CONTINUOUS INNOVATION: THE KEY TO RETAIL SUCCESS
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It is often said that retail never stops moving. Retail has always served a consumer who craved more, better and cheaper—and was willing to go wherever necessary to get it. And while retail may barely be recognizable since its earliest days, the need to differentiate from the competition through innovation is as great as it ever has been.

No wonder. The advent of e-commerce at a time when consumers are feeling squeezed has created a perfect storm for bricks-and-mortar retailers. This is a hyper-competitive share chase, in which there are only three ways for retailers to win: driving the number of trips up, or growing the size of the basket, or both. All the more urgent, then, that retailers develop strategies to respond to the fact that the growth of the new e-commerce channel is bound to shift a higher percentage of trips online as the channel matures.

In a sense, the urgency of innovation now simply represents an intensification of a perennial challenge. Innovation is always crucial in a world in which grocery and mass retailers generally offer the same product range as their competitors, and retail store density in the developed world makes switching easy.

Innovation can provide an edge in any of five major categories of retail shopper need—convenience, choice or assortment, shopability and price-value, as well as in what retailers can do beyond the store to drive brand equity. For a brief period, it captures consumer interest and attention, and so brings in new customers or improves loyalty of existing ones. But it is quickly and easily copied. There has been no secret formula and certainly nothing that can be protected by patent. Consequently, for a retailer to grow or stay ahead, it must innovate continually. The alternative is a price-based race to the bottom.

In what follows, we discuss the state of innovation in these five major areas. We conclude with a separate section on the importance of digital. While some of the examples of innovation offered here have to do with opportunities made possible by the digital revolution, digital is more than simply an enabler of incremental improvement: it holds the promise of changing the landscape entirely, and retailers must at least keep up—and ideally get ahead.
THE CONTEXT CHANGES—BUT INNOVATION ENDURES

Consumer confidence, particularly in developed-world economies, has been fragile since late 2008. Shoppers are ever more focused on value for money. Asked about the main things that have affected the grocery trip in the last 12 months, shoppers report both increased prices and higher fuel cost.

A return to growth won’t change this, because value is the prevailing cry in retail during growth and recession times, and the key battleground for winning shoppers. A recession just makes the battleground that much more intense.

As the retailer pulls every lever available to minimize the effects of the downturn, the stretched consumer continues to take out non-essential purchases, delay essential ones, and always look for opportunities to save. The figure on the next page shows that trip frequency in the U.S. has dropped 15 percent over the last six years, while basket size has risen only nine percent. We see a similar phenomenon elsewhere. We note that ageing populations, declining birth rates, and shrinking household size also play their part.

Retailers understand, innovation is the only way to avoid this tug of war. Innovation persuades the shopper to do something different: to buy, to try, to move, to change. But the stakes are rising. As Phillip Clarke, Tesco’s CEO, noted, “For retailers, it’s no longer going to be sufficient to innovate simply to meet an existing customer trend... Successful retailers will not be those who meekly follow the customer like some obedient puppy. They will be one step ahead, offering people new ways to make their lives that bit better.”
U.S. BASKET SIZE AND TRIP FREQUENCY

INNOVATING FOR CONVENIENCE

Convenience offers perhaps the most creative, energetic examples of retail innovation. Customers demand more convenience from retailers, and retailers have responded first and foremost with innovation through new channels and formats. Ever ready, the retailer is present, 24/7, online or down the street, come to us or we’ll come to you. Many major retailers such as Tesco operate in multiple formats according to catchment profile and shopper need: Extra, Superstore, Metro and Express. Even Walmart, whose superstore concept made them the biggest retailer in the world, is expanding its traditional supermarket format (Neighborhood Market) in the U.S. and testing smaller Express and Campus formats.

Of course, brick-and-mortar is itself a format, now that shoppers can perform so many shopping functions online. Brick-and-mortar stores may continue to outsell online for quite some time, but online is changing how shoppers interact with stores, and stores are changing in response.

