eBook

Why Everything Takes So Long In Retail

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Introduction

The future of retail is, much like the future of any other sector, bound to innovation. And with the rise of eCommerce, it's easy to think that retail will ultimately bow down to eCommerce and online shopping. Not so fast.

Throughout the COVID-19 pandemic, eCommerce has experienced a stellar rise. Even people who had never made an online order have gotten used to procuring essential items and groceries over the Internet. And this sudden digital information is just an upwards spike in an already existing trend — eCommerce was on a steady but inevitable rise for the entire previous decade.

However, thinking that this spells the end of physical retailers is a sweeping — and wrong — generalization. There are many products where in-store purchasing will likely remain the norm for the foreseeable future — such as clothes and footwear. Even with the ability to order these products online, plenty of people are more comfortable trying them first.

While purchases of low-involvement products like kitchen groceries and self-care items will shift towards eCommerce — companies that manage physical retail space will find new ways of leveraging their resources.

In the end, a hybrid future that utilizes both physical and digital resources is most likely. We can already see glimpses of it now, with digital services like Instacart cooperating with networks of trustworthy local retailers to complete customer orders efficiently.

There's no debate about the fact that no retailer will remain strictly physical — a digital transformation is inevitable for anyone who wants to stay competitive. Customer expectations are dictating the inclusion of certain digital features and the use of technology and data in devising compelling new experiences.

With all of that in mind, there's only one question left —

Why does innovation at the store level take so long, when eCommerce is so quick?

Retailers Are Slow To Innovate

The age of touchscreens and smartphones has left customers yearning for technology and tech-powered quality-of-life improvements. And this is readily apparent in the world of retail, where great new retail technologies are being designed all the time.

Magazine reports, television, and trade shows are all filled with interactive store displays, tech gadgets, and other incredible improvements to the regular in-store experience. For example, there are all kinds of ideas on augmented reality displays that allow shoppers to “try on” clothes virtually in a matter of seconds — or screens with personalized ads for every passer-by, along with AI sales assistants powered by machine learning algorithms.

But if all of these futuristic concepts have been so hyped through the media, and the technology for many of them exists already — why aren’t they here already? In practice, the essence of the retail shopping experience has remained largely unchanged since the opening of the first supermarkets in the 1930s.

And sure, a lot of high-tech concepts in many industries never enter the mainstream — the automotive industry is littered with futuristic concept vehicles that aren’t cost-effective enough to be manufactured en masse.

However, retailers seem sluggish to adopt even far simpler innovations — allowing themselves to be continually outpaced by eCommerce solutions when it comes to implementing digital innovations.

Is There Innovation In Retail?

Thinking that retailers do not try to innovate would be a misconception. Kroger, one of the biggest US grocery chains, has been trying to improve the in-store customer experience for years.

Almost a decade ago, Kroger invested sizable funds into a tech platform that was supposed to improve one of the most significant consumer issues — the annoyance of waiting in line. Kroger spent years developing their QueVision system and was finally ready to deploy it in 2012.

The company's idea was simple — they realized that checkout lines were one of the oldest friction points between customers and retailers. And they were determined to resolve that issue by opening up lanes more effectively.

The QueVision System was created to track the number of customers currently in the store and at checkout points. Once the system detected a potential bottleneck, it would automatically signal the need for additional checkout points to be opened.

To be fair, the solution wasn't wrong — it cut down the average in-store waiting time from 4 minutes to half a minute. However, there are several problems with this innovation. First, it didn't become an industry standard. And second — complete industry outsiders did it better.

Just a couple of years later, an eCommerce giant would enter the retail market with a vastly superior solution — Amazon's Go Store.

This concept did away with manned cash registers, lineups, or any work on anyone's part throughout the shopping experience. Instead, all customers need to do is to scan their phones once they enter the store, choose the products they want, and walk out. The Amazon Go phone app is linked to the customer's Amazon account, and all items are automatically detected and paid for through it.

Amazon didn't just improve checkout lines — the company eliminated them. And they aren't alone — Bingo Box, a Chinese start-up, has also been operating a similar unmanned store in Shanghai.

