



# RETAIL INNOVATION: TEN OPPORTUNITIES FOR 2010



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# Production Team

*Retail Innovation: Ten Opportunities for 2010* is a special report that combines the research and analysis of Retail Forward, Inc. and data gathered by Retail Forward, Inc. from retail industry sources.

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# The Innovation Imperative

## RETAIL INNOVATORS

In 1879, **F. W. Woolworth** pioneered the five-and-dime store, specializing in the sale of everyday household and personal items at bargain prices and employing a high-volume/low-markup strategy. Woolworth initiated the practices of buying merchandise directly from manufacturers and fixing prices on items rather than haggling. It also was the first retailer to put out merchandise for the shopping public to handle; previously, retailers kept goods behind the counter. In 1998, the last Woolworth stores were closed because they were unable to compete with the lower prices of the big discount stores and the expansion of grocery stores' assortments to offer many of the same items.

Thanks to volume buying, to the railroads and post office, and later to rural free delivery and parcel post, **Sears, Roebuck & Company** prospered in the late 1800s. Sears and other mail-order companies offered a welcome alternative to the high-priced general stores that farmers in rural America had heretofore relied on. The company discontinued distribution of the "Big Book" in 1993, in favor of a variety of specialty catalogs.

Any courtesies that today's customers expect from a retail store, such as money-back returns, standardized pricing, high-quality merchandise, and friendly customer service, were not widely practiced in 1902 when **J. C. Penney** opened his first Golden Rule store in Kemmerer, Wyo. In those days, many merchants operated their businesses under the motto "caveat emptor"—let the buyer beware! By embracing the golden rule, "Do unto others as you would have others do unto you," Penney forever changed the way Americans do business with retailers.

**King Kullen**, an innovation by Michael Cullen in the 1930s, was the first self-service supermarket. Cullen's mass merchandising ideas, including highly publicized low-price items sold at cost, went unheeded by his former employer, the Kroger Grocery & Baking Company. However, they would eventually revolutionize the grocery industry as Cullen, determined to see his idea become a reality, quit his job, moved to Long Island and launched King Kullen Grocery Company.

In 1948, Eugene Ferkauf opened his first **E.J. Korvette's** discount store in Manhattan as a

"membership store" in order to exempt the business from the provisions of the Robinson-Patman Act. Korvette's ceased operations in 1980, a victim of mismanagement, a haphazard expansion strategy and an inability to control costs.

**7-Eleven** pioneered the convenience store concept way back in 1927 at the Southland Ice Company in Dallas, Texas. In addition to selling blocks of ice to refrigerate food, an enterprising ice dock employee began offering milk, bread and eggs on Sundays and evenings when grocery stores were closed—and convenience retailing was born. The company's first convenience outlets were known as Tote'm stores, because customers "toted" away their purchases. In 1946, Tote'm became 7-Eleven to reflect the stores' new, extended hours—7 a.m. until 11 p.m., seven days a week—a revolutionary idea at the time.

Founded in 1977 and sold to The Limited in 1982, **Victoria's Secret** brought fashion apparel merchandising techniques to lingerie and created the "intimate apparel" business from what had been "foundations." Today, Victoria's Secret stores, catalogs and highly visible ad campaigns have made it the best-known lingerie brand in the country.

The growing demand for one-stop shopping led Wal-Mart to open its first **Wal-Mart Supercenter** in 1988 in Washington, Mo. The company's push into the grocery business has changed the way Americans shop. As the juggernaut keeps rolling, it has continued to add non-traditional offers including financial, telecommunications, travel and entertainment services, boosting its convenience appeal and disrupting a wide variety of traditional businesses in the process.

## LESSONS FROM THE INNOVATORS

Each of these companies revolutionized the retail industry. They changed the rules of the game: They brought about drastic changes in the behavior of competitors, reinvented the industry's economic model and improved the customer experience. What can we learn by studying these and other notable retail innovations?

**Lesson #1: Innovations are driven by the market.**

As the examples above illustrate, shifts in **demographic, social, economic and/or technological conditions** often precede or accompany innovation in retail (Figure 1).

**Lesson #2: True innovation represents a significant advance for consumers.**

Great retail **innovators improve the quality of life for their customers**. As a result, they also have an impact on competitors and the structure and performance of the whole industry. For example, “category killers” and supercenters forever changed consumers’ expectations about selection and price and as a result, shopping behavior and store preferences.

**Lesson #3: Innovation is not the same as invention.**

*Invention* refers to the introduction of something for the first time. It is the generation of a completely new idea, process, product or service. *Innovation*, as distinct from invention or discovery, refers to the *implementation or creative use* of this fundamental new knowledge. It has been described as the process of bringing new problem-solving ideas into commercial use. According to business professor and author Henry Chesbrough, **innovation unlocks economic value from invention**.

It involves doing something in a way that deviates from established practice.

**Lesson #4: In the end, inventors often aren’t the winners.**

An innovative idea doesn’t necessarily have to originate with you. Often, it is a new application of an existing idea. As the above retail innovation examples illustrate, inventors often aren’t the winners in the end. **Innovation in retailing often means being a fast follower** rather than the originator of a new way of doing business. Wal-Mart’s supercenter format was not an original idea—the basic concept had been operating successfully for 25 years in Europe. But it represented innovation for Wal-Mart as used in the context of its own business and its own market. Innovators teach us that to succeed **we don’t need genius as much as curiosity and determination**.

**Lesson #5: All strategies eventually fail.**

In an environment characterized by frequent and significant shifts in resource and consumption markets, **just doing better what you do today is not enough**. A focus on matching and beating your rivals results in strategies that are all too similar and competition that is based on incremental improvements rather than breakthrough ideas. Competing head-to-head is intense

**Figure 1  
Major Retail Innovations**

Retail Innovation (Time Frame)	Conditions
Mail order and chain stores (1920s–1930s)	<ul style="list-style-type: none"> <li>• Mass production</li> <li>• Mass communication</li> <li>• Mass transportation</li> <li>• Mass demand</li> </ul>
<i>Depression-era innovations:</i> Self-service and discount pricing (1920s–1930s)	<ul style="list-style-type: none"> <li>• New consumer price requirements</li> </ul>
<i>Baby boom innovations:</i> Suburban shopping centers, branch department stores, catalog showrooms, convenience stores (1950s–1970s)	<ul style="list-style-type: none"> <li>• Explosion of the suburbs</li> <li>• Explosion of middle class demand</li> </ul>
<i>Niche retailing innovations:</i> Specialty catalogs, micro-specialists, off-price retailing, warehouse clubs (1970s–1980s)	<ul style="list-style-type: none"> <li>• Growing market saturation</li> </ul>
<i>High-efficiency retailing innovations:</i> Low-cost distribution systems, streamlined logistics (1980s–1990s)	<ul style="list-style-type: none"> <li>• Technology advances</li> <li>• LBOs (successful and failed)</li> <li>• Slowed economic growth</li> <li>• Disciplined shoppers</li> </ul>

Sources: Retail Forward, Inc.



when markets are flat or growing slowly—as is the case for much of retailing.

For retailers in the maturity phase of their life cycle, **innovation will be more important for growth than organic expansion** in the years ahead. Innovative companies break from the competitive pack by staking out fundamentally new market space. Successful retail **innovation can expand the market as well as increase market share for the innovator**. Continuous business innovation is the key not only to value creation for consumers but also to wealth creation for stakeholders.

## INNOVATION AND THE CREATION OF VALUE

Retail innovation creates new value propositions that significantly enhance consumer benefits. The path to value creation requires a different mindset and a systematic way of looking for opportunities to create demand in order to break the bonds of incrementalism that plague most retailers.

Expanding their search beyond traditional industry practices, innovative companies find value in unoccupied territory. These innovative companies look at familiar data but from a new perspective. Consider the following mission statements. They reach far beyond just being retailers or marketers of particular types of products and services. They illustrate a broader purpose that makes these companies more receptive to innovative growth opportunities.

- **Best Buy’s** goal is to “connect consumers with technology and entertainment products and services to make life easier and more fun.”
- **Wild Oats** was founded on the vision of enhancing the lives of its customers and its employees with products and education that support health and well-being.
- **Tesco’s** core purpose is “to create value for customers to earn their lifetime loyalty.” The retailer does this by understanding its customers better than anyone else and using its strengths to deliver unbeatable values.
- The **Nike** mission is “to bring inspiration and innovation to every athlete\* in the world.” (\*If you have a body, you are an athlete.) This goal is supported by the advertising tagline, “Just do it.”
- **PETsMART** has built a powerful brand by nurturing the bond between people and their pets. The

company has become the leader in its sector by providing complete solutions for the “lifetime care for animals.”

- **Hallmark’s** brand essence statement is all about enhancing relationships and enriching lives by “helping people communicate, connect and celebrate throughout many of life’s moments.”
- **Lego’s** mission is “to nurture the child in each of us.”

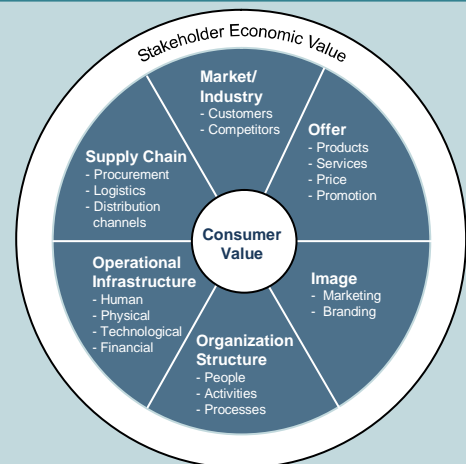
These companies think about their business from a consumption point of view, not a production point of view or even a competitive point of view. They seek to understand, in a broad context, what the consumer is trying to accomplish and then build a business model around delivering that consumer value.