One of the more powerful innovations by which ‘brick’ retailers have taken advantage of ‘click’ possibilities is the ‘click and collect’ process innovation. It is powerful because it addresses a clear need: shoppers who find it inconvenient to wait at home during broad delivery windows. European retailers such as Carrefour and Auchan are particularly advanced here. Auchan offers a drive-through service with spacious collection points, allowing shoppers to collect pre-ordered baskets without leaving their cars. Visible from the road, the service is both ultra-convenient and a powerful advertisement. In the U.S., drug retailer Walgreens offers shoppers a variety of in-store and kerbside pick-up options. We believe more retailers will soon integrate click and collect with dedicated parking spots or drive-through collection.
Tesco rang an interesting change on the new freedom to sell products by showing customer’s pictures of them. The virtual supermarket at Seoulleung in Korea allowed time-pressed workers with smartphones and a few minutes to kill waiting for the metro to scan QR codes with an app and click ‘send.’ Tesco delivered to the house. Online sales increased by 130 percent and site registrations by 76 percent in just a few months.\footnote{iii}

As noted, however, innovations are quickly copied. Eighteen months later, retailers such as Peapod (U.S.), Cold-Storage (Singapore), Woolworths (Australia) and Yihoudian (China) had created new real-virtual platforms.

The digital shopper can now download apps to compare products and prices, get e-coupons, order online and arrange collection. Savvy retailers collaborate with sites such as mysupermarket.com, in which they bid for the online shopper’s ‘trip’ right up to check-out. They also use technology to offer personalized offers online or via mobile devices shoppers are carrying as they walk through the store. U.S.-based Wegmans offers shoppers an app with recipes linked to past purchases, and shopping lists with ingredients organized by store aisle.

Can innovation take convenience further? Yes. Today’s model largely involves making it easier to source and collect. But the tools are now available to predict, based on past experience, when customers will need to replenish. This will put retailers with loyalty data in an advantaged position (although new techniques leveraging credit card data will even the playing field to some degree). Already, Amazon walks people through the process of picking goods, quantities and a delivery schedule on a ‘save, set and forget’ basis. Brick-and-mortar players will need to respond. As Darrell Rigby, Principal at Bain & Company, noted, traditional retailers must “transform the one big feature Internet retailers’ lack—physical stores—from a liability into an asset. They must turn shopping into an entertaining, exciting, and emotionally engaging experience by skillfully blending the physical with the digital.”\footnote{iv}
INNOVATING ASSORTMENT FOR OPTIMAL CHOICE

When considering assortment, retailers must differentiate on things such as healthy options, products that save the shopper time, and food freshness (physical stores’ ability to allow shoppers to select for freshness is of course a powerful advantage over online). This involves carefully managing by monitoring customer data, category trends and the actions of competitors.

In a recent Nielsen survey, shoppers rated finding “everything they need in one shop” as one of the five most important reasons in deciding where to shop in 43 out of 56 markets around the world. Yet greater choice does not necessarily translate to higher sales as consumers can get overwhelmed.

Most large retailers respond in two ways to what they see happening in the marketplace. First, they modify the core offer and space allocated based on catchment profile, optimising range and quantity based on a general picture of the local consumer. Second, they recognize that there is more than one shopper mission, and that they must range in a way that recognizes that local consumers have different sets of needs.

Ranging by mission is most visible at the front of the store (the so-called ‘hot zone’), where the retailer must satisfy the quick-trip, grab-and-go mission. Waitrose in the UK takes ranging by mission to a new level by designing some of their convenience stores to cater for the next two days through ‘Food for Now,’ ‘Food for Later’ and ‘Quality Essentials.’

Ultimately, getting assortment right means optimizing how much and of what in order to serve the ubiquitous goal—get the shopper in, and make him or her feel the experience has more than justified the trip.
INNOVATING FOR SHOPABILITY

Many retailers are reinventing the in-store experience to keep it powerful, despite the attractions of online shopping. Obviously, the store allows us to inspect the product we are buying, to search for markdowns, or for the item with the latest sell-by date. For many, physical shopping also fills a social and emotional need, and remains central to their relationship with the retailer.

That said, the bundle of rational and emotional needs shoppers seek to meet at the store changes with their situation. Are they under time pressure? Are they shopping with others? Success lies partly in making the store responsive to the same shopper’s changing needs, serving equally well the quick trip, the regular routine visit, and the major stock-up. The front of the store is the key tool in enhancing shopability.

The other major element in shopability success lies in getting shoppers into the store when they wouldn’t otherwise come at all. This can be done in two ways. One way is to give shoppers a new or stronger reason to come to the store.