These examples paint an interesting picture — one where incumbent retailers are frequently outpaced by industry outsiders and disruptors when it comes to innovation. Retailers like to describe futuristic sci-fi concepts at length. However, their implementation of even basic innovations to the shopping experience is lacking compared to virtual outsiders.

But why is this the case? **Why are retail managers and owners struggling to make necessary changes to the status quo in an age of rampant technological advancements?** This is especially strange considering the threat posed by the rise of eCommerce. It's clear that retailers have two choices: **innovate or die**.

The reasons why so many are seemingly choosing death are numerous — and we'll explore them in-depth below.

Iteration & Innovation

Many retail leaders are quick to point out “innovative” initiatives and projects within their companies. In reality, however, a lot of what they’re talking about is not actually innovative.

It’s iterative — and there’s an entire world of difference between those two. By its very definition, innovating refers to developing entirely new processes or products or experimenting radically — coming up with something that hasn’t been done before.

In contrast, an iterative process is one with incremental development — often along an already known path. And there’s nothing wrong with this kind of continuous improvement, as it can be beneficial. The problems arise once you start mistaking it for innovation — because it’s just not.

The retail world seems to have a strong bias towards iteration, and the reason for that isn’t difficult to grasp. Iteration is milder, non-threatening, and ultimately: safe. And innovative ideas are brimming with all kinds of risks — something markets, board members, and executives generally dislike; until, of course, they’re tested by someone else and become routine.

While most leaders will sing praises of innovative ideas, few will actually show the courage to embrace them when given the opportunity. As a result, new things are unfamiliar, scary, and messy.

So, what can be done to fix this problem? A decent starting point would be reaching a company-wide definition of what’s considered innovative; that way, everyone will be clear on whether they’re contributing to a significant change or not.

Not Fearing Failure

Failure is not the bane of innovation. On the contrary, it’s the other way around — there’s no innovation without some trial-and-error. And if your company is not okay with experimenting and failing, you won’t ultimately reach the best and most innovative solutions.

Daring concepts — like Amazon’s unmanned stores — require a high failure rate first. For instance, their first instances didn’t account for children or pets that could run around the store without buying anything. It took trial and error to fix glaring issues like that.

Unfortunately, a majority of retailers don’t have a high tolerance for mistakes and failures. Also, plenty of companies don’t provide enough encouragement for their executives to nudge them towards being innovative. Instead, the reward and compensation systems are often solely focused on compliance and success — leaving no incentive for experimentation.

Innovative companies don’t treat failure as a cardinal sin — as long as it provides actionable insights for the future. If some experimental program or initiative fails and gives the company valuable knowledge for further endeavors, it can be just as relevant as a successful one.

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Stepping Away From Vertical Bench Marking

When the owner of a coffee shop starts looking for innovative stuff they could do to improve the customer experience — they won't look much further than other coffee shops. And while that's the logical thing to do, it can stifle innovative thought. Moreover, that kind of thinking isn't in line with how consumers evaluate their in-store experiences anymore.

These days, consumers don't just make vertical comparisons. Food delivery services like UberEats weren't a random investment for Uber; the company realized that their target audience wondered why their food delivery experience couldn't be as intuitive and straightforward as an Uber ride.

Customers will be wondering the same thing about apparel purchases in the future — and it doesn't seem like retailers are ready for that. Instead, industry incumbents only compare their success and practices to those of their competitors, disregarding blind spots left open to disruptive outsiders.

Changing The Leadership Culture

Particularly in Western companies, leadership culture is built around notions that mostly praise one value — certainty. The best leader is one that can act decisively while precisely zeroing in on problems and their potential solutions.

As a result, investors form expectations based on rationality and certainty.

And in most cases, this is the best long-term approach to leading a company. However, that kind of approach breeds the wrong organizational culture, top-down solutions, and convergent thinking when it comes to innovation. This can be a problem for sectors where innovation is as sluggish as it is necessary.

In contrast, leaders that want to innovate are rarely afraid of calculated uncertainty. They're less reactionary and more curious in their problem-solving — displaying a bigger openness to solutions that aren't in line with accepted paradigms and norms. The retail world doesn't have an Elon Musk and that's a problem.

