INNOVATION IN RETAIL 2019

COLLECTIVE CAMPUS | INNOVATE OR DIE

“THE DAY BEFORE SOMETHING WAS A BREAKTHROUGH IT WAS A CRAZY IDEA”

PETER DIAMANDIS

The above mentioned quote serves as a reminder to retail executives everywhere not to discount the emergency of new players.

It seems like just yesterday that I was merrily riding my bicycle down to my local Blockbuster Video to pick up two overnight and five weekly rentals! Since then, what once might have seemed like a crazy idea – online video streaming of new release films and TV shows – has become a reality, leaving outlets like Blockbuster eating dust.

As the rapid growth curve of technology continues to accelerate, the retail landscape is set to become even more ambiguous and uncertain, which means that executives of traditional incumbents have but one choice; get better at navigating and adapting to said uncertainty, or extract whatever value is left in the existing business model before filing for bankruptcy.

This ebook provides readers with an overview of what is happening in the space of retail innovation, and guidance for executives looking to avoid said filing, and not only survive, but thrive well into the future.

As Stephen Hawking put it, “intelligence is the ability to adapt to change”.

Let’s adapt.

Steve Glaveski
CEO, Collective Campus

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HISTORY OF RETAIL

Like all industries, retail has changed dramatically over the years to adapt to changing conditions and consumer trends. While the retail landscape today is dramatically different from what it was even 20 years ago, roots can be traced back to ancient China.

ANCIENT TIMES

The history of the retail industry can be traced as far back as 100BC when a network of trade routes nicknamed "silk roads" opened up to facilitate trade between the east and the west. At this time, products sent from Asia to Europe included tea, silk, precious stones and spices. Traveling the other way were horses, animal furs, honey, and textiles.

Many aspects of modern day retail are reflected in the shopping habits of the ancient Romans, with locals converging daily at the "Forum" - a downtown square - to buy and sell all sorts of goods and socialize.

MODERN RETAIL

The 20th century is when retail as we know it really began to take shape.

In the early part of the Century, people tended to shop close to home at independent retailers. Frank Woolworth was credited with making several innovations during this time that shook the retail landscape. The first was spearheading fixed-price goods, displaying a price on everything sold rather than engaging in haggling with customers.

Second, Woolworth changed the layout of his stores, placing products on shelves rather than behind counters. This allowed customers to be more engaged in the buying process, allowing them to touch and feel things before buying them, which also meant that customers could shop at their leisure, rather than asking the shopkeeper to retrieve goods.

The real change in the retail industry came in the middle of the 20th century when automobiles arrived to revolutionize the way Americans lived. Suddenly, huge air-conditioned malls sprung up across the country - this was like catnip to shoppers everywhere.

Many retailers that launched during this time would go on to see huge success in the late 20th century, with the likes of Walmart, Macy's and Toys R Us pushing out competitors to dominate their industries.

E-COMMERCE

The rise of the internet in the late 20th and early 21st Century brought big changes to the retail landscape across the globe. Since their founding in the '90s, retail tech heavyweights like eBay, AliBaba and Amazon have grown to dominate e-commerce, not just in the U.S but around the world.

These online giants have several advantages over traditional retailers that have lead to their lightning-fast expansion, but primarily, the lack of a brick and mortar presence (although the tide is now shifting on that) means that these operators have significantly lower overheads than their brick and mortar rivals, and can provide goods for a lower price and in many cases, a more seamless service.

In response to the rise of e-commerce, traditional retailers have been forced to adapt, many using their scale to their advantage by moving towards an omnichannel approach while at the same time focusing on their in-store experience to keep customers interested.

FALLEN RETAIL GIANTS

History is littered with tales of fallen retailers. With new technological innovations and an increasingly competitive retail landscape in the United States, many businesses have been unable keep up.

SEARS

Once the largest retailer in the United States, Sears filed for bankruptcy in 2018 with over 400 stores nationally employing more than 70,000 people. Today, the fate of the iconic retailer is still in limbo as management struggle to keep the remaining stores open and the Sears brand alive. How could this happen to such a giant of American retail? Well, that depends on who you ask. While some were quick to blame the company's demise on Amazon, the truth is a little murkier.