## BUSINESS MODELS AND VALUE CREATION

A business model articulates a company’s value proposition—for both consumers and stakeholders—and establishes a framework to fulfill that proposition (*Figure 2*). The framework comprises the following components:

- **Market or Industry**—Identification of customer segment(s) to whom the value proposition will appeal and identification of potential competitors.
- **Offer**—Products, services and other benefits offered by the company as well as its pricing and promotion.
- **Image**—Marketing and branding of the offer to distinguish it in the minds of consumers.

**Figure 2**  
**Retail Business Model**



Sources: Retail Forward, Inc.

- **Organizational Structure**—Underlying organization of people, activities and processes.
- **Operational Infrastructure**—Human, physical, technological and financial resources used to accomplish the work.
- **Supply Chain**—Procurement, logistics and distribution channels to ensure that the right products are in the right place at the right time.
- **Build-to-order**—easy custom configuration provides customers exactly what they want without the expense of maintaining months of aging and finished inventory.
- **Low-cost leader**—reduces costs through efficient manufacturing and business process improvements.
- **Standards-based technology**—by utilizing industry-standard technology, Dell—and its customers—benefits from the latest supplier upgrades and innovations without incurring high internal R&D expenses.

The best business models connect innovations to the things that customers care about and will pay for. Companies must execute and coordinate each element of the business model in order to fulfill the consumer value proposition and deliver sustainable economic value for stakeholders.

### Dell's Direct Business Model

**Dell** has more than doubled its revenues during the past five years with a business model based on five tenets that create a unique way of buying and selling technology (Figure 3):

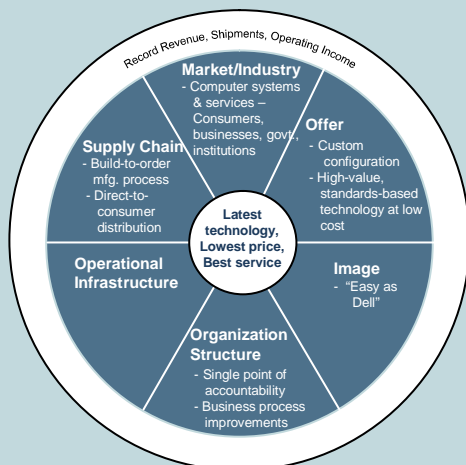
- **Most efficient path to the customer**—direct relationship; no intermediaries to add confusion and cost.
- **Single point of contact and accountability**—direct business model provides streamlined and fast access to the right resources to meet customer needs.

### Southwest Airlines' Low-Cost Business Model

In the highly turbulent airline industry, **Southwest Airlines** has proved that it's possible for an airline to be profitable year after year. In 2004, the company posted a profit for its 32<sup>nd</sup> consecutive year.

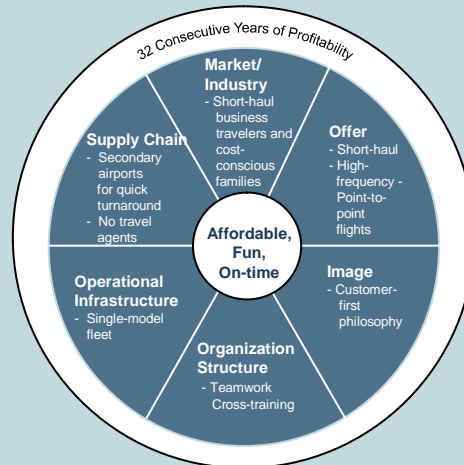
Southwest's innovative business model—designed to make air travel more affordable and fun—is based on operating only short-haul, high-frequency, point-to-point flights; avoiding congested airports; maintaining a single-model aircraft fleet (Boeing 737s); minimizing aircraft turnaround time; and promoting a culture of employee teamwork in which everybody does everything (Figure 4). The maverick airline has thrived without the help of online travel agencies: The only way to buy Southwest tickers online is via the company's Web site, which accounted for 59% of sales in 2004.

**Figure 3**  
**Dell Direct Business Model**



Sources: Retail Forward, Inc.

**Figure 4**  
**Southwest Airlines' Low-Cost Business Model**



Sources: Retail Forward, Inc.

## Amazon's E-Commerce Business Model

**Amazon's** e-commerce business model supports its three-pronged consumer value proposition: the widest possible selection of new and used merchandise across multiple product categories; a convenient, personalized and customer-focused experience; and the lowest possible prices (*Figure 5*).

Although Amazon depends on a complex network of third-party sellers to help it deliver the "earth's biggest selection," the retailer has not sacrificed convenience. Consumers can purchase products from multiple sellers in a single checkout process. Other features that simplify the customer experience include 1-Click ordering; feature-rich content, such as "Search Inside the Book;" personalized Web pages; and the Amazon Prime shipping program. Amazon also maintains consistently low prices and free shipping on much of the merchandise it sells directly. Although some of these practices may negatively affect sales and profits in the short term, Amazon focuses on improving the customer experience for the long term.

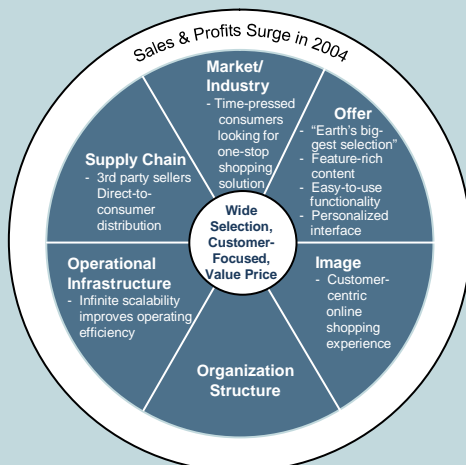
Thus, the Amazon brand has evolved to reflect a "way of doing business" rather than a particular product offer. CEO Jeff Bezos explains the advantage of an Internet business model: "There's no tradeoff in our business between increasing service and lowering cost." The Internet's scalability minimizes the incremental cost to make an innovation available to more customers and across more businesses once it's been developed.

## Apple iTunes' Digital Distribution Model

One of the most extreme examples of business model innovation is occurring in music retailing. The invention of new devices or ways of recording, storing, playing and distributing music has driven consumers from traditional retailers, who failed to innovate. As the industry shifts away from physical products, innovative companies are becoming content providers. Subscription-based digital music services like Napster and Rhapsody and digital music download stores like **Apple's iTunes** represent two rapidly growing new business models that allow consumers to buy only the songs they want and play them whenever and wherever they like (*Figure 6*).

The iTunes Music Store was the first to persuade the major music labels to sign onto a pure à la carte download service, through which customers could buy individual tracks for 99¢ and burn them onto a CD or transfer them to a music player. According to insiders, Apple's "cult of cool" and popularity with influential music aficionados helped persuade music executives to grant the necessary licenses to create a less-restrictive service. iTunes' customers can select from more than 1 million tracks and enjoy free 30-second previews of all songs.

**Figure 5**  
**Amazon's E-Commerce Business Model**



Sources: Retail Forward, Inc.

**Figure 6**  
**Apple iTunes' Digital Distribution Business Model**



Sources: Retail Forward, Inc.

## **Innovative Business Models and Creative Destruction**

Companies like Dell, Southwest, Amazon and Apple have reinvented and reordered their industries. The companies devastated some competitors and forced others to change the way they do business. They have used new technologies—not just to make their operations more efficient—but to create completely new ways of doing business.

These companies support Schumpeter's theory of innovation as creative destruction—i.e., innovation

generally comes from outside an industry's current leaders because the leaders have too much at stake in exploiting what they already have. The leaders are unable to break out of the concept of their traditional business model that—until now—has served them well. They don't take full advantage of available information and opportunities to innovate because everything is filtered through the lens of what works in that business model. Consider, for example, the struggle of many e-commerce businesses that tried to simply transfer a traditional business model to the Internet.





# The Innovation Continuum

Business model innovation is a source of competitive advantage that few companies proactively pursue. It, however, is not necessary to entirely replace a business model or radically reinvent the business in order to capture value from innovation.

Business activity can be viewed as a continuum from incremental improvement to the invention of an entirely new business (Figure 7). Between these extremes are three levels of innovation, distinguished by the degree to which they re-conceive the existing business model.

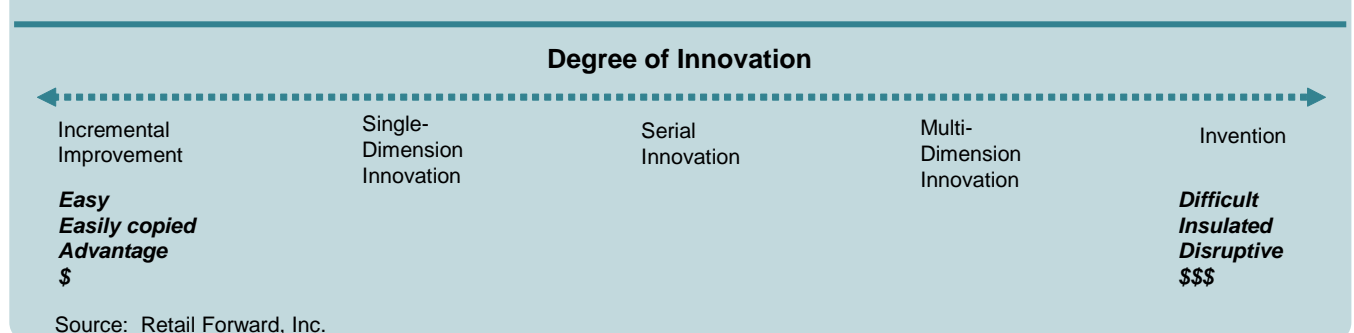
- **Incremental improvement** focuses on re-engineering the existing business model—doing what we already do, only better, faster or cheaper. Although important to the ongoing success of the business, these efforts create fewer consumer and competitive benefits than innovative activities, and they have little or no disruptive effect in the market.
- **Single-dimension innovation** represents a pioneering change in any one component of the existing business model that is designed to deliver substantially enhanced consumer benefits and financial performance. This level of innovation causes some degree of disturbance in the market (e.g., Wal-Mart’s supply chain process innovations).
- **Serial innovation** builds on the success of an initial business innovation by expanding the scope of what is considered for future innovation. Through continuous adaptation of the business model, the company harvests progressively more of the commercial benefit of the original innovation (e.g., the expansion of Amazon’s way of doing business

from books and music to other products and services).