In high-involvement categories, retailers use the shelf and the aisle to create a positive and confident mood. Pictures of very fresh produce have forever adorned fruit counters, and artisanal bread adorns bakeries aisles. Today, Health and Beauty areas (H&B) might picture beautiful people running through fields of flowers for inspiration, along with guides to product use for confidence. In Beer, Wine, and Spirits (BWS), stores often employ softer lighting and music. In fresh produce, some even employ aromas to create a ‘feel at home’ ambience.

Much retail innovation has focused on the ‘edge’ of the store, generally understood to offer the best opportunity for differentiation. The perimeter, it is said, drives the brand experience and store engagement. More time in-store generally means higher spend, so retailers do what they can to keep shoppers in. The perimeter is where retailers offer free samples and greater opportunities to interact with staff. Coffee shops, newsagents and other services such as mini-bank branches and pharmacies draw people in, and keep them in longer. Borrowing from the successes in other countries, innovative U.S. grocers are now adding sit-down restaurants, some with beer and wine, to attract traditional restaurant spend.
The second way to get shoppers into the store is to lower the barriers to entering in the first place. A good example is self-scanning tills and check-outs, which remove the pain point of long queue times. This innovation, at first ignored by shoppers because it was unfamiliar and somewhat error-prone, is now a mainstay of queue management across hypermarkets, superstores and convenience outlets in many developed markets.

Shopability—helping retailers to sell by helping consumers to buy—is a key driver of store choice. As they innovate in more sophisticated ways, retailers must never neglect the basics: clean, easy-to-navigate stores, product prices clearly labeled, and friendly and helpful employees.
INNOVATING FOR PRICE-VALUE

Convenience, assortment, shopability—all of these can save a retailer from a race to the bottom, but the price-value equation remains fundamental. At the same time as pulling every possible lever to discourage price-only-based shopping, retailers should do everything they can to assert their low prices when they can, and assert their value-for-price when they cannot.

Loyalty programs and regular sales are of course tried and tested mechanisms. Price comparisons by product are easy to offer. ‘Rollbacks,’ price guarantees and price calculators also assure shoppers they are not paying too much. From mainstream broadcast media to personalised digital communications, innovative organisations seek any mechanism to deliver the price-value message to the ‘always on’ shopper. Retailers shout offers and serve e-coupons in a constant process of testing and learning. New entrants such as Cellfire or mobilecoupons.com help manufacturers draw shoppers in their direction.

Multi-category manufacturers can emphasize cross-brand promotions; retailers can leverage cross-subsidizations such as the popular reduced-price fuel arrangement.

Across Europe and North America, the penetration of private label is significant, in line with the expansion of the category discussed earlier. In the U.S., private label grew at a compound average growth rate of over 15 percent from 2009 ($94 billion) to 2012 ($108.6 billion).\textsuperscript{VII}

In the UK, often a source of retail innovation, a considerable proportion of sales is from private label.\textsuperscript{VIII} The paradigm of high-quality manufacturer brands and private label as a cheaper alternative no longer holds in many packaged good categories in many developed markets, see figure on the following page. Indeed, private label is now often a mechanism through which UK retailers stay ahead of shopper needs. And in recent U.S. Consumer Reports tests, Costco, Walmart and Target offered products that achieved a higher rating than the top-branded comparable product.\textsuperscript{IX}
### Regional Attitudes to Private-Label Goods

**REGIONAL ATTITUDES TO PRIVATE-LABEL GOODS**

<table>
<thead>
<tr>
<th></th>
<th>Global</th>
<th>Asia-Pacific</th>
<th>Europe</th>
<th>North America</th>
<th>Middle East/Africa</th>
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</thead>
<tbody>
<tr>
<td><strong>Less Expensive than Named Brands</strong></td>
<td>45%</td>
<td>41%</td>
<td>59%</td>
<td>64%</td>
<td>55%</td>
</tr>
<tr>
<td><strong>Really Good Value for Money</strong></td>
<td>28%</td>
<td>26%</td>
<td>43%</td>
<td>43%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Quality Just as Good as Named Brands</strong></td>
<td>22%</td>
<td>18%</td>
<td>41%</td>
<td>48%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Nielsen Shopper Trends Retail Equity Study, 2012