In the four years from 2014, profits at Sears had dropped by over half, likely due to the increasingly competitive landscape and changing consumer tastes. In an attempt to stem these losses and generate cash flow, the company began selling stores and other assets en masse.

According to analysts, the situation was exacerbated by Sears management's inability to maintain a solid product offering and invest in their stores; in some cases leaving shelves bare. While Sears was able to survive two world wars and the great depression, it’s unclear whether they will survive the digital age.

TOYS R US

Toys R Us enjoyed industry domination since its founding in 1957, with the sheer size of the business meaning they could push out competitors with ease.

Things started to change in the late 1990s when rival Walmart overtook Toys R Us as the biggest toy seller in the U.S. In response to this growing threat, the company embarked on a radical turnaround plan that involved a number of investors pitching in to essentially take the company private in 2005, saddling the business with debt in the process.

This debt limited Toys R Us' ability to invest in the business, leaving them unable to take advantage of the changing retail landscape which at the time was proving very lucrative for rivals like Target, Amazon, and Walmart. Ultimately, the growing debt and inability to compete with rivals lead to the liquidation of the business in 2018.

BLOCKBUSTER

If ever there was a tale of a business being disrupted by innovation, it's Blockbuster. Once the undisputed king of the at-home TV and movie scene, Blockbuster had over 9,000 stores worldwide, employing over 84,000 people at its peak.

Trouble for the chain first started in the late noughties, when they failed to adapt to compete with new rivals like Netflix's DVD mailer service and movie rental kiosks. The huge overheads required to maintain Blockbuster's brick and mortar store network meant they couldn't offer as competitive pricing as their new online rivals.

While Blockbuster did eventually attempt to change its business model to better compete with their competition, this move was poorly timed and caused the business to hemorrhage money. After filing for chapter 11 in 2010, Blockbuster sold off all company-owned stores, all of which have since shuttered, except for a solitary outlet in Bend, Oregon.

NEW AND EMERGING RETAIL LEADERS

In the ever-changing retail landscape, businesses succeeding today have to either change the game or be agile enough to move with it.

AMAZON

Since launching as an online bookseller operating out of founder Jeff Bezos' garage in 1994, Amazon has taken the retail industry by storm, changing the way the world shops in the process. After some speed bumps in the late 90s in the form of lawsuits from Walmart, and Barns & Noble, Amazon continued to grow through the dot com crash of the early 21st century. The business continued to expand its product offering with the goal of carrying "every product from A to Z."

Currently, the company employs over half a million people worldwide and accounts for 5% of the total US retail spend and 49% of the online retail spend in 2018.

Considering Amazon forged their success in the online retail space, the company's recent expansion into traditional brick and mortar has taken some by surprise. The company announced the acquisition of Whole Foods in 2017, a move analysts theorized was to better compete with Walmart.

After years of hype, Amazon recently opened their first Amazon Go store to the public in Seattle in 2018, providing a surreal retail experience where customers shop without cards or cash. The company has plans to continue their offline expansion soon, with as many as 3,000 Amazon Go locations set to open up nationwide by 2021.

WHOLE FOODS

From humble beginnings as a natural foods grocer in Austin in 1978, Whole Foods has grown to become a grocery giant, with over 500 locations across North America and the United Kingdom. Whole Foods' point of difference has always been their commitment to organic foods, and those free from harmful fats, artificial colors, flavors and preservatives. This commitment to sustainability has been a hit with consumers and has seen the business go from strength to strength.

With the chain purchased by Amazon in 2017 for an estimated $13.7 billion, it looks like things are just heating up for the grocery chain.

RENT THE RUNWAY

Rent the Runway has come out of nowhere to challenge the very idea of the traditional retail platform. By offering a never before seen level of accessibility to high-level luxury clothing and accessories, the company has amassed over 6 million customers nationwide.