- **Multi-dimension business model innovation** creates a substantially new way of doing business in order to optimize the market opportunity. Innovation at this level is essentially building from scratch. It effects change in multiple components of the business model simultaneously. Business model innovation often propels a company beyond the boundaries of its original marketplace through the offer of products and services previously unavailable to customers. It typically requires new processes, organizational structures and distribution channels. Business model innovation disrupts existing patterns of consumption and competition (e.g., Dell’s direct-to-consumer business model).
- **Business invention** refers to revolutionary change or strategic breakthroughs that create entirely new businesses. Such inventions identify “white space” in the market. They transcend customer desires by serving needs and wants that have not yet been articulated. They change the basis of competition by creating value where none existed before (e.g., Southland’s pioneering convenience store concept).

The greater the degree of innovation (i.e., the farther right on the continuum), the greater the competitive disruptions and the higher the potential rewards for consumers and stakeholders. For most companies, however, applying innovative thinking to the company’s entire business model is too difficult to conceive, too risky to undertake and too hard to implement on a

**Figure 7**  
**The Innovation Continuum**



recurring basis. Inventions that truly revolutionize the retail industry come along only about once a decade.

Most retailers, therefore, primarily focus on those business application innovations that provide customer benefits based on the company's existing competitive advantages. These innovations do not require recreating the wheel or predicting the future. They do require a genuine focus on the customer and a commitment to more effectively meeting customer requirements.

Despite fast-changing customer expectations, shortened product and retail life cycles and rapid technological advancements, many retailers have not taken advantage of opportunities to innovate. By applying new perspectives to established ways of doing business, a retailer can strengthen its competitive and financial position and create a new life cycle of growth.



# Market Forces Shaping Future Innovation

## ENVIRONMENTAL OPPORTUNITY

The business environment is changing, and to survive—let alone prosper—retailers must change with it. The business environment comprises three markets: consumption markets, competitive markets and resource markets (*Figure 8*).

### Consumption Markets

The consumption market continues to undergo major demographic, lifestage, lifestyle and structural changes that will reshape the pattern of consumer spending in the coming decade.

### Resource Markets

Resource markets, including real estate, capital, labor, merchandise, technology and media, are essentially the economist's factors of production for the retail industry.

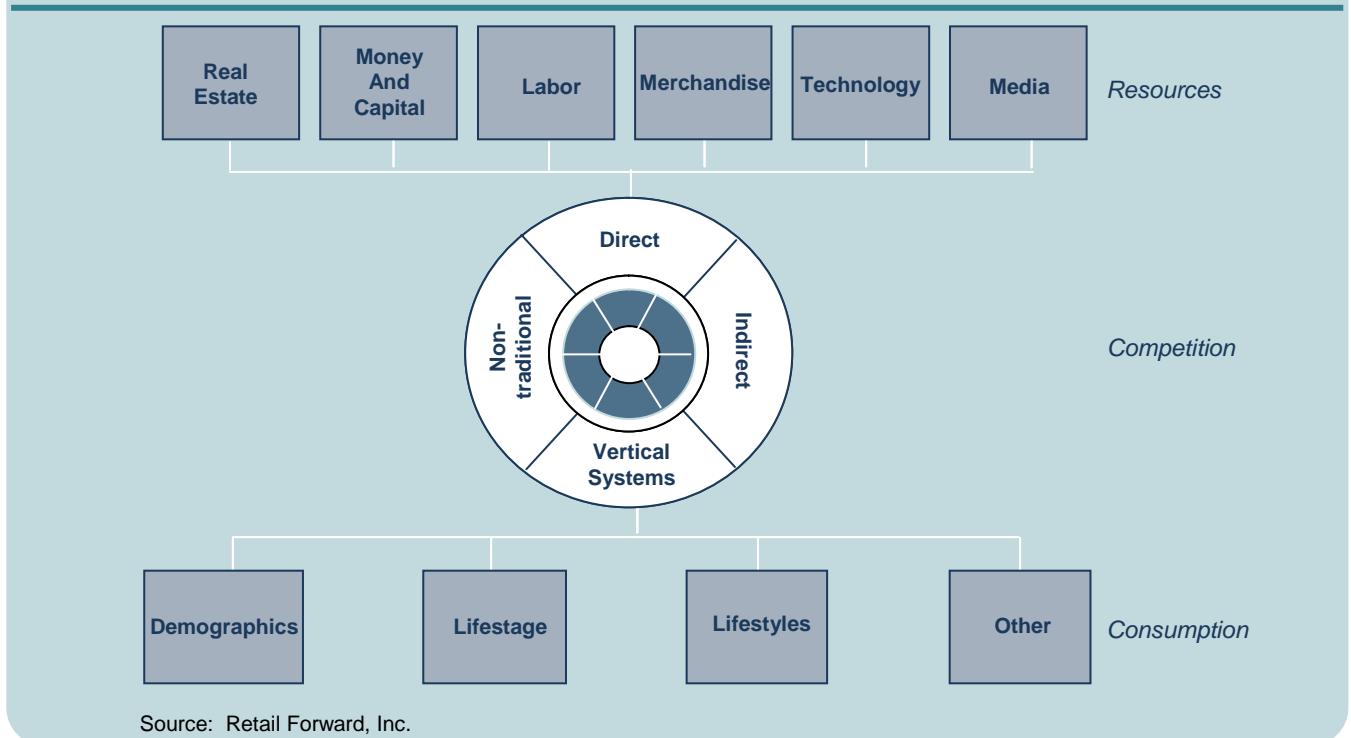
When such resources are scarce or when the demand for them is particularly strong, competition may be every bit as intense as it is in consumption markets.

Merchandise markets are becoming much more complex as global sourcing and private brand marketing strategies have increased. Clearly, the ultimate protection from competition in merchandise markets comes from controlling the brand. New technologies continue to drive higher productivity and greater customer intimacy. The continuing fragmentation of media markets is profoundly changing media consumption.

### Competitive Markets

As innovative retailers broaden their purpose, the competitive arena also continues to broaden. Competition is coming not only from retailers with similar business models but also from companies that

**Figure 8**  
**Business Environment Opportunity Model**



are forming new types of marketing systems that aim to fulfill virtually all of the purchase needs of targeted consumers.

## ENVIRONMENTAL CHANGE DRIVERS

The innovation process begins with an understanding of the major market forces and trends that create opportunities for innovation (*Figure 9*). For the most part, these are emerging trends with fairly predictable

trajectories that already are known, if not yet acted upon. They represent significant shifts in resource and consumption markets that will distinguish the latter half of this decade from the first five years for marketers of consumer goods. This is not meant to be an exhaustive list of possible change drivers, but rather an identification of broad, universal trends and changing realities.

**Figure 9**  
**Environmental Change Drivers**

### CONSUMER MARKETS

#### Demographic/Lifestage Transitions

*Zoomers Embrace a New “Oldster” Outlook:* The first wave of baby boomers (currently age 50 to 59) transitions into the “Zoomer” lifestage, characterized by the growth of empty nest households and a renewed zest for life and spending.

*Gen Y Faces Reality:* The first wave of Gen Y moves out of the teen years and enters a new lifestage—adulthood. Having grown up during a time of economic expansion and unprecedented prosperity, they have high expectations for their lifestyles.

*Gen Diversit-Y:* Generation Y is by far the most racially and ethnically diverse generation in history. Given current population trends, this distinction will eventually be bestowed on the generation following Gen Y and each subsequent generation.

*Hispanic Boom:* In 2000, Hispanic consumers edged out blacks as the nation’s largest minority group. Today, the Hispanic population, already 43.5 million strong, is growing five times faster than the general population.

*Minority Majorities:* In a number of key markets, including Chicago, Los Angeles, Miami and New York, the non-white population already comprises or soon will comprise the majority of residents. The diversity of minorities within these markets also continues to grow.

*Consumers Rich and Poor:* The income gap between the haves and have-nots continues to widen. The gap between skilled and unskilled workers as well as growth among the younger and older population segments is exacerbating the chasm. The stock market rebound also has fueled an upmarket/downmarket divergence.

#### Lifestyle/Social Trends

*Technology Immersed:* Today’s young consumers have never known life without the Internet. They have been raised on networked and digital technology. It shapes the way they communicate, play, learn, date, shop and now work. For these consumers, technology is a “must have,” not a luxury, and their expectations for how it can enhance their lives will only escalate. Older consumers, as well, are becoming more reliant on technology to keep their lives and businesses running smoothly.

*Independent, Informed and Media-Savvy:* The combination of a seemingly boundary-less, technology-driven world with unprecedented media immersion (hundreds of finely focused cable TV channels, magazines and Web sites) is resulting in a growing level of sophistication among consumers with respect to marketing, branding, information gathering and media usage. At the same time, corporate, institutional and journalistic scandals have betrayed their trust and made them more skeptical.

continued...

*Kids Growing Older Younger:* Kids are growing older at a younger and younger age. They are developing sophisticated tastes and rising aspirations for a variety of products, services and activities, including their own credit cards and cell phones. They are brand-exposed and brand-aware; they wield more purchasing power than ever before; and they respond to offers that adopt adult looks and approaches.

