



The industry issues affecting how we make the most of tomorrow

What innovation capabilities do retailers need to compete and thrive?

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“91% of UK online shoppers now shop at Amazon*” How do other retailers meet this monopoly on customer engagement, innovate and differentiate themselves?

In a world where technological advancements are supercharging the ability for organisations to innovate, is it any wonder every retailer is asking themselves how they can encourage and embed innovation throughout their businesses?

It was never going to be long before Amazon was mentioned when discussing innovation in retail - and to have 91% of the UK online shoppers as customers* they must be doing something right. It has arguably become one of the most innovative and ground-breaking global organisations and is now a standard setter for what consumers expect from most of our retail interactions. In a recent [blog](#) by PwC’s Craig Skelton, it advised retailers to base innovation investments on insight first and choice of technology second, something Amazon have historically done very well.

In this blog, we explore what innovation capabilities a retailer needs to develop to compete and thrive and have identified four fundamental areas:

1. Product innovation

For most retailers pursuing differentiation and enhanced margins, developing their own brand product portfolio will continue to feature as part of their plans this year. This is a necessity in the grocery sector with branded products being price squeezed through discount retailing and Amazon competition. A retailer has to be more than just a platform but how do you compete with Amazon?

Through enhanced customer insight and analytical powers, retailers have the potential to listen to their customers and produce responsive products tailored to meet their needs and desires. Innovation and digital capabilities are huge differentiators here. However, these are not “classic retail” capabilities and some retailers have struggled to develop these. ASOS, Burberry and Ocado to name a few, use an “open innovation” partnership approach to some product innovation which is a move emulating some tech giants, such as Microsoft, who embrace this approach themselves.

2. Experience / service innovation

In an increasingly competitive and cost-pressured market, experience is one area that can help retailers differentiate and allow them to become more than a platform. Known as the “Apple of the toy world”, LEGO have included augmented reality kiosks as part of their in-store experience which allows customers to scan a product and see what the finished product would look like in 3D. Innovation hubs often feature as a way of addressing the need for innovation. LEGO’s “Future Lab” is accountable for driving innovation throughout their organisation which has seen many successes, such as “LEGO Ideas” which used crowdsourcing of ideas from loyal fans to design new LEGO sets.

3. Channel innovation

The move from British Airways to cut their complimentary offering and replace it with the not-so-complimentary M&S food has split public opinion. Despite what you may think of the move, it does show that retailers aren’t only focussing on the classic channels to market. M&S have gone as far as having the word “innovation” included in job titles such as “Innovation Delivery Manager”, showing commitment to assigning accountability for innovation throughout their business.

4. Business model innovation

Innovation does not always need to be high-tech, radical and punching a wow factor to be impactful. Sometimes, being responsive in addressing consumer behaviour and purchasing patterns is enough to be successful when well executed. Take IKEA’s move to open up a trial “Order and Collection Point store” in Birmingham’s city centre in August 2016. This is a far removed step from a company renowned for their huge warehouse stores with good transport links. When innovation utilises customer insight to deliver true customer value, simplicity is often the most effective solution to staying ahead of the curve.

Despite low levels of investment in innovation historically, we are seeing a shift in mindset to retailers wanting to embrace innovation to deliver more differentiated, customer-centric and meaningful shopping experiences, driven by digital capability and data availability. Retailers need to innovate to respond to a dynamic and quickly evolving market and re-imagining their organisation’s design should be among their top priorities to be future ready.

Where will we be innovating next? Which innovations are most important? Where have you seen great examples of retail innovation?



We would love to hear your views.

This blog is part of a series of blogs written by the PwC Retail Organisation Design Team, led by Stephanie Bloor. All blogs in the series can be found [here](#)

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