

# INNOVATION IN RETAIL



IT'S HOW  
WE CONNECT

# EXECUTIVE SUMMARY



**“...retailers recognise  
the need to innovate.”**

# EXECUTIVE SUMMARY (CONT.)

The retail industry is undergoing a period of rapid change. When rapid change occurs in any industry, innovation becomes a necessity. Our research, based on conversations with twenty-one retail leaders from around the world, shows that retailers recognise the need to innovate. They believe the need to innovate is driven primarily by digital technologies that are simultaneously empowering customers, creating new types of competition and new weapons for existing competition, as well as bringing into question the relevance of traditional retailer/customer relationships. In some cases, these factors have combined to create a “burning platform” where the ongoing existence of long-established retail brands is in doubt unless rapid innovation takes place.

The retailers we interviewed felt that while the need to innovate may be clear, an organisation also needs the ability to execute if a programme of innovation is to be successful. Factors that characterise a successful executor of innovation include: a horizontal structure with a connected innovation team to drive activity; processes that are agile and collaborative; innovation measures built into strategic and individual performance plans; planned resourcing of innovation; and a culture that embraces change and accepts the possibility of failure in some projects. Successful innovators will also leverage the retail industry’s fast pace and close proximity to the customer as enablers of change.

On the other side of the equation, retailers also recognise that the blocking forces of innovation can be strong and that these thrive on tradition. Traditional vertical business structures, traditional approval processes, traditional resourcing models and a traditional business culture that values both consensus and the status quo can stop innovation in its tracks. The negative effects of tradition multiply with an

organisation’s size so that the ability to innovate can be blocked simply by the scale of legacy investments in real estate, people and processes.

In this report, we propose a “Retail Innovation Index” where the need to innovate plus the ability to execute are moderated by the blocking forces discussed above. We believe this will become a useful tool for retailers wishing to identify how important their need to innovate is and how “innovation-ready” their organisations are.

And it’s not over. The retailers we interviewed felt that digital technology has been the underlying driver of most of the significant innovations in retail over the last twenty years (the internet, e-commerce, electronic payments, supply chain management, omnichannel, etc.). They also felt that digital technology will continue to drive the need to innovate in the future. Retailers see three overlapping technologies – namely, Mobility, the Internet of Things (IoT) and Big Data – as the most important drivers of ongoing transformation in the retail industry. These technologies will facilitate an even closer relationship with the digital shopper, create the opportunity for new services and provide information so that retailers can manage their operations more efficiently. It seems clear that as well as understanding the urgency of the need to innovate and how “innovation-ready” their businesses are, retailers will also need to carefully choose technology partners who can help them navigate the emerging digital landscape.



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**“...digital technology has been the underlying driver of most of the significant innovations...”**

# THE NEED TO INNOVATE (CONT.)

What creates the need to innovate?



## CASE STUDY

### TELSTRA STORES TRANSFORMED!

The Telstra stores network consists of over 360 stores across Australia, selling a full range of Telstra products from pre-paid mobiles to pay TV services. Two years ago, management decided it was time something was done to bring the retail environment and customer experience into the digital era.

Driving the need for change was the realisation that customers increasingly expect personalised service and solutions, and they want it now. However, the traditional Telstra store was a white space with limited merchandising potential, and slow backend systems that caused lengthy wait times for shoppers, particularly during busy periods.

Andrew Smith, Telstra's Director of Retail Operations, says that the company went on a "rampant mission" to create a more exciting, immersive and efficient retail environment. There were just two rules: make it simple and make it fast.

Telstra's flagship Discovery store opened at 400 George Street in Sydney in October 2014, and while Smith acknowledges that the learning process continues, results here have been outstanding, with significant increases in sales volumes, the number of customers visiting the store and how customers rate their experience.

***"The answer is in the till. The Sydney store is half the size it used to be, but is generating hugely more business. It's the retailer's dream: – Innovations that work."***

**– Andrew Smith,  
Director Retail Operations,  
Telstra**

The store offers a mix of highly interactive features, digital content displays and an ever-changing range of the latest technology products and services. One of the key changes was the move away from desktop terminals to tablets, so advisors can access all the systems and operational tools needed to complete the end-to-end customer

interaction – from exploring products and services to completing the activation, EFTPOS, capturing the signature and emailing the receipt and contract – all without leaving the customer's side. Advisors also have mobile phones so that customers can get back into touch with the exact person who served them – not just whoever happens to answer the store's fixed line.

Next to open was the Melbourne Discovery store in December 2015. Key features unique to Melbourne Discovery include a new tech accessories store, which carries the latest range of wireless speakers, headphones, drones, connected bags, and wearables curated by a team of stylists. Another feature of the store is how it reflects the Melbourne community, with an in-store barista providing free coffee to customers and a pop-up space available to local community organisations, such as the Asylum Seeker Resource Centre.

Some elements of the design, technology and service features of Telstra's Discovery stores are being implemented in selected stores across Australia, where they suit the local market. To date, Telstra network stores in Macquarie Centre, Macarthur Square and Chatswood in Sydney; Edward St in Brisbane CBD; Casuarina in Darwin and Cranbourne in outer Melbourne have been redeveloped.

Andrew Coull, Telstra Countrywide Executive Director says the Telstra stores are transforming to make a personal connection between people and technology. "Melbourne Discovery showcases world-class technology alongside a new level of personalised service for customers, and we've seen significant interest from the retail industry in the innovations we've developed."



# CONCLUSION

The need for retailers to innovate will continue. What does this research tell us about what retailers need to do to be successful innovators now and in the future?

## USING THE INNOVATION INDEX

- Determine how strong the need to innovate is for your business. Some retailers have a stronger need to innovate than others. The need to innovate will be a product of customer expectations, competitive forces, other external factors and the changing role of the retail industry as they apply to your specific business. In some cases, they may add up to a burning platform where innovation is imperative. In all cases, the underlying driver of need will be digital disruption.
- Do an assessment of your organisation's capacity to execute a programme of innovation. We have seen that business structure, processes, culture and resourcing all need to be considered. Successful innovation tends to be fostered in a horizontal business structure with a connected innovation team as the focus for activity, where processes are agile and collaborative, where innovation measures are built into strategic and individual performance plans, in a culture that embraces change and accepts the possibility of failure in some projects and where resourcing of innovation is planned.
- Do a parallel assessment of blocking forces to innovation in your organisation. Blocking forces come from the same places as the forces that foster innovation, i.e. business structure, processes, culture and resourcing. We have seen that tradition is the underlying



enemy of innovation and its effects multiply when an organisation gets bigger.

- Find ICT partners who can help you navigate the changing digital landscape. Retailers agree that most of the significant innovation over the last twenty years has been facilitated by digital technology and that this trend will continue in the future. However, it is not a retailer's job to understand long-term technology trends. A retailer's job is understanding customer needs and fulfilling them today. On the other hand, it is an ICT company's job to understand long-term technology trends. This is necessary because of the long development cycles and large capital investments involved in product development. Retailers and the right ICT companies are natural partners in innovation.



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