Customers have the option of renting a one-off item, often for as little as 10% of the retail price, or signing up to the platform's subscription service for regular fashion rentals.

With a booming online business, it seems Rent the Runway is following in the footsteps of Amazon by launching a range of brick and mortar shopfronts in major cities across the country.

HELLO FRESH

Meal-kit delivery services are seriously big business. Since launching in Berlin in 2011, Hello Fresh has grown to account for close to 50% of this market in the U.S, with operations throughout Europe and Australia as well. With engaging marketing and a competitive price point that appeals to budget-conscious consumers, it doesn't seem like Hello Fresh are going anywhere any time soon.

CHANGING TIMES

The landscape of retail has been changing for quite some time, but in 2019, it seems that these changes will become much more pronounced. That's because hundreds of retail giants are starting to shutter their stores.

The "brick and mortar retail apocalypse" has also claimed many other victims including Target, Kohls, and to a degree Tesla, who plans to move all of its sales online, keeping only a handful of showrooms open as galleries.

Still, others are thriving, particularly Walmart who was quick to establish a powerful online presence. Other retailers who have not are either trying desperately to play catch up or are realizing that they are trying to change too late in the game.

However, while players like Sears and Kohls shutter stores around the country, discount retailers like Dollar General and Dollar Tree are building more stores aimed at price-conscious shoppers. Dollar General alone opened 900 new stores in 2018.

> “The middle-class continues to go away, unfortunately, to the lower end of the economic scale... so as this economy continues to create more of our core customer, I think there’s going to more opportunities for us to build more stores.”
>
> JORGEN VIG KNUDSTORP, FORMER CEO, LEGO

Though, the biggest champions of retail will be the startups which continue to shake up the industry. These companies are lean, mean, consumer-focused machines that know how to offer the products consumers want while controlling their own costs.

HERE COME THE STARTUPS...

There is no shortage of activity in the retail tech space, evident by the following market map which demonstrates that startups are trying to gain a foothold across the entire industry, from payments and loyalty programs, to logistics and infrastructure.

RETAIL STARTUPS TO WATCH

GLOSSIER – THE SOCIAL BUTTERFLY

Beauty is already a huge market, but startups like Glossier will only make it that much bigger. Millennials are obsessed with social media platforms like Instagram and around 70% of them purchase beauty and fashion products through the platform.

Glossier took full advantage of this, and they even went so far as to launch their products on Instagram before their own website. Thanks to that innovation they've managed to sustain 600% annual growth while other retailers are drowning.

The company has also latched on to the key to thriving not only on a social media platform like Instagram but also in today's business world. They seek feedback from their customer base for everything from colors, textures, and shades to price points, allowing them to create products that women actually want to buy.

Though they aren't the only ones on investor's radars, with venture capitalists pouring over $812 million into disruptive health and beauty brands like this one in 2018.

B8TA – RETAIL AS A SERVICE

While e-commerce has taken the world by storm there is still one problem with it. You can't actually try any of the products before purchasing them, and while most stores do allow for returns, this is a hassle many consumers simply don't want.

B8ta is addressing this concern by offering "retail as a service". This fascinating concept allows startups to offer their products in retail stores, where customers can play with or test them out, without actually owning their own stores.

However, even more interesting is the fact that B8ta is inking deals with larger retailers to create stores within stores. Macy's acquired a minority stake in the company, and they are testing its concepts in their own stores to enhance their customer experience.

Could tech startups like B8ta save dying retail giants? Companies like Macy's and Lowes seem to think so. Ironically, it seems that big box stores are now suffering the same fate as the Mom and Pop shops that they pushed out of the market so many years ago. They are quickly finding that they need to be more than just a place to pick up cheap wares to compete with e-commerce stores.

Brick and Mortar retailers will need to offer a consumer experience that can't be had online if they want to compete with giants like Amazon, and B8ta just might be able to help them do that.

