

# The Path to the Store of the Future



**We all know** the retail industry is evolving—quickly. No one will argue with the fact that consumers have unprecedented choice, access and information and, as a result, are growing to expect more from their favorite retailers. Those retailers unable to keep up and add value through tailored products, localized assortments and a compelling in-store customer experience are rapidly losing relevance.

But what is definitely up for debate is how to bring those lagging stores back to life, and how to sustain the success of current winners.

What will the store of the future look like? Quite frankly, we don't exactly know. The pace of technological, demographic and behavioral evolution is accelerating so quickly that anyone who pretends to know may soon realize the answer has already changed.

But what is certain is that organizations equipped with a process which enables constant innovation will be best positioned for success, no matter what the future holds. At the risk of being cliché, it's not about the destination; it's about the journey.

According to recent Kurt Salmon interviews with 25 top-level executives from across retail segments, the problem is that 56% of retailers have no formal process for innovating stores, and even those who do say the process is slow and inconsistent. What's the hang-up?

For one, most retailers don't have an organizational structure that lends itself to creating a rigorous, continuous in-store innovation process. To make matters worse, 52% don't even have an organization-wide definition of what exactly "customer experience" means. And 68% don't have a single owner across channels and functions, which makes it difficult to ensure a consistent experience and balance conflicts of interest between functional groups.

And, of course, innovating takes so much time today that some ideas are outdated by the time they hit the market. In some instances, we found it took retailers as long as four years to develop, test and ultimately roll out a single concept across their store network. And if a retailer isn't careful, the process can get pricey, especially when it comes to testing significant store design and technology changes.

Add to that the difficulty of measuring the true ROI or success of in-store changes, and it's easy to see why many retailers have had difficulty committing to a continuous in-store innovation process.

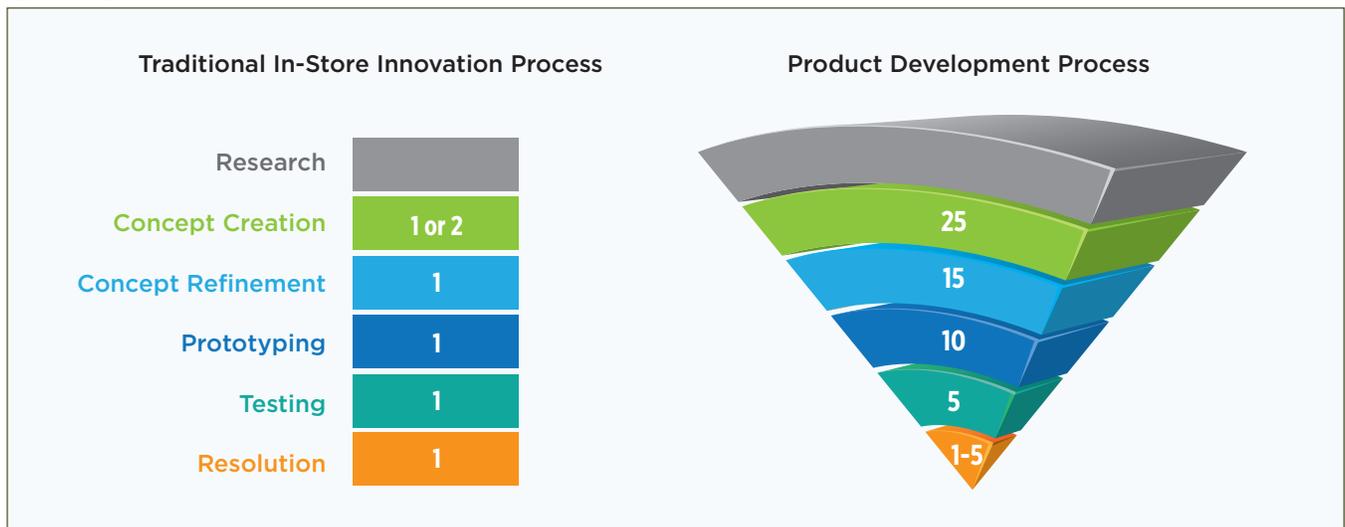
But surprisingly, many retailers already have the perfect blueprint for a rapid and effective innovation process—in their product development groups.

It's safe to say that many consumer products companies have innovation down pat. In fact, of the top 50 companies on *Forbes'* "World's Most Innovative Companies" list, 21 are consumer products companies, while only five are retailers (and of those five, three—Hershey's, Estée Lauder and Apple—were consumer products companies before they were retailers). And as more and more consumer products companies start to open their own retail stores, traditional brick-and-mortar players have to step up their game.

What's the difference? Many retailers are currently taking a linear approach to innovating the in-store experience, starting with one idea—potentially straight from the CEO's mouth—and moving that idea all the way to implementation. But that approach runs the risk that the idea ultimately implemented may not be the absolute best, losing time and money on the implementation and further degrading the retailer's customer experience relative to more sophisticated competitors.

Instead, product developers start with 25 or more ideas—informed by customer and employee insights, larger industry trends and a strong sense of the brand vision

## EXHIBIT 1



*Successful retail innovators will identify a cross-channel customer experience owner, build a continuous innovation process, evolve how they measure success and dedicate ongoing funding specifically to customer experience innovation.*

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and narrow down from there in a very formalized, rigorous process designed to identify the winning idea and weed out the rest. (See Exhibit 1.)

Seven key characteristics make the product developer's approach to in-store innovation successful.