Despite its growth, there remains considerable opportunity in private label. This next chart suggests many countries’ shoppers would devote more grocery dollars to private label offerings if given the choice. In Brazil, for instance, a market where private label share is only five percent, 25 percent of shoppers say they would switch to lower priced brands. In Argentina, 40 percent of shoppers say they would switch—but private label share is just eight percent.
The exhibit above suggests that both retailers and manufacturers are being challenged by consumers in many countries to seize or defend a significant part of their business. It remains to be seen whether manufacturers will successfully re-align their products to maintain consumer loyalty, retailers will step up with private label offerings attractive enough to strengthen their own brand equity—or, more likely still, collaborative efforts emerge that benefit both total category and total store sales.
INNOVATING BEYOND THE STORE

At the traditional store, convenience, assortment, shopability and price-value are king. But innovation must go beyond the traditional store if a retailer is to remain competitive. Current efforts take two forms. First, retailers are stretching the brand to create business opportunities in completely new areas; second, they are engaging with the communities they serve on social issues important to the wellbeing of those communities.

Grocery retail has in fact been a poster child for innovative brand stretch as retailers move toward offering one-stop-shop opportunities. Many grocery retailers now supplement traditional packaged goods with services including apparel, entertainment, soft furnishings, pharmacy, durables, fuel, and even travel services. In many cases the extra services start as you pull up to the car-wash/valet, and continue through your coffee stop to your fuel fill-up on departure. Some larger grocers now function as diversified operators, stretching the brand beyond the store into banking, insurance and telecoms. They leverage the accumulated trust built in one space to win in another. Extending the franchise often involves partnership or co-branding, with the retailer conferring the trust and a partner underpinning the offer with business expertise—although the partner may itself be a trusted brand.

As for activity on social issues, supporting the health and vitality of their communities has been a part of retailing from its earliest days. It has long been understood that local projects such as hunger relief, school donations, emergency fundraising, community health initiatives, and so on are powerful ways to shoppers’ hearts. Tesco collaborated with two charities, FareShare and Trussell Trust, on the ‘Help Feed People in Need’ campaign. Eight hundred stores across the UK provided much-needed food for hundreds of thousands of people over the Winter Holidays in 2012. Thousands of Tesco staff members together with volunteers from the two charities were on hand to help customers contribute by giving them shopping lists with everyday food items for collection and donation, such as cereals, rice, tinned food and sauces.
At a global level, the retail industry has been a leader in driving sustainability. This includes promoting fair-trade products and reducing stores’ environmental impact. Retailers reap a clear brand equity dividend when they partner with trusted institutions to develop and promote sustainable sourcing. Examples include Ahold’s Albert Heijn, who has committed to using only sustainably-sourced raw materials in private label products. Similarly, UK retailer Sainsbury has installed 69,500 solar panels on their stores, generating enough power to supply 4,100 homes. Under the ‘Replenish’ brand, Tesco has launched a new range of refillable multi-surface cleaners made almost entirely from plant ingredients and water. Carrefour launched a website enabling shoppers to trace food provenance, including the source and methods of production. Retailers are also urging their customers to make changes—many encourage shoppers to bring reusable bags by charging for plastic ones. U.S. retailer Whole Foods has created an app—‘Make Change, Not Waste’—that rewards shoppers with coupons for making sustainable lifestyle choices. Kroger and Walmart have done an unusually good job of making profitable the sustainability efforts they use to enhance their equity with consumers.
In most markets today, grocery e-commerce is in a nascent stage. Shoppers mostly engage in checking prices and researching products online. Even the ‘brick and click’ initiatives discussed above are just a beginning. Things are projected to change quickly, however, as digital shopping’s fast growth suggests, see chart.

**E-COMMERCE PROJECTED TO GROW**

**GLOBAL E-COMMERCE FMCG SALES (U.S. $ BILLION)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (as % of 2010)</td>
<td>50%</td>
<td>60%</td>
<td>75%</td>
<td>100%</td>
<td>125%</td>
<td>160%</td>
</tr>
</tbody>
</table>

Sources: Nielsen, eMarketer, Internet Retailer, Nielsen Analysis
Note: Sales do not include travel services
Through its ‘Zero Moment of Truth’ (ZMOT) concept, Google demonstrated the disruptive impact of technology. ZMOT reworked the classic three-step (stimulus, shelf and experience), emphasizing the emergence of other brand interactions that occur around the path to purchase—conversations, seeking reviews, interacting with the manufacturer or retailer, and so on. One-way messages from manufacturer to shopper have become conversations in which shoppers find and share their own information about products, in their own way, on their own time. Word of mouth is stronger than ever.