*New Life Roles and Responsibilities:* Lifestyles and life roles continue to evolve as more women become the higher income earner of a couple, more men opt to stay home to raise the children and kids increase their purchasing power and influence. As a result, household responsibilities—including shopping—are less likely to be divvied up by conventional position in the household (wife/mother, husband/father, child) and more likely to be assigned based on availability (who has the time) and expertise (who can do it best).

*Blurring Life Boundaries:* Everyplace is a place for anything. Boundaries are blurring between home and work, between leisure and industry, between accessible and incommunicado. With the advent of e-mail and voice mail, “always on” has replaced downtime. Even the car is no longer a safe haven. Telematics enable a car to wirelessly exchange data with the outside world. The car has become our second home, a mobile office, a wireless communications device.

*Multicultural Mainstreaming:* Diversity has reached the scale required to have a powerful impact on mainstream America. The growth and growing influence of minority cultures is resulting in a cultural shape-shifting (especially among young consumers), in which the tastes, customs, interests and activities of ethnic populations are being adopted by other cultures and, ultimately, the mainstream culture.

## **TECHNOLOGY TRENDS AND DEVELOPMENTS**

*The Digital Life:* Digital technologies have reached mass acceptance, with digital products representing nearly 60% of consumers’ home electronics spending in 2004. In the past few years, the popularity of digitally formatted content, wider availability of broadband, the development of wireless network technology and the increasing sophistication of personal digital devices have acted as catalysts to usher in an age of digital media in the home.

*New Mobile Frontier:* As digital products approach ubiquity, the next technology wave will have a common thread—mobility. A true mobile lifestyle, in which people are able to communicate, work or play anytime and anywhere, is slowly coming into reach.

*Integrating Geo-location Technology:* Interest in geo-location or location-aware technology is growing along with the growth of mobile devices. By providing the exact latitude, longitude and altitude for any location on earth, Global Positioning Systems (GPS) can pinpoint the position of people, places or things.

*Convergence:* The industry’s vision of convergence has been described as “the day when all computing devices communicate and when all communication devices compute.” As content and devices go digital and networking capability develops, consumer electronics, computing and telecommunications are more rapidly converging.

*Price Deflation:* Higher consumer awareness and acceptance and increased competition are fueling rapid technology price deflation. Technology prices will continue to decline. This will enable further penetration of the mass market for digital consumer electronics products. It also will foster new opportunities to improve productivity, marketing, merchandising and customer communication for retailers and suppliers.

*Technology Miniaturization:* At the same time users are demanding more from their devices in terms of functionality, speed and affordability, they also are demanding greater portability. Progressive miniaturization of cell phones, video screens, MP3 players and other electronic devices is required to meet the needs of on-the-go consumers.

continued...



*Smart Technologies:* RFID technology, which makes inanimate objects intelligent as they travel through the supply chain and interact with one another, is resulting in the growth of smart products, smart signs, smart labels, smart shelves, smart carts and smart cards. As costs come down, the use of smart technologies that enable everything to talk to everything else will increase.

## **MEDIA MARKETS**

*New Media Platforms:* The concept of a mass communications market is quickly eroding. There are more sources of media than ever and more ways to get information. From movie theaters, sports arenas and school cafeterias to product placements in TV shows, movies and video games, everything is becoming an advertising medium.

*New Marketing Messages:* In a world saturated with advertising, traditional media and traditional messages are increasingly ineffective. Young consumers, in particular, seem immune to traditional marketing methods and messages. More targeted and customer-intimate approaches appeal to today's more skeptical, media-savvy consumers.

*New Marketing Technologies:* New marketing technologies are facilitating the ability to reach people on a more customized and personalized basis. Geo-targeting using GPS technology enables marketers to track customers and dispatch a message when they are near a point of purchase, like a store, restaurant or entertainment venue.

Source: Retail Forward, Inc.



# Retail Innovation Opportunities: Ten for 2010

In the past few decades, most retail innovations focused primarily on efficiency in response to mass market opportunities. While ongoing innovations in technology and operating strategies will continue to improve efficiency, future retail innovations will be more customer-facing. Retailers will address the unique needs and desires of individual consumers and provide a more rewarding and memorable shopping experience. They will innovate around new formats and distribution models, product and service offers, marketing and customer communications and other components of the retail business model.

Retail Forward has identified 10 innovation opportunity areas that provide tremendous potential for creating new consumer benefits and stakeholder economic value.

- Catch a Wave
- Solve My Problem
- Do It for Me
- Help Me Choose
- Come to Me
- Enhance the Experience
- Make It Easy
- Do It My Way
- Help Me Connect
- Speed It Up

## INNOVATION OPPORTUNITY AREA: CATCH A WAVE

Successful marketers ride the waves created by demographic, societal, economic and technological trends. These “green space” opportunities represent emerging growth patterns in the market. Companies that apply innovative thinking to a growth market opportunity can generate even stronger growth and financial performance. New products, new services, new retail concepts and new business models maximize these trends.



### **Innovation in Action: Cultivate Green Space**

The needs of older people and ethnic consumers and the desire among a growing segment of the population to play a more active role in their health and well-being are among the trends providing fertile ground for innovative solutions.

- Acknowledging the growing ethnic diversity of its customer base, **Walgreens** became the first drugstore chain to provide prescription labels in multiple languages. Prescription labels also are now available in large print for older customers who find it difficult to read smaller size print.
- **The Home Depot**, in an expanding alliance with AARP, is tapping into the growing base of older customers with innovative products and services to help seniors remain in their homes as they age. The Home Depot and AARP are working together to designate products that the nation’s largest seniors’ group deems safe and user-friendly for older Americans.
- **Chico’s** success stems from its recognition that although aging baby boomers have expanding waistlines, they still like fashions that are fun and make them feel young. The retailer wants its customers to look great, but most of all to feel great. Chico’s focus on comfort is cited as the reason for its unique sizing scale ranging from 0 to 3. Vanity may also enter into the decision, as the unconventional sizing caters to many women’s fantasies to be smaller than they actually are.
- Convenience stores and fast food outlets have begun to offer on-the-go consumers healthier alternatives to the high-fat, low-nutrition meals typical of these industries. In 2004, **7-Eleven** launched a national awareness program, “Better Choices, Better Year.” The better-for-you lineup of almost 50 products caters to many types of weight-management lifestyles including low-carb, low-fat, low-calorie and high-protein. The offering is merchandised in a single section of the store to show consumers the variety of healthier choices available.



### **Innovation in Action: Technology Tools**

Many companies also are riding technology waves to gain competitive advantage and disrupt existing business models.

- **eBay** has embraced the Internet to become “The World’s Online Marketplace,” enabling trade on a

local, national and international basis. Today, the eBay community includes more than 100 million registered members around the world. People spend more time on eBay than any other online site and thus have made it the most popular shopping destination on the Internet.

- According to a spokesperson for NCR, an industry leader in self-checkout, “For the last five years running, the No. 1 source of consumer dissatisfaction is the amount of time spent waiting in line.” From self-scanning at the checkout and pay-at-the-pump at the gas station to self-order terminals at fast food restaurants and automated check-in at airports and hotels, **self-service transactions** are becoming increasingly popular.

### INNOVATION OPPORTUNITY AREA: SOLVE MY PROBLEM

Retail problem-solvers understand what the consumer is trying to accomplish by looking downstream at his or her ultimate goal. For example, innovative home improvement retailers understand that the consumer doesn’t want to buy a drill. The consumer wants to make a hole in order to build a deck. Looking even further downstream, s/he wants to build a deck to entertain family and friends.

This consumer-centric approach results in opportunities to add value to the shopping experience by doing more for the consumer. Often, this requires adding services, information and support to the product mix in order to provide a complete solution for task-oriented shoppers. It may also mean offering additional product categories or adopting new approaches to marketing and merchandising that reflect a better understanding of the shopper’s ultimate goal. In every case, it means getting away from a transaction mentality and focusing on customer relationships. Retailers that have established relationships with customers have bonds of trust that create innovative opportunities to extend the relationship further.



#### **Innovation in Action: Provide Context**

Unlike the conventional big-box approach, where a huge selection of merchandise is presented by product category, retailers can help convey the notion of a complete solution by presenting products in context—that is, by the use the consumer has for them.

- The **Sony Style Concept Stores**’ upscale floor plan creates a lifestyle setting that lets customers

imagine what Sony’s latest gadgets will actually look like in the home. Geared toward women with families, the stores are divided into rooms that represent the consumer’s home and suburban lifestyle, such as a mock family room with hardwood floors, remote-controlled fireplace and 61-inch plasma flat-screen TV.



#### **Innovation in Action: Product-/Service-Bundling**

For some innovative marketers, product-centric strategies are giving way to service as a differentiator and to the integration of product/service packages, or bundling, as the basis for creating consumer value and competitive differentiation.

- Landscape and garden designs have become very popular with gardeners that find it challenging to design a garden that is tailored to their individual requirements, geographic location and tastes. Increasingly, experts are combining the comprehensive information of a plant encyclopedia with professional visual and planning capabilities to create just-right combinations. The **mySeasons** and **Garden Solutions** family of catalogs and Web sites, which includes Breck’s, Michigan Bulb Co., Spring Hill Nurseries and Gurney’s, helps its customers plan and plant the garden of their dreams. Consumers can choose from a variety of “garden-in-a-box” options (e.g., hummingbird garden, children’s garden, perennial garden, shade garden). The plants, bulbs, seeds, garden plan and planting instructions are provided at one discounted package price.
- As changing lifestyles alter consumers’ food shopping and eating patterns, meal solutions—combining ingredients with food preparation—continue to grow. Seattle-based **Dream Dinners**, launched in 2002, provides a new option for busy consumers who want to enjoy quality time with their families around the dinner table rather than the stove. The concept employs an entirely new business model: In the Dream Dinners kitchens, patrons make their own meals—customized to their tastes—which are then taken home, frozen and reheated later. All ingredients, cookware and instructions are included. Concept founders started offering franchises in 2003. Fifty-eight stores in 16 states are now open.
- **Rite Aid, Kroger** and other retail pharmacies are expanding their role in the health care system.

