

RETAIL INNOVATION DURING COVID-19



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HOW THE RETAIL SECTOR HAS EMBRACED INNOVATION DUE TO THE PANDEMIC

"...When there are no constraints on the creative process, [...] people follow the path-of-least-resistance, the most intuitive idea, rather than investing in the development of better ideas. Constraint provides focus and a creative challenge that motivates people to search for and connect information from different sources to generate novel ideas for new products, services, or business processes."¹

"Business as Usual" ended with the start of lockdowns. Retailers who had to close doors saw sales and profits fall immediately and in food and beverage categories, supply chain demand was difficult to meet.

Lockdowns imposed unexpected and dramatic constraints: closing ports, stores, restaurants and warehouses; and locking customers in their homes. Business schools teach that a key method in developing innovation is to impose constraints. Therein we find an interesting sub-story. Constraint has driven innovation.

"In 2017, Prof. Haught-Tromp's research into constraints and creativity concluded that constraints "help cut down the number of choices to subsets that we find manageable. This allows us to explore less familiar paths, to diverge in previously unknown directions."²

The closure of restaurants and pubs channelled 100% of food distribution into the retail supply chain, an approximate 40% increase. **MAJESTIC WINE** responded by expanding their fleet of delivery vehicles, converting stores into 'mini-warehouses', refocussing colleagues on order fulfilment and delivery and re-inventing their range. Their new model fulfilled demand while closing stores to keep people safe. On October 1st, their innovation was recognised when they won two awards at the 2020 Drinks Business Awards.⁴

GAP INC was required to close most shops. Some analysts downgraded their forecast for the group, but the lockdown catalysed change:

- focussing on the needs of consumers, Gap rapidly converted factories to produce masks which they sold to businesses and governments as well as consumers. In the last quarter, mask sales topped \$130m and more than 10m masks
- in June, they formed a partnership with Kanye West to connect with new customers
- they significantly scaled e-commerce across the group

Their share price is now up 3.8% YoY and 12.7% this week. In June, their CEO said *"strong performance in the second quarter reflects the customer response [...], particularly as we've rapidly adapted...We nearly doubled our e-commerce business, with approximately 50% online penetration"⁵*

In the Middle East, luxury group Chalhoub saw revenue drop 100% and they permanently closed 60 stores. By June, they'd launched more than 12 new websites, engaged in strong social media campaigns, created virtual assistants and shifted associates into warehouses to fulfil orders. They hit their 2025 e-commerce target in just one month. The business is back to 60% of trading levels and expects to recover to 100% in 2021.⁶

The volume of consumers shopping online has increased by 28% since the start of lockdowns.⁷ Retailers raced to enable this. From re-engineering warehouse operations to spinning up social media trading, our sector has reinvented, re-engineered and innovated at an exhilarating pace. Examples tumble into headlines:

WALMART launched a new membership program, Walmart+. For \$98 a year, customers receive unlimited deliveries from stores. Last week Walmart launched an app that supports self-scanning, store navigation and contactless payment.

Best Buy implemented virtual consultations, a ship-from-store model and same-day delivery to customers. Their CEO said: *"... we are on a path to develop a flexible workforce model that leverages technology and provides associates the ability to work whenever and wherever they want."⁸*

WAITROSE teamed up with Deliveroo to provide rapid delivery as 77% of Waitrose customers shop online, compared with 61% last year.

BUILD-A-BEAR ran Workshop Wednesdays for family entertainment.

VC investment in retail tech dropped in the first half, but we have seen technology innovation and adoption increase:

- **E-COMMERCE:** Shopify, an e-commerce platform for SMEs, saw revenue double in the second quarter⁹ and the firm is rapidly releasing new functionality such as multi-lingual multi-currency to keep up with demand.
- **FRICTIONLESS:** Mishipay had a sharp upturn. Mishipay is an app that allows customers to use smartphones to "scan, pay, disable a security tag and go". It's frictionless, eliminating queuing, bagging and checkouts. It can be used from home for 'Deliveroo-style' delivery or click and collect.
- **3-D BARCODES:** Restaurant chains have moved to contactless 3D for menus, and malls are using 3D for directories. In addition to reducing contact, this creates savings in printing and carbon and increases flexibility (e.g. changing menus on the fly).
- **QUEUING:** We already had apps for table, car and flight reservations, now queuing and shopping reservation apps are here (Skiplino, SafeW8 and QLess were launched). In May, ASDA launched its own queuing app.¹⁰
- **FORECASTING:** Retailers are looking into forecasting and planning solutions that apply machine learning, as we can no longer predict the future by looking at the past.

When the world has healed and constraints are behind us, we can expect to see these new innovations and customer behaviours remain. Home working, home living, frictionless tools, home delivery and a new race to keep ahead in the digital world of retailing are now fixtures in the landscape of retail.

RESTRICTED CHOICE STIMULATES INNOVATION AND CREATIVE SUCCESS



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