

What the Heck IS Innovation in Retail?

by Steve Riordan

In the course of our work, we help companies transform their results from innovation across numerous industries including high tech, industrial manufacturing, life sciences, consumer packaged goods and, of course, retail. It's always interesting to observe what innovation means to senior executives across all of these industries, versus the opinion of a retail executive. For most of these industries, if you were to ask a senior executive, "What does innovation mean in your industry?" his or her first reaction would be to think of innovation as it relates to products they develop. Interestingly, if you were to pose the same question to a senior retail executive, his or her first reaction would be to think of innovation as it relates to the customer's experience with their company.

As a result of this dichotomy, there can be confusion as to what innovation means in retail. Here's how we think about where innovation occurs in retail, and what's driving it.

Where Innovation Occurs

It all comes back to the most basic definition of innovation – something **new** that **creates value** for the customer that wasn't there before. For retailers, there are three primary areas where innovation happens: merchandise/product, consumer/customer experience, and business model & process. The leading retailers are constantly trying new things across all of these areas, versus just focusing on one.

Merchandise/Product Innovation – This refers to new or differentiated products or brands. When retailers struggle with limited product differentiation, not enough new business from new products, or poor consumer acceptance of new products, merchandise innovation is the common solution. We see merchandise innovation happening in different ways within the retail environment. Particularly for vertically-integrated retailers or those with their own brands, retailers may innovate in the design of the product itself, the materials, or the packaging. Retailers may also bring together multiple products to create an innovative solution that satisfies an unmet customer need. Another manifestation of merchandise innovation in retail is partnering with a 3rd party (e.g., celebrity, national brand) to bring exclusive brands or products to market.

Merchandise/Product Innovation

Innovation Areas	Description	Examples
Product Design	Innovation in the design of the product or materials to improve product performance through new, different, or improved features or functions	Uniqlo's HeatTech
Solution	An innovative product solution that meets a customer unmet need and results from bringing together multiple products	Mix & Match Creations™ – a set of solutions from Walmart, Tysons and Birds-eye

High Priority Issues Addressed

Limited product differentiation
 Not enough new business from new products
 Poor consumer acceptance of new products

Customer/Consumer Experience Innovation – This refers to new or differentiated ways that the retailer engages with and delights the shopper across all touch points. Traditional retailers (those who are not vertically integrated) tend to refer to a shopper in their store as the "customer." However, for vertically-integrated retailers who are also apparel manufacturers, the "customers" are the retailers through which their products are distributed, so they instead think of their shopper as the "consumer." Thus, to be all encompassing, we refer to this form of innovation as "customer/consumer experience." Either way, it's all about the experience of the person shopping for and buying the

merchandise.

This type of innovation addresses customer/consumer engagement and loyalty. It tends to be the area that gets the most air time when retailers talk about what they are doing in innovation, as any innovation in this area is very visible to the outside world. Many of the digital and multi-channel initiatives that retailers are currently undertaking fall into this category. Even if retailers aren't calling it customer or consumer experience innovation, it really is all about finding new ways to add value to the customer's experience.

Customer/Consumer Experience Innovation

Innovation Areas	Description	Examples
Service	Providing a new or differentiated service that goes beyond the product	Ikea's augmented reality catalog app
Communication	Communicating the brand value in a differentiated or unique way	Nordstrom's Pinterest signage

High Priority Issues Addressed

Low customer loyalty
Low customer engagement

Business Model & Process Innovation – This refers to new or differentiated ways that the retailer configures their assets to do the work and serve the customer. Retailers turn to this type of innovation when assets are underutilized, the supply chain gets in the way of innovation, or capabilities are lacking. This category includes things like building alternative business models, collaborating with others in new ways, reorganizing, or improving how you operate.

Business Model & Process Innovation

Innovation Areas	Description	Examples
Business Model	Building a new, alternative business model – many times this is applying a known model to a new situation	Warby Parker's online sales of prescription eyeglasses
Business Approach	Deriving value from a new way to organize intangible assets, capital and people	eBay "Sell it Forward" beta test with Goodwill of San Francisco Stitch Fix's use of data analytics and personal stylists Kroger's use of infrared technology to monitor customer queue time

High Priority Issues Addressed

Underutilizing company's assets
Supply chain gets in the way of innovation
Missing capabilities required to meet a market need

Additional examples of all types of innovation can be found in the [Retail Innovation Shout-Out Blog](#).

What's Driving Innovation

The fuel for these three types of retail innovation includes the use of a number of readily available and well understood tools, technologies and techniques. Although retailers have a reputation for being late adopters, in many cases they have been at the forefront of experimenting with and adopting the following sources of innovation:

- Social Media – to rapidly share information and gain market feedback
- Cloud – to access data independent of any device
- Big Data – to inexpensively store and access large amounts of complex data
- Advanced Analytics – to break down data sets using advanced, cost effective, accessible technologic horsepower

- Digitization – to depict any merchandise with digital photography and video
- Mobility – to take advantage of how consumers use technology on the go
- Band Width – to move large amounts of data swiftly and cost effectively
- Advanced Search – to search a vast amounts of data and compare like data sets

While this is not a mutually exclusive, collectively exhaustive list, these sources are applied individually and in combination to drive innovation for retailers.

What's Your View?

How do you define innovation? What other examples do you have relating to merchandise/product, consumer/customer experience and business model/process innovations? What sources do you use?

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About the Author



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