Beyond dispensing drugs, their pharmacists are becoming health care “coaches,” providing wellness and screening services, disease state management and counseling programs to help patients take their medications correctly and stay healthier.



### **Innovation in Action: Networked Solutions**

In an effort to solve consumer problems and create new consumer value, innovative retailers are networking with companies in other business sectors to offer new products or services outside their core businesses. No one company will have the skills, technologies, channels, products or services that are needed to do this independently.

- **SuperTarget, Cub Foods and Kroger** are among the retailers providing a more convenient location for health care. **MinuteClinic**, which operates the health clinics inside a number of Target stores, and other similar concepts are staffed by a nurse practitioner or physician’s assistant. Included in the networks of many major health insurers, the clinics are equipped to handle common health problems such as throat and sinus infections, pregnancy tests and poison ivy. The clinic’s staff also provides some screening exams and immunizations and writes prescriptions. Customers benefit from more accessible and convenient health care that saves them time and money. Retailers benefit from cross-shopping, including increased OTC and prescription sales.
- In March 2005, **Staples** and **Stop & Shop** announced that they will collaborate on a Staples-branded store-within-store section in all 550 Stop & Shop Supermarkets and Giant Food stores throughout the Northeast. Beginning in July, shoppers will have the convenience of buying a wider range of school and home-office supplies while doing their weekly grocery shopping. Staples has successfully tested this concept in approximately 60 Stop & Shop locations and continues to test a similar program in select Kroger stores in Las Vegas and Salt Lake City.



### **Innovation in Action: Retailer as Life Manager**

The ultimate form of problem-solving is provided by retailers that serve as facilitators or aggregators of the relevant products, services and information that will work best for target customers. These companies become “life managers,” helping their customers cut through the

clutter and fulfilling more and more of their needs. The businesses are tied together by the shared values of the brand, which becomes the “signature” for the relationship with the customer.

- **Tesco**, the U.K.’s largest grocery retailer, has extended its brand promise “to create value for customers to earn their lifetime loyalty” well beyond the consumer products arena. Its expanded relationship with customers includes Tesco Finance (credit cards, loans, mortgages, savings accounts), Tesco Insurance (car, home, life, pet, travel, breakdown), Tesco Telecom (home phone, directory assistance, Internet access, mobile) and Tesco Extra (among the myriad of non-food offerings are holiday packages and flights, music downloads, legal help, and gas and electricity service switching).

### **INNOVATION OPPORTUNITY AREA: DO IT FOR ME**

Another way to solve my problem is to do it for me. Demographic shifts and lifestyle changes—along with growing product complexity—are steadily driving former DIY consumers into the do-it-for-me (DIFM) market for everything from home improvement and automobile maintenance to cooking and cleaning. Retailers are responding to consumers’ increasing do-it-for-me demands with innovative new services and conveniences.



### **Innovation in Action: At-Home Services**

Installation services represent one of the fastest-growing areas for big-box home improvement and consumer electronics retailers. The major players continue to build and refine the infrastructure needed to capture the DIFM opportunity.

- **Lowe’s** is cashing in on the do-it-for-me customer by making a stronger push for installed sales. The company rolled out an enhanced installed sales model to all stores in 2004, with the goal to make every installation project “as easy as possible for our customers and for Lowe’s.” Although Lowe’s still relies on third-party installers, the new model allows the retailer to keep closer tabs on them by instituting “backroom production teams” to do the things that contractors do, such as stage materials, manage workflow and communicate with customers. Call centers monitor installation services in real time. Designated employees oversee installers to ensure quality control. Lowe’s

also is calling on its suppliers to provide more intensive training for potential installers to make sure they are up-to-date on the newest products and techniques.

Meanwhile, **The Home Depot** continues to acquire contract installers as part of its long-term strategy to enhance its At-Home Services offering, which provides installation services in more than a dozen product categories.

- As consumer electronics become more complex, traveling tech support crews are helping customers with everything from basic computer setups and Internet connections, to installation of wireless networking and home entertainment systems, to setting up digital camera equipment and software. **Best Buy's Geek Squad**, a rapid-response, 24-hour computer support task force, will "set up, fix or maintain anything that plugs into a computer or a network, no matter the make, manufacturer or place of purchase." Best Buy's goal is to make the Geek Squad the largest provider of in-home computer repair and installation services in North America. **Circuit City's rival IQ Crew** began rolling out in October 2004. **CompUSA** and **Dell** also make house calls.



#### **Innovation in Action: Home Meal Replacement**

Many consumers are simply too tired at the end of the day to spend much time or effort on meal preparation. Increasingly, ease of preparation is determining what and where consumers buy. Food manufacturers and retailers have flooded supermarket shelves with ready-to-serve salads and lunch kits, portable products for on-the-go eating, ready-to-cook meal kits and heat-and-eat meals-to-go. As a result, prepared food is one of the fastest-growing sections of the supermarket.

- After encountering the difficulties of food preparation and employee training, supermarket operators are progressively turning to well-known foodservice brands to provide quality food with minimal labor cost. **Boston Market**, widely credited with inventing the home meal replacement category, is teaming up with supermarket partners to provide restaurant-quality, ready-to-eat, home-style meals for today's busy consumers. Boston Market has formed alliances with **Kroger**, **Stop & Shop**, **Food Lion** and **Albertsons** to open full-service deli locations within their stores.

## **INNOVATION OPPORTUNITY AREA: HELP ME CHOOSE**

More products, brands, retailers and shopping formats are introduced to consumers every year. At the same time, technology has resulted in an explosion of information, including inaccurate and irrelevant information. Faced with too many choices and information overload as well as more complex products and a lack of knowledgeable sales assistance, many consumers are struggling to make smart choices and are looking to retailers for help.



#### **Innovation in Action: Try Before You Buy**

The ability to try it before you buy it helps consumers choose the products that are right for them and helps innovative marketers close sales. Supermarkets were among the first retailers to realize that once you taste it, you're more likely to buy it. Sporting goods superstores have jumped on the bandwagon with a variety of facilities for outdoor enthusiasts to test the equipment and have fun in the process. In-store listening posts and online music samplers let shoppers hear song samples from CDs to aid in the purchase decision. Innovative retailers will continue to look for new ways to let shoppers sample the merchandise.

- **Amazon's** "Search Inside the Book" feature is one of its most popular innovations. Launched in October 2003 as a significant extension of its groundbreaking "Look Inside the Book," it helps shoppers find exactly the book they want to buy. Now, instead of just displaying books whose title, author or publisher-provided keywords match the search terms, search results will surface titles based on every word inside the book and render actual pages of the books for the shopper's review. The new search capability was made possible by the dramatic drop in price of storage technology in recent years.
- A new retail format at many **Maytag** dealer stores features fully functional kitchens and laundry rooms. Potential buyers are encouraged to actually do a load of laundry or bake a batch of cookies in the store. While the cookies are in the oven, shoppers can watch a movie with the kids in the TV/playroom. The ability to test-drive appliances is becoming more important in an industry where the pace of product innovation, especially at the high end, is occurring rapidly. It also facilitates word-of-mouth



advertising in a category where a friend's advice is an influential part of the pre-purchase research process. The **KitchenAid** division of Whirlpool and **Viking Range Corp.** have also opened interactive stores.



### **Innovation in Action: Information on Demand**

Increasingly, consumers expect retailers to provide them with information on demand—accessible wherever, whenever, and however they want it. On-demand information kiosks are among the technological applications retailers are employing to help customers make more informed purchase decisions.

- New retail technologies enable new ways of doing business at **Metro Group's** Future Store in Rheinberg, Germany. Using IBM's Everywhere Display, any surface in the store can be turned into a virtual, interactive touchscreen computer. A combination of overhead projector, rotating mirror, video camera and advanced software, it projects images containing store data onto walls, shelves or floors and then reacts to customer responses. Shoppers simply touch the projected surface to find information. For example, by touching the projected surface, a customer could find information such as jean sizes and styles in stock in a clothing store, the type of memory card needed for a digital camera or a store map.



### **Innovation in Action: Learning Environment**

Retailers that create a learning environment give consumers the confidence to try something new without being overwhelmed. Learning more about the products enables them to make more informed purchase decisions.

- **The Apple Store** provides an opportunity for shoppers to learn about and experience the things they can actually do with a computer—such as make movies, burn custom music CDs and publish digital photos on a personal Web site—rather than just hear about them. Every product is plugged in, ready for shoppers to play with.



### **Innovation in Action: Seal of Approval**

Busy consumers are looking to a higher “authority”—a retailer, brand, institution, celebrity, lifestyle guru or other expert—to edit their options and help them decide what to buy, wear, eat, drink, read, watch or experience. For some time, retailers have been joining forces with

celebrities, whose personal reputation creates an immediate brand image, to provide a seal of approval. Think Martha Stewart and home decorating, or Target and its list of designer affiliations that reads like a “who’s who” from the latest fashion and decorating magazines.

- More retailers are name-dropping by partnering with celebrity designers willing to share their style secrets with the masses. Increasingly, these relationships are taking the form of co-brands or branded-brands to create new value and add to the quality perception of the product. Recent examples include **Chris Madden for JC Penney Home Collection**, the **Christopher Lowell Collection at Office Depot**, **Todd Oldham by La-Z-Boy Collection** and **Karl Lagerfeld for H&M**.
- Looking for new ways to connect with their customers, retailers are creating their own value-added content around the products and services they offer through custom publishing efforts. Fashion and lifestyle magalogs, such as **Lane Bryant's figure**, **Williams-Sonoma's Taste and Bloomingdale's B**, marry a magazine's editorial content and a catalog's product content. In some of these magazines, the retailers sell advertising space to their vendors.