CASPER

Similarly to B8ta, Casper also feels that retail experiences will be extremely important to consumers in the future. While they have established themselves as an e-commerce giant, simplifying how you buy a mattress, they also realize that it's tough for consumers to commit to such an expensive purchase without first trying the product.

They first battled this by offering a no questions asked 100-night guarantee for their products. This allowed consumers to try the mattress risk-free, and it worked, but now, they're looking to do something a little different.

Casper will be expanding their operation and opening 200 retail locations across the country. These locations will offer consumers the chance to test out the mattresses before purchasing them and interact with knowledgeable sales staff.

However, they won't actually be selling anything at the stores. These are simply showrooms meant to improve customer experience, and it's an interesting move when more and more retailers are taking their sales out of the store and on to the internet. Casper will be doing the opposite.

WHAT DOES THE FUTURE OF RETAIL LOOK LIKE?

For future retailers, it's pretty clear that a customer-centric approach is the way to go. Tomorrow's consumer demands not only easy access to the products that they want but also customization and an experience that goes beyond the typical big box store transaction. If retail giants want to compete with startups that are bringing the personal touch back to the sales process, they'll need to learn to be more innovative.

The trick, of course, is learning how to offer a premium experience while still keeping discounted prices. Though many of tomorrow's innovations may actually cut costs for retailers, like Sam's Club's Scan and Go app which is a double win for the retailer.

Not only do consumers get to skip the long lines at checkout, but this technology is cheaper than using self-checkouts since there are no machines to maintain, and there are no paid employees to manage those machines.

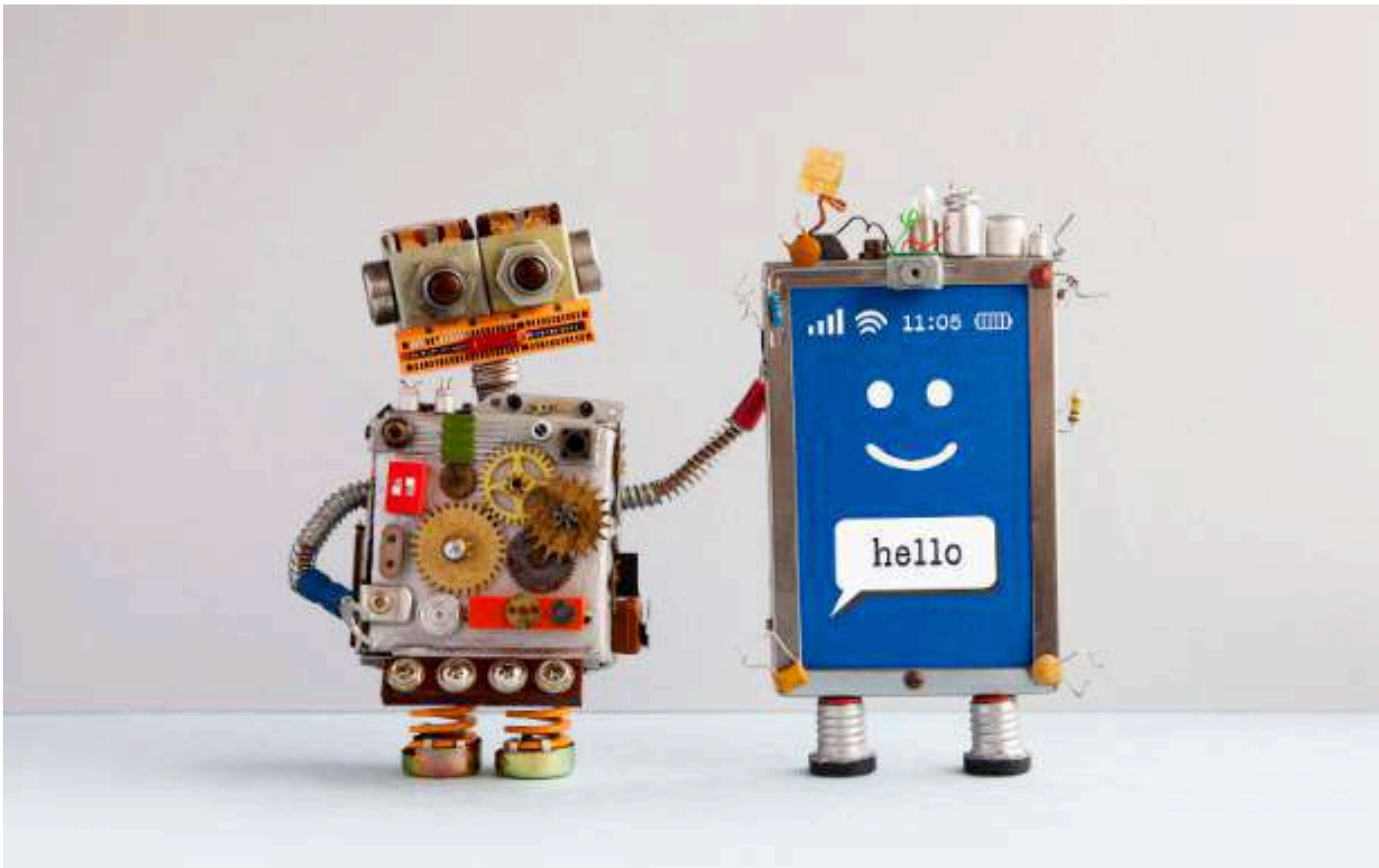
For companies which are willing to do what is necessary to survive, the retail apocalypse will pass them by, and they will be stronger for it. For those who are not already focused on innovation, the end is likely already here and it's only a matter of time.

