

Tech London Advocates Corporate Innovation Group

How is the high street adapting to digital
disruption?

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Introduction

The retail industry is at the 'sharp end' of disruption. Reports are emerging almost on a weekly basis about established retailers in jeopardy. Meanwhile, emerging online retailers are gaining momentum rapidly.

But the story isn't as simple as the media narrative can sometime suggest. Over 90 per cent of retail global still takes place offline and customers who use a variety of channels to buy (digital and physical), typically spend double those who focus on a single channel.* With change comes opportunity. The challenge for both established and emerging retailers is to understand how they can negotiate a rapidly changing landscape to achieve success.

The TLA Corporate Innovation and RetailTech groups brought together experts from the startup, corporate, consulting and accelerator communities at an event to explore the challenges ahead and identify the opportunities for growth.

In a lively debate, the speakers identified several trends shaping the current retail environment.

Retail Innovation: How is the high street adapting to digital disruption?



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*Deloitte, 2018. Global Powers of Retailing.

Shifting consumer sentiment

First, a shift in consumer sentiment is taking place, with greater desire for on-demand goods and services, more flexible payment options and a higher level of personalisation and convenience provided to shoppers. A 'millennial state of mind' is prevailing in consumer markets, with people of all generations and social backgrounds seeking better personalisation, superior experiences, more instant gratification and value, easier routes to buy and peer-to-peer approval on prospective purchases.

Certainly in mature global markets, retailers are also seeing a growth in more ethically-conscious consumers - more informed and perhaps less unconsciously trusting of big brand names compared to previous generations of shoppers - they place more onus on retailers to be transparent in their business activities and clear on their principles.

Data

Data has a crucial role to play in enabling more personalised experiences. Online retail offers ample opportunity for data capture, but so does the in-store experience for retailers creative enough to grasp the opportunities offered by emerging retail technologies.

Retailers must also consider how they can combine data to create a consistent, personalised experience for customers in whichever channel they choose to shop. Data give retailers more opportunity to make informed decisions about what they sell, to whom and when, but consumers need to be aware of the data opportunity too, and the opportunity it affords them to make better decisions about what they buy through insights they can gain on the product itself, alternative options in the market and advice from friends and contacts.

Physical - Digital convergence

Physical and digital channels are increasingly converging. The rising popularity of augmented reality to aid in-store purchase decisions is one of the most visible examples. Retailers can also benefit (and benefit their customers) by continuing to invest in the integration of their retail channels to offer a more personalised experience for the customer. This not only represents a technology change, but a culture change too. In an environment where data, personalisation and channel integration are the priorities, customer service becomes even more important.

Staff in-store must no longer see their roles as being to facilitate transactions (that bit can be automated easily), but to build a relationship with the customer, encourage them to come back and to engage with the store via its other channels. Retailers must ask themselves how their staff in-store demonstrate value to customers. Online retail is growing - in some sectors faster than others - so while data and analytics become more important for successful digital strategy, the creation of 'experience stores' is a growing priority to differentiate on the high street.

Signs of growth

Despite the stories of decline on the high street, the speakers see evidence of growth in retail, but in new dimensions. Particularly in premium retail sectors, 'experience stores' are a growing priority and for many established names, an effective way to move perceptions of their brands forward. Big stores that can't adapt quickly enough will struggle.

But success doesn't depend only on a 'glitzy' store experience. Retailer able to 'do the basics' and 'keep it simple' in all aspects of their business - from the supply chain to in-store experience - can benefit. The simplicity of Aldi and Lidl's proposition in the grocery market and Apple's focused product range in premium electronics were both highlighted as examples of simplicity and focus leading to success.

Challenges of market fragmentation

For large, established retailers, the fragmentation of distribution channels is creating more urgency to find new ways to engage customers. While there's a 'cornucopia' of options available for innovation, the challenge is finding the right ones. For corporates in the retail environment, a concern tied to all innovation activity is the risk of the investment to the business today.

Collaboration with startups and an approach which emphasises testing and iteration of ideas offers a less risky option for corporates than shouldering all the burden of innovation themselves. Especially in fast-moving and often capricious industry like retail, speed is key and here startups and scaleups typically have an edge in their size and flexibility.

Making a deal

Perhaps as a reflection of the opportunity, more corporates are 'flirting' with startups and wanting to learn their practices. For startups in the retail space, the challenge isn't attracting interest from established firms, but in converting the deal. The burgeoning number of startups in retail creates options for corporates, but also a bewildering range of choices.

To cut through, startups must be crystal-clear on their value propositions and corporates must be prepared to do their homework, understand the startup landscape for themselves and what, from a strategic perspective, their business needs to grow.

For those companies that do manage to strike a deal, remember that startups can't work on the same timelines as corporates. Cash flow is likely to be a more pressing reality and their market differentiation relies on being able to innovate and implement quickly. Corporates can help - and help themselves - by limiting the scope of projects in their initial phases, testing, iterating and scaling as the solution is proven, and involving procurement in the dialogue early to shape an agreement that works for both parties. Don't be lured into going too big too soon. After all, the corporate may well be the startup's first customer.

Conclusions

Summing up, the speakers identified several lessons for corporates and startups innovating in retail:

1. Innovation is not a solitary activity: collaborate with other companies, sector partners or even firms from other industries to stimulate ideas.
2. Be transparent about what you want to achieve in a corporate - startup partnership: successful collaborations depend on trust and a mutual recognition of value. Without it, the project will struggle to get off the ground. This also means avoid trying to secure free pilots - they rarely if ever give projects the basis to succeed and scale.
3. Take (measured) risks: Be prepared to do the things at pace that need to be done.
4. Be prepared to embrace the difference: The startups may look, act and feel different, but for a corporate they commonly offer a much less risky route to attempting to innovate alone.
5. Partner with other corporates: While much emphasis is placed currently on startup collaboration, established retailers should also think about how they can work with other corporates to bring new dimensions to their propositions and market presence.
6. Be clear on the success factors: For the innovation project to be successfully integrated into the company and established as the 'business as usual' activity, make sure there are clear success factors that align with the strategic objectives of the company.

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About TLA Corporate Innovation

The Corporate Innovation Working Group, unites Tech London Advocates from industry, start-ups, academia, government and non-governmental organisations. Our mission is to make connections, create dialogue and generate ideas that will benefit business and promote the UK as a leader in corporate innovation.

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