### **Innovation in Action: User Reviews**

The Internet is fostering new forms of community among consumers who share common interests. These connected consumers are in control: They use the power of information to help one another make the best decisions about what to buy, where to buy it and how much to pay.

Connected consumers have created thriving online communities like Epinions.com and TripAdvisor.com that provide valuable consumer insight, unbiased advice, in-depth evaluations and recommendations. By sharing experiences—good and bad—these communities become platforms for consumer democracy.

- Online DVD rental leader **Netflix** lets subscribers invite their friends to peek at DVDs they've watched and read their opinions of the movies. If the invitation is accepted, the senders automatically get reciprocal rights to read their friend's lists and reviews. The concept copies an online networking approach that has been popularized by Web sites such as LinkedIn, Friendster and Tribe that provide online communities connecting people who share

common friends, hobbies and professional interests. The new DVD networking system is set up so people who value one another's opinions can look at their friends' picks and pans whenever they're online. Netflix has long encouraged its subscribers to post DVD reviews in an area open to all members, but those capsules appear in a scattershot manner and generally don't provide much information about the writer.

- **Target** provides an online forum for customers to air their opinions on favorite or not-so-favorite products. "Guest reviews" are available for almost every product on its Web site, including an average guest rating in the product description. Customers are encouraged to focus their comments on whether they liked or disliked a product, why and how the product rates in comparison with similar products.

### INNOVATION OPPORTUNITY AREA: COME TO ME

In the old days, consumers made the pilgrimage downtown from miles around in order to shop. Then malls were created, and shoppers flocked to these huge centers as the main shopping hub. More recently, many retailers have been moving into neighborhoods to be closer to where their customers live. What's next? In my home, in my car, at my workplace. New distribution models are springing up as retailers take the show on the road and reach out to consumers wherever they are.



#### **Innovation in Action: Mobile Retailing**

From mobile pet grooming, car maintenance and optical labs to traveling carpet and home décor stores, mobile retailing initiatives are gaining in popularity as time-pressed consumers seek ever-greater convenience.

- Topshop, the U.K.'s cutting-edge high street fashion chain beloved for bringing runway fashion to the masses, is making fashion house calls. Currently available in London only, **Topshop To Go** is a free personal shopping service that will bring requested styles, colors and sizes directly to the customer's home, office or hotel room. As the shopper tries on the clothes, a style advisor offers tips to help her choose the looks that work best. Topshop To Go parties are available for groups.
- **The Traveling Vineyard, Wine Adventures in Your Home**, was founded in 2002 by Geerlings & Wade, the leading direct marketer of fine wine and

wine accessories in the United States. The Traveling Vineyard allows consumers to sample several different wines, in the comfort of their own home, before purchasing. Consumers can participate in The Traveling Vineyard as the host of an at-home wine tasting party, inviting friends and earning discounts; as a guest, tasting and learning about wines; or as a consultant, running wine tasting parties and earning money.



#### **Innovation in Action: Mobile Marketing**

Mobile marketing is another way retailers are connecting with on-the-go consumers. As millions of consumers buy increasingly powerful cell phones with color screens, extra memory, fast processors and other enhancements that turn these devices into network computers, more companies are racing to develop mobile content and marketing messages to take advantage of the newfound capabilities. While mobile target marketing may be considered invasive and undesirable by older consumers, younger consumers are likely to be more receptive to this type of contact, especially if compelling content, incentives, entertainment and/or interaction are offered.

- In May 2004, **French Connection**, the global fashion brand, in conjunction with Enpocket, the leading mobile marketing solutions provider, rolled out a mobile marketing and CRM program in the United States and United Kingdom. The campaign combined a multi-channel call-to-action with a text-and-win model. Announcements over FCUK FM—which broadcasts in all 1,500+ FCUK stores, on digital radio and on the Web—as well as outdoor, print, online and in-store ads encouraged mobile users to text in to a common short code to participate in a music trivia game and qualify for prizes. As a result of the campaign, FCUK has built a mobile database and can profile customers and target individuals with specialized mobile content.
- **Reebok** and Enpocket created a unique SMS text message and Interactive Voice Response (IVR) mobile program that drove customers to **Finish Line** retail stores and pushed Reebok's exclusive line of NBA merchandise. An SMS message from NBA star Kenyon Martin, endorsed by Reebok, was sent out to opted-in male sport fans between the ages of 16 and 26 in urban areas across the United States. The SMS message provided a 1-800 phone number. When dialed, Martin's voiceover promoted the NBA exclusive line. The caller, through a series of intuitive voice prompts, was given the location of

the nearest Finish Line retail store. Reportedly, consumers' positive responses and an increase in store traffic and sales have prompted Reebok to plan future relationship marketing campaigns via the mobile phone.



### **Innovation in Action: Consumer-Direct**

New-style direct-to-consumer rental concepts or shared ownership services make goods available by limiting the actual usage time. Such services make sense for consumers who only need the item for a short time, can't afford to own it or find it difficult to keep up with changing styles.

- The video rental store is becoming an anachronism, thanks to new technologies and new direct-to-consumer businesses. **Netflix** revolutionized the video rental market several years ago when it created an online rental store and introduced fast, free movie delivery by mail for subscribers with no late fees. Competing services by a number of other companies including Wal-Mart quickly followed. Cable companies and movie studios offer videos on demand, downloaded to PCs and TVs.
- **Bag Borrow or Steal** has been referred to as “the Netflix of handbags.” The innovative new online service makes it possible for women to always carry that “must-have” handbag. Customers can rent brand name handbags for a monthly fee, choosing from six levels of membership. Customers can keep each bag for as long as they want or exchange it for another when they are ready for something new. To cover the cost of shipping and insurance, a \$9.95 “round-trip ticket” charge is assessed each time the customer borrows a different bag. Bag Borrow or Steal also offers a purchase option on selected bags called “Steal It.” The purchase price is based on a number of factors such as age and condition of the bag.



### **Innovation in Action: Digital Downloads**

Services that download digital content directly to consumers, coupled with rampant grassroots technologies, are shrinking the size of the retailer's potential link in the digital value chain. The digital download phenomenon is transforming the music, video, book and photo industries. Classic, multi-tier distribution relationships among artists/writers, promoters/publishers, distributors, retailers and consumers are being re-envisioned as distribution technology matures.

- In an effort to enhance the overall **Starbucks** experience, the coffeehouse giant launched the first of its Hear Music media bars in October 2004. From in-store listening stations, customers can listen to digital music and, for a fee, burn their own CDs from a database of more than 150,000 songs.
- **BooksByBookends** allows readers to choose from thousands of classic books that can be downloaded and printed on demand. Customers can choose to have the cover customized (e.g., “Don Quixote for Mrs. Jones’ English Class, Autumn 2004, Ridgewood High School”). Using the latest print-on-demand technology, BooksByBookends also is a self-publishing venture that enables anyone to get a book in print faster and less expensively than ever before.

## **INNOVATION OPPORTUNITY AREA: ENHANCE THE EXPERIENCE**

As busy consumers turn to the Internet to satisfy more of their shopping needs, store retailers will focus more intently on providing experiences that can be gained only by being there. Individual retailers—even category killers—may not be able to own a merchandise category, but they can own a buying experience. The decision to create a customer experience shifts the focus from what moves product to what moves people. Experiences are more than entertainment, education or interaction; they *engage* customers in a memorable and meaningful way.

In *The Experience Economy*, authors Pine and Gilmore discuss the opportunity for companies to script and stage experiences to create value that exceeds the value of the goods and services used to create the experience. The authors urge companies to look beyond traditional pricing factors like time and cost and consider charging for the value of the experience. Goods and services, say Pine and Gilmore, are no longer enough. Experiences are the basis for future economic growth.



### **Innovation in Action: Customer Immersion**

Retailers increasingly will differentiate themselves by using experiences to sell the dream—as well as the product—and bring the brand to life. A number of companies are working to make their stores “super-immersive”—that is, to make the shopping experience as stimulating as possible.

- Sporting goods retailers **REI, Cabela's** and **Bass Pro Shops** have led the way in making their retail space an experience. Their stores have emerged as major tourist attractions by offering climbing walls, mountain bike tracks, fishing ponds, archery ranges, putting greens and a host of other opportunities to test one's skills and try out products. The stores effectively bring the great outdoors indoors.
- Supermarkets offer multi-sensory experiences by enveloping shoppers with smell, taste, sight and sound. **H.E. Butt's Central Market** concept caters to upscale consumers by incorporating "food as theater" display techniques, food preparation demonstrations, cooking classes and food-tasting events to differentiate it from lower-price alternative formats. According to company reports, the goal of Central Market is to entice customers with personal involvement, allowing them to sample, smell and observe throughout the supermarket.



#### **Innovation in Action: Pay-for-Play**

The retail venue will become a place to spend quality time—and, increasingly, a place to spend money to spend time. Admission fees or pay-for-play alter the buyer's perception of the value of the total offering and force companies to stage compelling events.

- Kids' escalating expectations point to a desire for something "more," where shopping becomes a social event or experience. **American Girl Place** is much more than a store. It's a place where imaginations soar. It includes a café where girls and their dolls can enjoy brunch, lunch, afternoon tea or dinner and a theater with live musical performances. American Girl's mission is to celebrate girls. Not surprisingly, the stores have become a top tourist attraction in Chicago and New York.



#### **Innovation in Action: Branded Entertainment**

Innovative marketers are increasing brand awareness and maximizing their brand messages by integrating branding into entertainment properties and other customer experiences. Brands are showing up in the content of books, video games, films and TV. These media represent a massive, but largely untapped, market for strategically positioned product placements that create memorable brand interactions that resonate with the target audience.