TECHNOLOGY INNOVATION IN RETAIL

Over the last decade, we have seen an incredible amount of technological growth across nearly every industry. Retail tech is changing the way consumers shop, and the way store owners conduct business. As a global economy, we are shifting away from a "seller-centric" mindset and moving deeper and deeper into a "buyer-centric" world. This means the focus is more on the consumer and on improving the buying process each step of the way.

There is no sign of technology slowing down, and during 2019-2020 we expect to see this "buyer-centric" mentality take center stage in our retail economy.

ARTIFICIAL INTELLIGENCE



AI is nothing new to the retail community as we have seen a dramatic growth in computer technology taking over the routine and simple jobs of many employers across the country. Artificial intelligence refers to the smart machines that speak, act, comprehend, and learn to allow them to accomplish more in a shorter amount of time than humans.

There has not only been a moral dilemma surrounding AI but an economic one as well. Many companies struggle to see the return on investment with AI because the data is inflexible and there is no history to back up that data.

That said, AI has its advantages over humans by being available all the time, providing faster service, and engaging without emotion unless programmed to do so.

In the years to come, we expect to see an even bigger shift towards emotional intelligence which allows the AI to relate to a consumers needs based on their ability to listen and understand the consumer and make a unique suggestion.

OMNI-CHANNEL SALES EXPERIENCES

Technological disruptions and the growth of e-commerce is forcing retailers to take on an omnichannel sales approach. It is said that omnichannel customers spend 15-30% more than a single channel customer.

This approach refers to a business's ability to sell across multiple platforms. We are seeing that retailers who focused entirely on brick and mortar locations are now selling their products online and developing shipping procedures to reduce cost and lengthy shipping times. This is necessary for small retailers to compete with giants like Amazon and Walmart.

Something we have noticed more recently is cross omnichannel retail where you can search online for something to see if it is available in-store and reserve it for pickup when you go in. Being able to receive this type of information without having to pick up the phone or drive to the store allows businesses to decrease their labor costs and it provides a smoother sales process for the consumer. We expect over the next couple of years to find retailers utilizing digital touchpoints like text messaging for marketing. We'll also see more in-store touch points like interactive shopping and smart shelf technology. Once again, this reduces the need for a human employee while seamlessly improving the shopping experience.

