

The Overlooked Importance of Human Capital In Retail



WHY UNMANNED STORES FAILED?



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In 2018, Alibaba, buoyed by its retail arm, T-Mall's e-commerce success in the Chinese Domestic Market, embarked on an ambitious venture to open various unmanned stores across China's major cities. These retail stores are fully automated, equipped with various technologies such as electronic shelf labels, Radio-Frequency Identification (RFID), computer vision, and facial recognition, to name a few.

The decision seemed to make perfect sense: lower labour costs, powerful data collection capabilities and greater operational efficiency, while offering consumers a glimpse of shopping in the future. Other tech companies soon joined the party, unmanned retail shops promptly mushroomed all over China, and the hype was real. How could anything possibly go wrong? Except it did.

Fast forward to June 2020, and a large number of these unmanned stores closed down, as reported by Nikkei Asian Review:

- In Shenzhen's electronics shop district, a Buy-Fresh Go store that had been heralded by the media as a model of automated retail closed after only about a year.
- In Guangzhou, i-Store, the first local unmanned convenience chain, closed 6 of its 9 stores.
- In December 2018, JD.com, China's second-largest ecommerce company, announced the suspension of its smart shelf business — small unmanned shops the size of train station kiosks.

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SO, WHAT ACTUALLY CAUSED THE DOWNFALL OR UNMANNED RETAIL?

Turned out it was for exactly the same reason the business model existed – the absence of human personnel, which escalated problems such as:

- **Technical limitations:** Most unmanned stores faltered at delivering a seamless “just-walk-out” experience: some could handle only limited customers at once; others encountered glitches upon customer entry or exit. In customers’ eyes, unmanned convenience stores were simply not convenient enough.
- **No added value:** Unmanned store operators were so intent on proving their technological capabilities that they neglected the importance of creating a great customer experience. To customers, unmanned meant an impersonal and therefore unmemorable shopping journey.
- **Dishonest customers:** Research firm Trivium reports that Alibaba conducted an experiment in 2015 in which only 62% of shoppers actually paid for their goods at unmanned stores. With the absence of human personnel, cheating acts were difficult to detect.

WHAT CAN WE LEARN FROM THE FAILURE OF UNMANNED RETAIL STORES IN CHINA?

Perhaps the biggest lesson here is that retail is essentially all about the customer experience, and adding a human element not only provides a personal touch to the customer experience, well-trained and knowledgeable sales personnel could even influence customers’ purchasing decision and drive- up store revenue. Perhaps retailers could learn from this case study and start to invest more into their human capital in order to gain a competitive advantage in already saturated market. Food for thought.



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