- **Electronic Arts**, a leading video and PC game publisher, offers advertisers highly targeted opportunities for product placement. EA is incorporating the logos and products of a number of major consumer products companies in the action of various games. For example, basketball players wear Adidas or Nike shoes and run past a McDonald's banner on the court. A snowboarder swooshes past Honda's newest vehicle, the Element. McDonald's and Intel have a virtual presence in the EA Sims Online game. Not only can players buy a virtual Big Mac, but they also can become McDonald's franchisees. They use Intel-branded PCs in their virtual homes and offices.

### **INNOVATION OPPORTUNITY AREA: MAKE IT EASY**

Ease-of-use is vital to the success of the retail shopping experience. Innovative process, service and design solutions that are simple, intuitive and in tune with shoppers' needs—along with new technology tools—can save consumers time and effort. An easier and more rewarding customer experience will boost sales and enhance customer satisfaction and loyalty.



#### **Innovation in Action: New Processes**

- With **Staples Easy Rebates**, launched in November 2004, Staples continues to deliver on its brand promise of making the purchase of office products easy for customers. (The "Staples. That was easy." ad campaign, which debuted in March 2003, reflects the company's long-term strategy.) Easy Rebates, a paperless online rebate process, was developed in response to customer feedback about the frustrations of the mail-in rebate process, which typically includes filling out forms, cutting out and mailing in UPCs from boxes and providing duplicate receipts. Easy Rebates offers a "no hassles, no clipping, no mailing" guarantee that modernizes the traditional rebate process.



#### **Innovation in Action: New Services**

- **Men's Wearhouse** entered the tuxedo rental business in 2000, becoming the only company to rent tuxedos on a national basis in addition to selling them. With stores in every major U.S. market, this makes it easy for customers from all across the country, who are part of the same wedding party, to visit their local Men's Wearhouse



to be fitted with the appropriate attire. The tuxedo rental business also generates millions of additional store visits as customers pick out, pick up and drop off their tuxes, providing more exposure for the rest of the retailer's offer. The business is counter-seasonal to the menswear clothing market, has better margins and drives younger traffic into the stores. Cleaning all of those tuxedos before re-renting them has also inspired Men's Wearhouse to target another lucrative market that is ripe for consolidation: dry-cleaning. The company has acquired a number of dry-cleaning facilities as it test-markets and evaluates the feasibility of developing a national dry-cleaning business.



### **Innovation in Action: New Store Designs**

- In 2004, **Marsh Supermarkets** debuted a new "lifestyle" store format in Indianapolis and Fort Wayne, Ind. The stores feature an unconventional layout that positions products in different rooms around the perimeter of the stores with wide "raceways" connecting the rooms. The stores are designed to categorize foods and groceries according to how customers plan their shopping. For example, the in-store bakery is located in the bakery room, which houses everything bakery, including finished baked goods, mixes, ingredients and utensils.



### **Innovation in Action: Technology Tools**

- In May 2004, Food Lion unveiled **Bloom, A Food Lion Market** as a new retail concept designed to provide a simple and hassle-free shopping experience. The concept was crafted using surveys and focus groups to find out what consumers wanted in their everyday shopping experience. Bloom stores are testing some of the proven, leading-edge technologies in the retail industry with the objective of helping customers find products, get information and check out with greater ease. For example, personal scanners allow the customer to check prices and purchase and bag their groceries as they move through the store. When finished shopping, customers simply scan a bar code on their cart and proceed to checkout. The 38,000 sq. ft. stores are laid out to make the shopping experience easier. Customers don't necessarily need to shop every aisle—heresy in the store design world! Lunchmeats, for example, are next to the deli counter, and cereal is across the aisle from the milk case. Sodas, juices, drink boxes and other beverages are separated by flavor, not by

brand—as customers shop by product first and brand second—and they are all together in one aisle. Aisle signs are on hanging cubes, so they can be read from any angle, and store shelves are shorter so customers can more easily reach what they need.

## **INNOVATION OPPORTUNITY AREA: DO IT MY WAY**

Shopping is becoming increasingly individualistic. This is being driven by the growing diversity of the consumer marketplace, technology enablers and the consumer's desire for greater influence, control and uniqueness. In this new environment, the retail power structure has permanently shifted from sellers to buyers. Innovative retailers will look for ways to provide more unexpected gratification to shoppers and let them express themselves in unique ways. And what is more unique than "me"?

But, can marketers really seek out the desires of individual consumers and do only and exactly what each one needs or wants? For the most part, customizing each order to each demand point will remain outside the boundaries of economic feasibility. Instead, the goal will be better matching the market to the consumer. The Internet enables this process by providing greater accessibility to more information and more options, along with the ability to customize the shopping process to better meet shoppers' specific needs.



### **Innovation in Action: Mass Customization**

While the ability to customize products efficiently is still a conundrum, mass customization is becoming a more viable option in a number of product categories.

- In October 2004, Target introduced **Target to a T**, online custom jeans for men and women and chinos and shirts for men. According to a Target spokesperson, the new custom clothing option "gives people the opportunity to create an item of clothing that fits the way they want in the color they want and has the features they want."
- **Nike iD** (individually designed) delivers personalized product that reflects consumers' personal sense of style and athleticism. Shoppers choose from available models and then create their own unique Nike product by selecting colors and fabrics and creating a personal ID banner. The product is built and delivered in 3 to 4 weeks.





### **Innovation in Action: Personalization**

There are countless ways to differentiate a relationship with a unique consumer through personalized content delivery, site navigation and customer communications. The dynamic use of content to put on a different face every time a company does business with a customer requires management of targeted messages and of customer responses to those messages in order to adjust the next interaction.

- The goal of **Amazon's** personalization strategy is to build a store unique to every customer, filled with items selected just for them. As Jeff Bezos explains, "We not only help readers find books, we also help books find readers, with personalized recommendations based on the patterns we see."
- **Staples.com** has defined seven "customer personas" in a quest to create a better e-commerce experience for its customers. Staples personnel visited customers' jobsites, watched telephone customer-service representatives and held focus groups to better understand how people ordered products. For example, "Lisa Listmaker" often places a standard order and wants to do so as quickly as possible. For "Lisa" types, the site now keeps track of previous orders, whether placed online, via the telephone or by fax. Customers are given the option to reorder some or all items on the list. The site suggests other products needed to accompany a selected item, such as a cable needed to go with a printer. The seven customer types also are driving Web site design and marketing decisions.



### **Innovation in Action: Co-Creation**

In addition to mass customization and personalization, some companies are offering opportunities for customers to participate in the development of new products and services or to provide input on other business processes. Such user-driven innovation recognizes that for many consumers, it's not just the destination that matters; it's the journey, and they want to go along for the ride.

- **BTween \$1 and Five**, a new retail concept targeting value-conscious tween boys and girls, taps into the brainpower of the "InBTweens," an advisory board of tweens who counsel management about the hottest tween styles, tastes and trends.

- **Hallmark Idea Exchange** was developed for the purpose of both listening to and talking with consumers. Each of several online consumer communities include approximately 200 people with some commonality—ethnic background, lifestage, etc.—with the goal of gathering deeper consumer insights. These consumer consultants can validate strategic directions, aid in product development and provide input about using Hallmark.com.

### **INNOVATION OPPORTUNITY AREA: HELP ME CONNECT**

Consumers have a fundamental desire to connect with one another, and technology is facilitating the exchange of ideas, information and opinions. New types of social networks foster community among consumers who share a common passion or interest. Marketers can forge stronger relationships with these consumers and earn their patronage by helping them connect in ways that matter to them and by responding to their emotional as well as their physical needs.



### **Innovation in Action: Social Networking**

- **Shutterfly** and **Kodak EasyShare Gallery** (formerly Ofoto) let subscribers stay in touch with friends and family by sharing their photos online. Recipients can view photos by clicking a link in the sender's e-mail. With no bulky e-mail attachments, it's fast and secure.
- **Hallmark**, in a deal with Enpocket, enables mobile subscribers to send greeting cards to friends and family on their mobile phones. Users click on a branded image and text, add a personalized message and send the composite to the recipient. The application for users with a Symbian handset integrates with the mobile device's personal address book, which facilitates one-click addressing.
- **Yub.com** is an online mall and social network launched in February 2005 that connects people and products. Yub (buy spelled backward), a wholly owned subsidiary of Buy.com, has partnered with leading brands, including Sony, Apple iTunes, Buy.com, Linens 'n Things and Foot Locker, to create a virtual mall where consumers get others' opinions in an environment driven by social interaction.

Members of Yub can meet one another and shop in Yub's virtual mall, which includes more than 2.5 million products from partner retailers. When

members hang out on Yub, they can interact with other members, make friends, discuss trends and share product insight and recommendations. Basic membership in Yub is free and rewards users with 1% cash back on every item bought. When users buy something that is endorsed in a friend's profile, Yub also gives the friend 1% cash back as a thank you for their recommendation. Yub also has created a premium program for more avid shoppers, called YubClub, at \$19.95 a year. Members of YubClub can earn up to 15% cash back every time they shop (Yub still gives 1% to the recommending friend).

### INNOVATION OPPORTUNITY AREA: SPEED IT UP

Consumers value what is most scarce, and time is at the top of the list for many. They want it fast (speed up the shopping process). They want it now (immediate gratification). They want it first (latest and greatest).



#### **Innovation in Action: I Want It Fast**

The need for speed, particularly at the order-entry and checkout stages of the shopping process, will continue to drive changes in store concepts, design, location, merchandising, transaction processing and payment.