Business Financial Structures

Not all of the problems that retailers have with innovations come from easily changeable stances or policies. A major part of the issue is the financial structure of the companies in this sector. In the case of private equity, there's an urgency to maximize returns across the span of three to five years — when the holding approaches sale, budgets disappear into thin air, and the mindset of critical decision-makers tends to be short-term.

The quarterly thinking required for success in publicly traded companies doesn't lend itself to much innovation if the leadership doesn't have the strength to steer the company into uncharted territories. Theoretically, privately-owned retailers don't have the trappings of external shareholders, and they could be freer to innovate and experiment.

In practice, the small margins often reduce privately-held retailers to doing nothing more than maintaining existing business structures. Resource factors play the deciding role when companies determine if innovation is an important priority.

If a retailer's financial health falters, all focus is immediately shifted towards maximizing short-term profits and cutting costs — and strategic projects are left out in the cold.

The eCommerce Advantage

Contrary to the retail sector, eCommerce is brimming with innovation. There are plenty of reasons why this industry is more innovative, but there are three crucial ones:

1

Testing and deploying new solutions is easier

2

The eCommerce industry enjoys sustained growth

3

The corporate culture is different

No matter how innovative a retail in-store solution is — it will be costlier and more challenging to set up compared to an Internet storefront. A retail manager would need to train their employees, explain the changes to them, get approval from their higher-ups, and risk huge opportunity costs if the changes fail.

On the other hand, while the eCommerce industry has its giants — various platforms and content management systems (CMS) allow any small shop to set up its online storefront, according to its own rules. As a result, small business owners can thrive independently and make their own decisions on how their eCommerce site will function.

Also, implementing any changes is far simpler in a digital space — and there's always the option of performing split testing of two solutions and seeing which works without spending a lot of money.

Speaking of which — eCommerce stores are just more cost-effective. There's far less overhead, as you don't need to manage a physical location, multiple employees, or distribute software to hundreds of individual stores and thousands of registers.

Plus, with eCommerce being on a global rise over the past decade, most successful online stores have a longer cash runway to burn through — while physical retailers work within much narrower margins that can stifle innovation.

Finally, the corporate culture of brick-and-mortar stores is less prone to radical changes — as we've already discussed at length above.

Learning from eCommerce

Of course, throwing in the towel would be the path of least resistance for retail stores. However, eCommerce is not just a direct threat to the retail industry. It's simultaneously the key to solving many of retail's issues.

As we've mentioned in the beginning, the future is not exclusively digital or physical — it's both. With that in mind, there are plenty of tricks that retail could learn from their eCommerce competitors.

Geotargeting is an excellent example — one of the most profitable ways eCommerce stores implement customer personalization. Via tracking "cookies," store websites can know where potential customers are located and offer them the appropriate products or discounts.

However, physical stores can perform geotargeting as well. That's why some of the forward-thinking brands like Whole Foods have implemented "virtual fencing" strategies.

Whole Foods' digital marketing campaigns specifically target people that live close to competing stores in the vicinity of Whole Foods; in essence, they create a virtual fence around their stores and push out any competitors with online marketing and enticing offers.

Wrapping Up

Retail leadership tends to come up through finance, merchandising, or operations — meaning performance within the company is measured by how well you can keep costs down and improve the store count.

However, this is not a recipe for long-term success in the future — especially considering declining sales per square foot are set to force U.S. stores to rationalize space.

The world around retailers is changing, and they will have to recognize the barriers around innovation in their sector if they want to keep up.

Who Are We?

We're a technology company focused on transformative innovations in retail. Since 2000, we've helped countless retailers achieve their unique business objectives

RedIron is a multi-vendor systems integrator that helps you implement, extend or maintain any major retail software system.

20 years ago, we dedicated ourselves to helping retailers achieve their business objectives. At RedIron we realize that in order to remain competitive in today's retail environment, it is imperative that retailers continuously improve the experience of their customers.

RedIron is uniquely equipped to recognize and understand a retailer's pain points, and deliver on their business objectives and goals. Working with RedIron, retailers benefit from years of experience, smart project process', and technological solutions that streamline processes, profitability and deliver a modern customer experience.

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