front of the shelves, such as selection considerations, frequency of picking up and putting back, abnormal behavior, etc.
- Contactless self-checkout experience and system fault tolerance

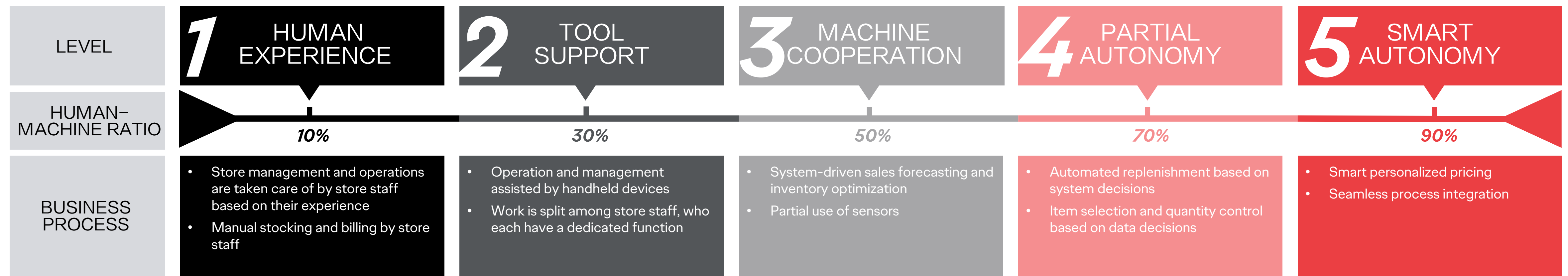
A smart business model: the smart store of the future should be able to proactively sense consumer needs

Unmanned retail is more focused on replacing manual labor with technology, treating the smart store as a smart business system, and sensing consumer needs through unmanned technology



How autonomous smart stores should be

When trying to build smart stores, retail companies often wonder where to start, how much technology is required and how it should be deployed. We believe smart stores can be classified into different levels based on how autonomous they are. Below we have divided the autonomous capabilities of smart stores into 5 levels:



The classification of smart stores can help retailers understand more clearly the degree of integration of digital tools within smart stores and serve as a reference tool to assess how advanced and mature is their current smart store.

LEVEL 1: HUMAN EXPERIENCE

The first level relies on the expertise of store staff to provide consumers with a daily, face-to-face experience that meets shopper's individual needs.

Examples include traditional markets and community shops, where owners are familiar with customers and have a thorough understanding of their potential shopping needs, buying frequency, budget, and can offer perks such product tasting based on consumers' preferences.

Consumer Experience

- Face-to-face consumer service
- Mainly cash payments

Ogilvy Offering

- Culture discovery and brand story
- Brand experience and insight



LEVEL 2: TOOL SUPPORT

In this configuration, tools are used to help store staff with sales and general operations, whether it be through basic handheld devices or promotional information displays. The tools used in the store typically only have a single function.

Common examples include robots providing in-store guidance, promotional activities, and product inquiries; in the catering industry, self-service kiosks can make smart food recommendations and save time at checkout.

Consumer Experience

- Promotions and recommendations by store staff
- Various payment methods

Ogilvy Offering

- Customer experience assessment
- Digital touchpoint and experience design



LEVEL 3: MACHINE COOPERATION

The store leverages sensing devices integrated within its sales and operations systems, which combined with consumption can improve customer service quality and operational efficiency.

Common examples can be found in the beauty sector, where AR makeup mirrors and facial recognition technology allow consumers to quickly try a variety of makeup products; similarly, the apparel industry provides AR mirrors to recommend clothing sizes and give a preview of the fit.



<p>Consumer Experience</p>	<ul style="list-style-type: none"> • Discounts and recommendations arranged by store staff and machines • Self-service checkout
<p>Ogilvy Offering</p>	<ul style="list-style-type: none"> • Digital innovation and engagement plan • Customer-Machine interaction design

Photograph: FXGear

LEVEL 4: PARTIAL AUTONOMY

Partial autonomy refers to a data-centric model that enables automatic replenishment, item selection and quantity control.