**Founded in insights.** Product developers tend to have a far more robust process for incorporating consumer and employee insights and broader industry trends into the ideation process versus the rest of the retail organization. Many retailers are starting to tackle this problem by creating a central analytics or customer insights group that is responsible for gathering and standardizing customer insights and communicating them out to the larger organization.

But beyond numbers on a page, leading retailers are taking advantage of new technology to help bring consumer research to life. For example, one specialty apparel retailer employed its ongoing dialog with customers through its social media sites to gather input and insights on products and colors it will use in its fall line. A cosmetics retailer holds virtual brainstorming sessions with its consumers to think of new ideas.

**Filtered by the brand.** Of course, consumer, employee and market insights are incredibly powerful tools for creating compelling in-store experiences. But any in-store experience ultimately has to be true to a retailer's brand. Think of the brand as a lens through which any idea should be viewed and evaluated. Whether this step is entrusted to a visionary like Steve Jobs or a CMO with fierce dedication to the brand's core values, it's essential to ensuring that any new innovation is aligned with the overall brand and business vision.

**Systematic.** Leading innovation processes cover not only the in-store experience, but the entire organization beyond the four walls of the store. Consider: How will the suggested in-store innovations impact the customer experience in other channels? What about product and merchandising decisions? Inventory strategy?

**Continuous.** No one really knows when a new disruptive technology will come along or consumer behaviors will suddenly shift, so a continuous innovation process will minimize a retailer's risk of getting left behind. Constant innovation means always having another 20

to 30 ideas ready to discuss—and another one or two being tested—as any given innovation is being rolled out. Or it allows for one innovative idea that has already been deployed to be further developed and enhanced.

**Fast and efficient.** Even the most innovative change will become obsolete if it takes four years to roll it out. And even the best idea will fail to make it to implementation if it's prohibitively expensive to test. This is especially important for any ideas that ultimately fail. For every great idea, there are bound to be 20 bad ones, and by failing fast and failing cheaply, retailers will be able to move on to the great one more rapidly.

**Managed by one consistent owner.** It's imperative to have one person guiding ideas through the process with an overarching vision for the retailer's brand and what the retailer is trying to achieve. As mentioned, many retailers have different owners for their stores and their online presence, which makes it difficult to keep the experience consistent across channels. And for the majority of retailers, innovating the in-store experience has become something like a tug-of-war between marketing, store operations, IT and customer insights, with no overarching leader or vision.

Based on our interviews, we found the best practice is C-level visibility and ultimate ownership, because the magnitude of change and resources required necessitate support from the highest levels of the organization. But this leader must tightly collaborate on research, pilots and findings with marketing, analytics and store teams.

Several retailers mentioned the structural challenges of historical P&L and organizational reporting makeup when innovating the in-store experience. Depending on how channel sales and promotional costs are credited and owned, retailers may find nonintuitive internal resistance to changes that will benefit the customer and retailer as a whole but that may be perceived as counter to existing reporting and measures (like store credit for online sales). Working through these roadblocks requires strong cross-functional senior leadership to envision and lead change.

One owner also means one dedicated budget. Most retailers we interviewed said their organizations lacked a dedicated budget for ongoing customer experience innovation and that innovations were often conceived,

piloted and deployed as standalone efforts requiring individual ROIs. But the best practice is to have consistent funding dedicated specifically to customer experience innovation to prevent innovative changes from getting sacrificed to ongoing store maintenance in an effort to cut costs.

**Rigorously measured.** Of course, even when a solid process is in place, correctly measuring and interpreting the results is essential to rolling out the best possible innovations. Retailers take a variety of approaches to measuring the ROI—and general success—of their in-store experience innovations.

- » **Sales lift.** Several retailers interviewed shared examples of 20% to 30% increases in store sales as a result of in-store changes. These included strategies using shopping theater (like a candy retailer installing a chocolate fountain) as well as new interactions to support personalized product purchases (such as skin product recommendations). Actual ROI measures tie to total sales through increased visit frequency, but more often, to higher conversion rate and basket size.
- » **Loyalty.** We found a wide spectrum of capability here—some retailers had very advanced loyalty programs while others struggled with both the proliferation of total programs available to the consumer as well as their own technical capability to support a proper program. But the successful group reported increases in purchase frequency and measurable revenue and profitability from their most loyal customers as a result of key in-store innovations.

- » **Consumer interaction time and frequency.** Several retailers shared examples of new experiences that increased customers' interaction with the product, led to more time spent in the store and inspired discussion outside of the store on social media platforms. While time and level of interaction are easier to measure online, these metrics also exist in a well-designed store experience and should be measured and improved upon when piloting.

What these varying metrics reveal is that ROI is tough to properly measure in traditional brick-and-mortar environments. While digital retail has taught us how to do modern split-testing, cohort and funnel analysis, the same ROI tools don't exist in the physical or omnichannel world—yet. But continued maturation of technologies like video, behavior analytics and geofencing (creating a virtual fence around a set physical space to monitor movement near and within it) will make it increasingly easy to understand how consumers react to certain store experiences.

True, every retailer wants to know exactly how those experiences will look. But leading retailers are focusing less on the end and more on the means. Successful retail innovators will identify a cross-channel customer experience owner, build a continuous innovation process, evolve how they measure success and dedicate ongoing funding specifically to customer experience innovation. These steps will ensure that a retailer is efficient, responsive to demand and well-positioned for future success—regardless of the shape that future takes. ❖

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