THE IMPACT OF POP-UP STORES

For decades we considered a pop-up store a lemonade stand. Pop-ups are allowing small retailers and even individual salespeople to grow a scale a business without ever having a physical location. This type of "boutique" sales strategy has caught the attention of large retailers and even supermarkets that are now leasing out small sections of their stores for other businesses to occupy on a rolling schedule. Macy's was the first to coin the term "pop-up marketplace."

We're not sure if it's a good thing or the last shot at preventing the retailer from joining the rest of the crowd in history.

Pop-up stores further the notion of a "buyer-centric" society because they allow consumers to touch, feel, and see something before they make that purchase. With the rapid growth of e-commerce, we have lost touch with reliable purchasing, and we tend to buy something because it looks good in pictures blindly. This advancement also gives a significant advantage to new products that consumers are not familiar with.

DATA TO HELP UNDERSTAND THE CUSTOMER

Retail tech is not all about the consumer. It has a significant impact on the retailer as well by providing more data than most would ever need. Having the right data allows retailers to forecast sales, manage inventory, monitor labor, and much more.

Beyond the simple data metrics we've had for a while we're also gaining more information about our shoppers through personal shopper data and immersive shopping experience. It's more important than ever to truly understand your consumer so you can create an experience unique to them. That is one of the major advantages brick, and mortar retail has over e-commerce and it always will. Retailers have the opportunity to create an experience when someone walks into their store, and if they understand their consumer, they'll have a better chance at doing that.

ADVANCED ANALYTICS

There once was a time where retailers had an IT department that handled all of their analytics and they received a report once a month and used it to soak up the rim under their coffee cup. Today retailers are more in touch with their analytics, and they have a stronger desire to understand the data behind it.

We have more advanced tactics like customer segmentation, scoring, and operational forecasting. These metrics better prepare retailers for upcoming promotions and busy seasons. In the modern world, data drives business, and it is now affordable for even the smallest local businesses to jump on board.

BLOCKCHAIN

Blockchain allows transactions of digital currency free from fees and traditional methods of tracking. For years, retailers and big business have been trying to find a way to implement blockchain and cryptocurrency into their business practice with little to show for it.

The reason why Bitcoin gathers so much attention is that it allows bypassing so many fee-ridden services that take a percentage of every sale. There is a lot of potentials here, but the consumer market is not entirely on board with crypto yet either. The process of opening a digital wallet and loading it with cryptocurrency is complicated and transferring money through the blockchain is unreliable, but we expect to see this topic become a common point of discussion in 2019-2020.

CONCLUSION

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''THE ONLY CONSTANT IN LIFE IS CHANGE''
HERODOTUS

It is more obvious now, than ever before, that large incumbents need to move away from 20th Century management thinking, and embrace concepts like rapid experimentation, small multidisciplinary teams, commitment over consensus, and radical transparency, in order to survive.

Yesterday's mantras, where the highest paid person's opinion was the only one that mattered, won't cut it.

If we want to avoid the retail graveyard, we must first channel Socrates and concede that the more we know, the more we know nothing, and that the only way to learn what we need to learn in order to make the decisions that will move us forward, is by doing away with office politics – often stemming from insecurity and self-interest – and experimenting, fast.

To the brave go the spoils.

GET IN TOUCH

We help large organisations to discover, not just deliver, to explore, not just execute, and we've worked with the likes of Clifford Chance, BNP Paribas, Microsoft, Village Digital, Asahi, MetLife, Telstra, King & Wood Mallesons, National Australia Bank, Singapore Pools, Ascendas Singbridge and numerous others across Melbourne, Sydney, Singapore, Auckland, Hong Kong, London, New York, Frankfurt and Amsterdam.

If your organisation needs help coming up with ideas, experimenting and turning ideas into reality, driving culture change or partnering with startups, we'd love to hear from you.

COLLECTIVE CAMPUS
INNOVATE OR DIE

W: WWW.COLLECTIVECAMPUS.IO
E: INFO@COLLECTIVECAMP.US

1/20 Queen St
Melbourne VIC 3000
Australia
T: +61 3 9020 2010

67 Ayer Rajah Crescent
Singapore 139950
T: +65 3158 1040