Common examples include self-checkout machines used by some fashion retailers. Through RFID tags that can read information wirelessly in a quasi-instant manner, retailers can save labor and inventory costs, while customers can save checkout time, as they only need to place the item in a designated basket for its price, color and size to be automatically recognized.

Consumer Experience

- Full range of personalized recommendations online and offline
- Biometric-sensitive checkout

Ogilvy Offering

- Digital product and service development
- Experience platform design



LEVEL 5: SMART AUTONOMY

In this most advanced form of smart retail, we find new features such as smart personalized pricing and seamless process integration.

Common examples include unmanned convenience stores with self-service QR code opening, product identification and detection, payment via facial recognition or code scan, product bundle recommendations, in-store behavior detection, inventory warning and automatic replenishment capabilities.

Consumer Experience






- Unmanned on-demand shopping
- Contactless checkout

Ogilvy Offering

- Omnichannel experience optimization
- Data-empowered marketing and business growth

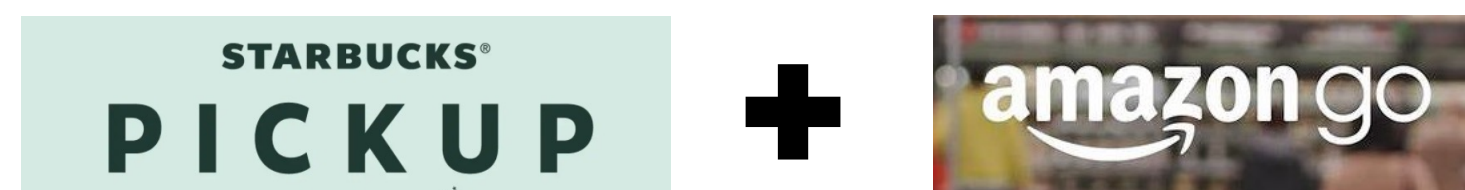


5 LEVELS OF STORE AUTONOMY

LEVEL	1 HUMAN EXPERIENCE	2 TOOL SUPPORT	3 MACHINE COOPERATION	4 PARTIAL AUTONOMY	5 SMART AUTONOMY
HUMAN-MACHINE RATIO	10%	30%	50%	70%	90%
BUSINESS PROCESS	<ul style="list-style-type: none"> Store management and operations are taken care of by store staff based on their experience Manual stocking and billing by store staff 	<ul style="list-style-type: none"> Operation and management assisted by handheld devices Work is split among store staff, who each have a dedicated function 	<ul style="list-style-type: none"> System-driven sales forecasting and inventory optimization Partial use of sensors 	<ul style="list-style-type: none"> Automated replenishment based on system decisions Item selection and quantity control based on data decisions 	<ul style="list-style-type: none"> Smart personalized pricing Seamless process integration
EXAMPLE	<ul style="list-style-type: none"> Traditional markets and community shops, where owners are familiar with customers and have a thorough understanding of their potential shopping needs, buying frequency, budget 	<ul style="list-style-type: none"> Robots providing in-store guidance, promotional activities, and product inquiries In the catering industry, self-service kiosks can make smart food recommendations and save time at checkout 	<ul style="list-style-type: none"> AR makeup mirrors and facial recognition technology allow consumers to quickly try a variety of makeup products AR mirrors to recommend clothing sizes and give a preview of the fit 	<ul style="list-style-type: none"> Self-checkout machines used by some fashion retailers, with RFID tags that can read information wirelessly in a quasi-instant manner, helping with inventory and reduction of the checkout duration 	<ul style="list-style-type: none"> Unmanned convenience stores with self-service QR code opening, product identification, payment via facial recognition or code scan, in-store behavior detection, inventory warning and automatic replenishment capabilities 
CONSUMER EXPERIENCE	<ul style="list-style-type: none"> Face-to-face consumer service Mainly cash payments 	<ul style="list-style-type: none"> Promotions and recommendations by store staff Various payment methods 	<ul style="list-style-type: none"> Discounts and recommendations arranged by store staff and machines Self-service checkout 	<ul style="list-style-type: none"> Full range of personalized recommendations online and offline Biometric-sensitive checkout 	<ul style="list-style-type: none"> Unmanned on-demand shopping Contactless checkout
OGILVY OFFERING	<ul style="list-style-type: none"> Culture discovery and brand story Brand experience and insight 	<ul style="list-style-type: none"> Customer experience assessment Digital touchpoint and experience design 	<ul style="list-style-type: none"> Digital innovation and engagement plan Customer-Machine interaction design 	<ul style="list-style-type: none"> Digital product and service development Experience platform design 	<ul style="list-style-type: none"> Omnichannel experience optimization Data-empowered marketing & business growth