As digitization empowers the shopper, it naturally also changes the implicit relationship between the shopper and the retailer. The main elements of that changing relationship are:

- **PERSONALIZATION—YOU’VE GOT MY DATA:** USE IT TO MY ADVANTAGE, AND TO MAKE ME FEEL GOOD—AND KEEP IT SECURE
- **I CAN TALK TO ANYONE, ANYWHERE, ANYTIME:** IF YOU WANT TO BE THE ONE I’M TALKING TO, YOU MUST BE ABSOLUTELY CREDIBLE
- **I AM ALWAYS ON—MAKE SURE YOU ARE ALWAYS ON, TOO**
- **RECOGNIZE I HAVE CHOICES. I SEEK VALUE, I SEEK IT NOW, AND I’M PREPARED TO GO ELSEWHERE TO GET IT**
- **I LIVE IN A FAST-PACED WORLD. I KEEP UP, AND I EXPECT YOU TO KEEP UP, TOO**
- **I INTERACT WITH YOU THROUGH MANY DIFFERENT CHANNELS:** MAKE SURE WHAT I FIND IS CONSISTENT ACROSS ALL OF THEM

In short, we are working through a data and a social revolution. What’s already clear is that there is a new dialogue between retailers and shoppers. When you can know the customer and how she differs from the mass, more personalization and localization results. Marketing comes full circle as data management enables better-organized retailers to know the shopper as the shopkeeper knew her regular shoppers a hundred years ago.
The democracy of the Internet with its easy access and opportunity to try things will mean a continued evolution of the marketplace. Well-organized, large retail and online operations have a huge head start in understanding the shopper habits and building trust, as well as delivering value by leveraging their own buying power. Even when the store is virtual, the cost of entry is material.

In the next three to five years, we expect to see changes as the first generation of ‘digital natives' form households, as broadband penetration approaches ubiquity in much of the world, smartphone penetration continues to climb, manufacturers develop an ever-greater ability to touch the shopper at the point of purchase, and retailers harness already existing economies of scale to drive ever-greater efficiency.

The right way to respond will be different for different companies. What is common to all, however, is a set of questions every retailer should be asking (most are relevant to manufacturers, too):

1. We are in a new world, in which people are changing the way they plan, compare and choose. Are we responding to all those changes—and, where possible, influencing them to our benefit?
2. The path to purchase is more complicated: If we are to respond effectively, we need to make sure our organizational structures don’t get in the way. Are we taking advantage of an enormous installed base of ‘bricks' and integrating it with ‘clicks,' or do we have siloed structures working against seamless delivery?
3. As e-commerce grows, there is an inevitability that trips to the store will continue to decline. The store has to work harder to drive value from the trips that remain. It will do that best by focusing on the missions that online is not addressing, like impulse and unplanned trips and merchandising to attract the incremental sale. Are we ready to manage the consequences of that transition?
4. Not all categories will move online. Can we manage our assortment, advertising and, indeed, all processes in line with this situation? Most obviously, online cannot serve impulse shopping. Are we working hard to become the impulse destination of choice?

The winners will be those who found their innovations in true shopper need—and remember that every innovation has a short shelf-life, and must be followed by another.

E-commerce represents a formidable competitor—as many industries have discovered. However, digital offers many opportunities to the bricks-and-mortar retailer. Nor are e-commerce’s advantages the only things consumers value, and it is the other things—I can get it when I want it, I can make sure it’s fresh, I see people I know at the store, and so on—that point the way to maintaining the viability of bricks in an increasingly click-filled world.
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V Nielsen Shopper Trends Survey, 2012. This is a global survey, conducted on an annual basis, which covers more than 50 countries.


VII Nielsen ScanTrack, Total U.S., All Outlets Combined; 52 weeks ending 12/26/2009 and 11/24/2012.


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