- Having studied what items are highest on customers' visits for quick trips, Food Lion's new **Bloom** stores feature the **Table Top Circle**, an area in the front of the store stocking milk, eggs, bread, chilled beer and soda, meal solutions and other frequently purchased, high-traffic convenience offerings. Food Lion traditionally put these items only in refrigerated compartments in the rear of the store, which was efficient for the retailer's purposes but required shoppers to walk the whole store to get what they needed. In the parking lot, the first few rows are designated with 20-Minute Parking signs.
- **Lowes Food Stores** will begin deploying BioPay's biometrics payment solution in spring 2005. The biometric payment service enables customers to pay for purchases with the touch of a finger. There is no cost for customers to enroll or use BioPay. Once enrolled, the customer can pay with his or her finger at any retailer in the United States that features the BioPay service.



#### **Innovation in Action: I Want It Now**

The "real-time" economy has made consumers more impatient than ever. With instant gratification being offered by digital services, it is likely that heightened expectations will eventually extend to other aspects of online and offline commerce.

- London-based **Shazam Entertainment's** song recognition technology allows consumers who hear an unknown song (in the car, in a bar, on the radio, etc.) to dial an access code, point their cell phone toward the music source for 30 seconds, hit send to tag it and wait for a text message reply with the name of the artist and the song. Currently, the technology is able to match an audio sample against a database of more than 1 million tracks in less than 1 second. Users can then go to Shazam's Web site and buy the CD for the song they've tagged. The tag list is permanent and free. Shazam also offers marketers the opportunity to sponsor these text messages. Shazam is currently available in 12 countries. In the United States, **Gracenote Mobile MusicID** provides a similar service.
- **Amazon.co.jp** has improved its "Amazon Anywhere" program, a mobile Web site available in Japan for mobile phone users. The most interesting feature it provides is "Amazon Scan Search," which enables consumers in any real-world store to point their cell phones at a product's bar code and then be instantly directed to Amazon.com.jp on their phone screen, where they can view the item and make a purchase.
- **eMusic's** on-site digital download kiosks enable concertgoers at select venues to download a live recording of the performance they have just enjoyed in MP3 format on a USB memory stick. Alternatively, concertgoers can buy a CD copy of the show as they leave the venue.



#### **Innovation in Action: I Want It First**

By definition, innovation is all about new. Consumers want unique new products to enhance their lifestyles.

- Since 2003, **RadioShack** has sought to form affiliations with some of the world's most innovative

companies. RadioShack's innovation experts are subject matter specialists on technology, innovation and product design trends. They offer insights into bringing new products and services to the retail market—roles traditionally played by inventors and venture capitalists—and the licensing opportunities available to retailers.

- In an effort to improve its speed to market, **Kroger** launched an initiative to streamline its new item setup process. A New Item Introduction solution

provided by Transora, a leading consumer products community for e-collaboration, is designed to be an inexpensive, easy-to-use online portal that enables Kroger to eliminate paper new item forms, providing significant efficiencies for Kroger and its suppliers. This functionality merges standards-compliant data and retailer-specific data into one view for the retailer to review, manage and ultimately approve for delivery to backend systems. Suppliers began using the new automated process in February 2005.



# Customer Centricity Fosters a Culture of Innovation at Best Buy

For the past couple of years, Best Buy has been undergoing a transformation. As the leader in its category, Best Buy has not undertaken this transformation by necessity but rather by a sense of opportunity. At the heart of the transformation is a commitment to “customer centricity”—a strategic initiative designed to tailor each store’s assortment to the types of customers that actually shop there. The company is focusing on five customer types that contribute the most to its financial health: young entertainment enthusiasts, affluent professional males, families who are practical technology adopters, upscale suburban moms and small businesses.

Looking at the business from the customer’s point of view, rather than from a product category perspective, provides opportunities for Best Buy to increase its market share with both existing and new customers. By viewing the business as a portfolio of customers, the retailer hopes to “deliver superior customer experiences and earn commensurately higher financial returns—a mutually exclusive value exchange.”

For the fiscal year ended February 26, 2005, sales from continuing operations rose 12%, including a comp store sales gain of 4.3%. Earnings were up 17%. Sales have more than doubled during the past five years to \$27.4 billion. During the same period, archival Circuit City has seen sales stagnate at \$10.5 billion. Best Buy’s customer-centric stores have achieved strong topline results and outperformed other Best Buy stores in terms of comp store sales gains and gross margin, which reflects a more profitable revenue mix.

The company believes that constant innovation is required to create an experience that is more relevant to the unique needs of specific customer segments. The new customer-centered culture is focused on serving as the customer’s advocate, helping assemble the right solution and backing it up with service. In this culture, Best Buy aims to energize its employees by giving them both the responsibility and the accountability to make decisions and drive innovation based on in-depth customer knowledge.

The importance of innovation to Best Buy can be seen not only in its continued investment in the conversion of

stores to the customer centricity platform but also in the research, development and testing of a wide variety of other innovative ways to create truly differentiated customer experiences. These customer-driven innovations address many of the opportunity areas identified in the preceding section.

## Catch a Wave

Best Buy is riding the health and wellness wave with a **new store concept called eq-life** (short for equilibrium and lifestyle). The 18,000 sq. ft. store, which opened in February 2005 in the Minneapolis area, offers an eclectic mix of products and services that typically are spread across several retail sectors, including supermarkets, pharmacies, health stores and sporting goods stores. Best Buy describes the offer—which includes exercise equipment, health books, massages, vitamins, MP3 players and defibrillators—as an attempt to “**create a more balanced life for the health and wellness of our customers.**”

## Solve My Problem

Displaying products by use is one of the main ideas being introduced into Best Buy’s new prototype stores. The **new format**—part of the retailer’s customer-centric focus—is **composed of six distinct “experience zones.”** In the Home Theater zone, for example, all of the various components are put together in a **fully furnished environment to create a lifestyle solution.** The idea is for consumers to see the complete solution before delving into the myriad sub-categories (e.g., flat screens, receivers, speakers).

## Do It for Me

As Best Buy faces off against escalating competition from mass players like Wal-Mart, Sears and Target, do-it-for-me services are emerging as a big differentiator. Best Buy offers **in-home installation services** for appliances and home electronics. Authorized technicians will integrate a single component into an existing system or wire an entire room. Most Best Buy stores also are equipped with **vehicle installation facilities** and staffed with certified technicians to install a CD player, auto security system, video system or

other mobile electronics device. For the fiscal year ended February 26, 2005, the retailer projects it generated \$650 million in revenue from repair, installation and delivery services.

### Help Me Choose

Best Buy's **Studio D** concept, another effort to attract more female shoppers, focuses on making technology simple and understandable. At 6,000 sq. ft., the new boutique concept provides an inviting, home-like environment where women can be comfortable exploring and learning about how to use digital technology. In addition to selling technology products, Studio D provides complete technology support and solutions through **personal advice and demonstrations**, such as how to download music to an MP3 player or how to post digital photos on a family Web site, plus **hands-on learning experiences** with classes like "Discovering your iPod" or "Breaking Into Digital Scrapbooking." **Equipment rentals** enable customers to try out cutting-edge technology in their daily life before making a purchase.

### Come to Me

Best Buy recognizes the importance of **digital download services that help consumers enjoy entertainment when, where and how they want it**. Embracing the philosophy "if you can't beat 'em, join 'em," Best Buy sells customers Napster subscriptions, Napster download cards, Rhapsody subscriptions and iTunes cards. By offering a wide mix of digital music solutions, Best Buy has staked out a leadership position among retailers. The company is pursuing similar strategies with movies (continuing to sell Netflix memberships, selling Movielink cards) and online gaming (Gamefly subscriptions).

### Enhance the Experience

Best Buy differentiates its computer support service by **branding the experience**. **Geek Squad "special agents"** costume themselves in appropriately nerdy attire—white shirts with thin clip-on black ties, white socks and pocket protectors. They carry badges to identify themselves and drive around in VW bug "Geek Mobiles," **turning a normally humdrum service into a memorable encounter**. Geek Squad special agents stage such a distinctive computer repair experience that customers buy t-shirts and lapel pins with the company's logo.

Yet **another new Best Buy format called Escape** is targeted at young men interested in video games and the latest electronic gadgets. This concept store opened in Chicago's Lincoln Park neighborhood in late 2004. Four gaming pods in the store feature PlayStation and Xbox systems. Visitors can drop in and try out the newest games and gaming consoles on plasma-screen monitors with theater-quality sound while lounging on a sofa. While the pods rent for \$10 an hour, the **pay-for-play experience** provides an opportunity for people to test-drive a game before buying. Escape also has two suites that can be rented out for parties of up to 10 people. A \$9.95 yearly Escape membership is required for all game play. In addition to the video games, Escape sells the latest digital cameras, computers, iPods, cell phones and other cool stuff. There is also a cafe, lounges for hanging out and Internet access.

### Understanding the Consumer Is the First Step

Best Buy's continuous business model innovation is based on in-depth customer knowledge. Regardless of what specific innovation opportunities retailers pursue, understanding consumers' changing needs, wants, frustrations and expectations is the crucial first step in creating new value propositions and improving the customer experience. In today's world, significant shifts in demographic, social, economic and technological markets are accelerating the demand for value innovation.

Although innovation frequently comes from outside an industry's current leaders, Best Buy proves it doesn't have to be this way. Even industry leaders can create innovative solutions if they think about their business from the consumer's perspective and look outside their traditional competitive boundaries for opportunities to solve consumer problems. Companies like Best Buy that think more broadly about their mission and how they can deliver new consumer value are more receptive to innovative growth opportunities.

To commercialize these opportunities requires the development of appropriate business models to deliver that value. Best Buy realizes that continuous business model innovation is the key to value creation for consumers and wealth creation for stakeholders.

As cowboy humorist and philosopher Will Rogers put it, **"Even if you're on the right track, you'll get run over if you just sit there."**



## About Retail Forward

Retail Forward helps retailers and suppliers drive profitable top-line growth. Our team of retail experts is trusted by industry leaders worldwide. Fact-based and forward thinking, we translate intelligence and insight into actionable strategies and practical solutions that deliver improved business results.

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- Account and Channel Strategy

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