Traditional retailers have started to incorporate smart store features to offer customers a new digital experience

In 2018, Amazon launched Amazon Go, a cashierless-store concept that overturned the traditional convenience store operating model. It combines machine learning, computer vision, AI and sensor fusion technologies to offer customers a fluid shopping experience. Consumers only need to download the Amazon Go APP and scan the code at the store's entry gate to start their shopping. Sensors will analyze the user's shopping behavior and deduce the transaction amount automatically off their Amazon account, thanks to the retailer's "just walk out" technology.



In November 2021, Starbucks opened a new Pickup store in partnership with Amazon Go collaborated with Amazon Go to provide customers with a convenient shopping experience through mobile ordering and contactless pay.



Smart Retail in Action in China



HEMA - FRESHIPPO

O2O dining & supermarket hybrid platform

- > Consumers can order and purchase directly through the Hema App. In store, the app can be used to scan products and check the freshness and consumer reviews of each item
- > Super fast delivery backed by advanced logistics: 30-minute delivery for customers within 3km of a Hema store
- > A new retail platform driven by data and technology to support bundle delivery, digital price tags, and smart replenishment



UNIQLO

A digital experience hub integrating offline and online channels

- > Launched a mobile flagship store offering a suite of digital-based experience services including product display, multi-entry shopping, and membership program management
- > RFID electronic tags are integrated within clothes labels to enable self-checkout, save labor costs, and improve inventory efficiency
- > In physical stores, smart screens facilitate interactions with consumers, with smart shopping recommendations and digital stylist services, enabling physical and virtual shopping experiences to merge seamlessly



BINGOBOX

24/7 unmanned convenience store

- > Scan and go - consumers can enter the store by scanning a QR code and leave freely after self-checkout
- > Self-service settlement technology identifies selected products and completes payment through cameras and sensors
- > Integrates technologies such as smart product identification recognition, facial and motion recognition, and dynamic shelves

The shift from store digitalization to smart store should take into consideration the integrated development of consumer experience and merchandise operations :

- The smart store of the future should be seen as a smart business system
- Interactions at every touchpoint of the consumer journey should be defined by a memorable brand experience that leads to transaction.
- Investment in digital tools should be assessed in terms of value-added brought to consumers and not just in terms of operational cost savings

Viewpoint 3 :

Digital tools should be deeply integrated within the consumer shopping experience

The innovation demonstrated within smart stores reflects retailers' technological capabilities, which drive business growth and value.

Human-based Experience:

Warm welcome and greetings when entering the store

Proactive consumer care and product recommendations

Assessment of consumers' purchasing power and relevant discounts based on past experience

Tech-based Experience:

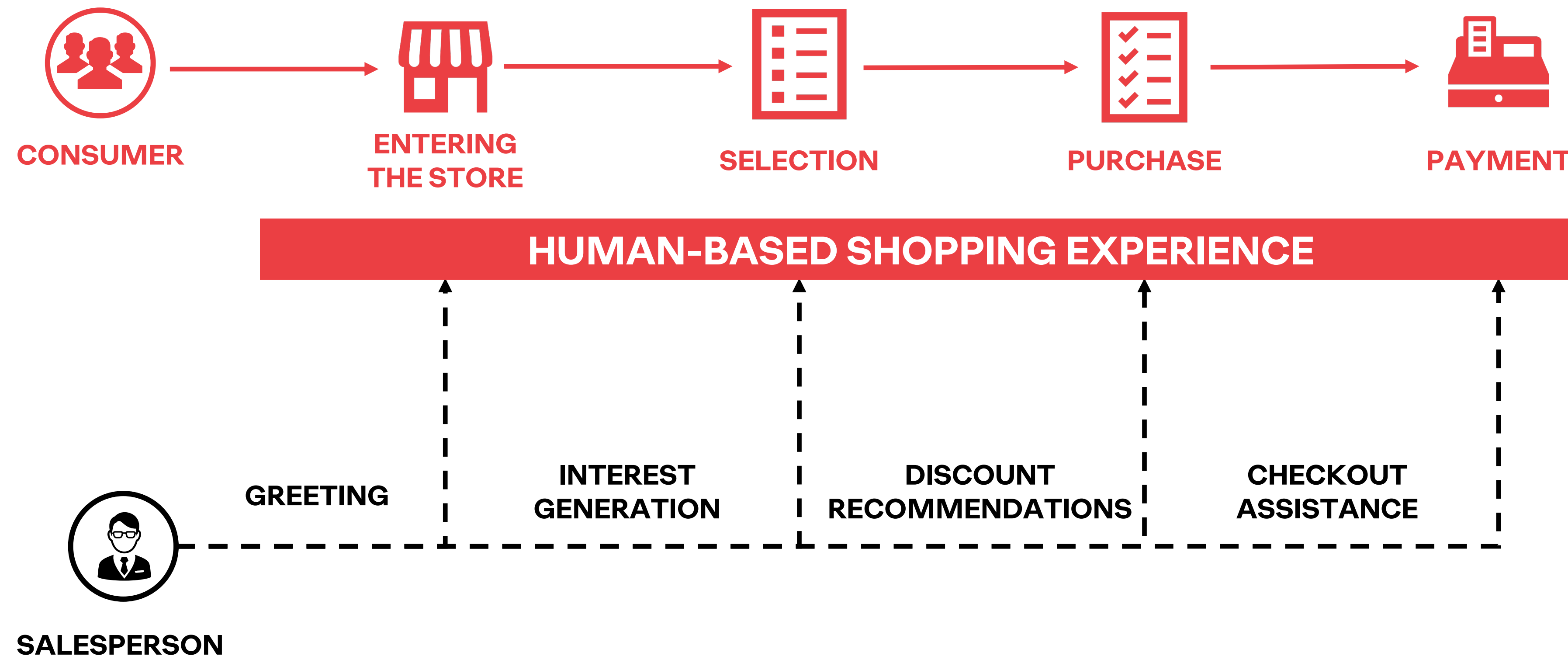
Quick and easy shopping process

Objective and consistent product information

Assessment of consumer characteristics and purchasing power based on past data

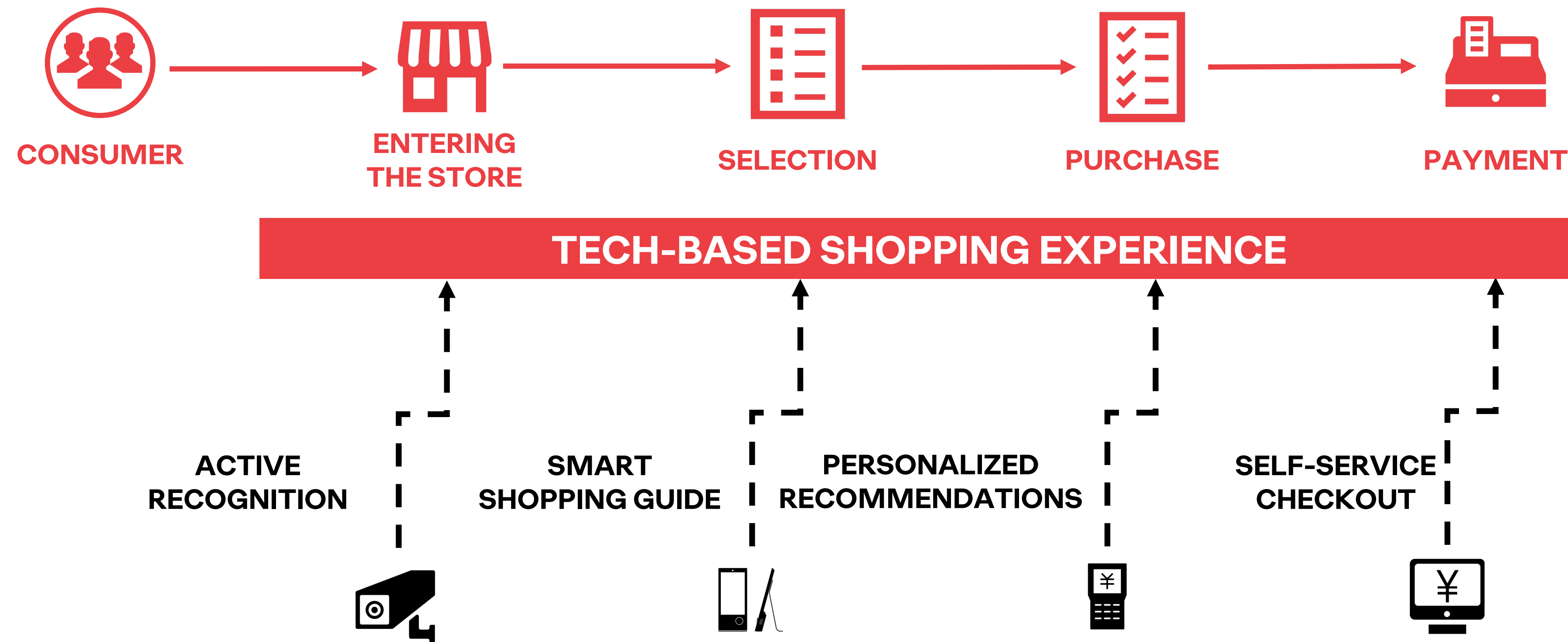
The communication and interaction between the salesperson and the consumer can improve consumer satisfaction

When consumers shop in-store, the salesperson's presence helps improve consumers' understanding of the product and increase their willingness to buy at every touchpoint (entering the store, selecting products, paying for the items).



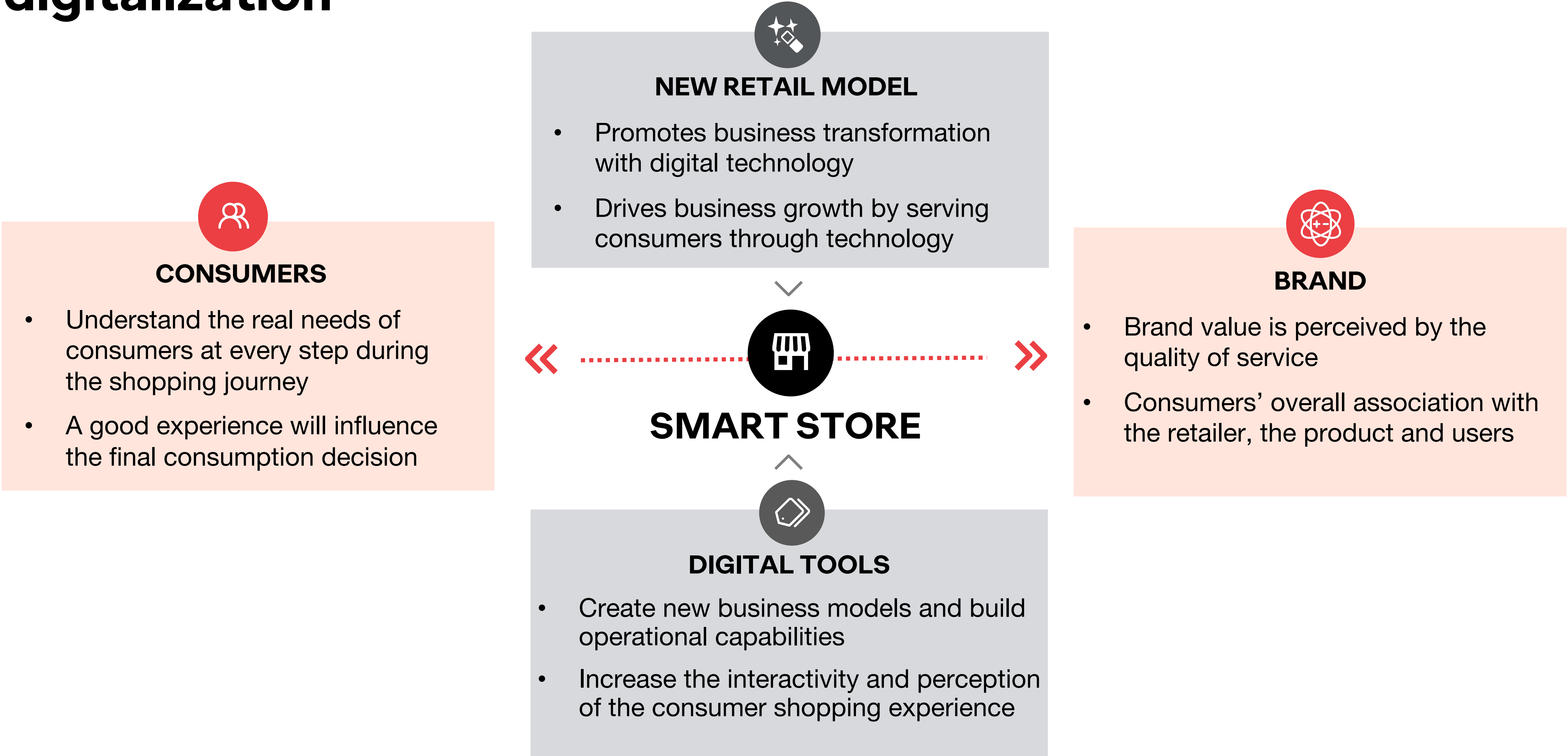
Smart stores leverage various digital tools to assist consumers along the shopping journey

Digital tools in smart stores enable self-service, making the shopping journey more convenient for consumers and allowing retailers to improve the efficiency of their operations.



Smart stores are a new retail model that use technological innovation and connect brands and consumers through digitalization

OGILVY



Smart stores provide services that make shopping more convenient for consumers, but other aspects of the experience still need to be considered:

- Businesses leverage digital tools to communicate with consumers and improve the shopping experience; sales and consumer satisfaction should be aligned with business goals.
- Designing scenarios around the consumer experience is a critical strategic component of effective communication between the brand and consumers
- The innovative design of brand digitization is reflected in the communication and interactions across various touchpoints along the consumer journey, and ultimately leads to sales growth

Taking the next step with Ogilvy Consulting

A successful digital transformation requires a close-knit connection between brands and consumers, with digitalization fostering brand innovation and in turn greater value for consumers.

Ogilvy Consulting leverages cross-capability expertise and deep digital thinking to enable brand transformation. With a particular focus on the consumer experience, Ogilvy Consulting helps clients across industries with digital transformation and growth and business design and innovation, including:

KEY CONTACT Chris Chen, Partner, Digital Transformation,
Ogilvy Consulting China
chriscsq.chen@ogilvy.com

1 DIGITAL MARKETING AND CONSUMER EXPERIENCE AUDIT

Assessing your digital marketing capabilities

2 DIGITALIZATION ROADMAP AND DEPLOYMENT

Short, medium and long-term optimization planning

3 DIGITALIZATION- FOCUSES BUSINESS INNOVATION

Business scenario design through digital innovation

4 CONSUMER EXPERIENCE OPTIMIZATION

Experience-focused digital marketing strategy

5 BUSINESS AND BRAND VALUE GROWTH

Digital strategy for long-lasting user growth

The image features a central red square containing the word "Ogilvy" in a white, serif font. This central element is surrounded by a grid of various patterned squares. The patterns include solid colors (black, white, light red), diagonal stripes (black and white, red and white), and a gradient of red. The overall composition is a modern, geometric design.

Ogilvy