AGILE RETAILING

NEW WAYS TO MANAGE UNCERTAINTY, DISRUPTION, AND INNOVATION

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Executive summary

The current pace of social, economic, technical, and environmental change appears likely to continue or accelerate nearly everywhere in the world. If adaptation is key to survival, retailers must strive to be ever more agile. But adaptation in response to change is defensive and reactive. The real opportunity for retailers of all sizes is to grow by leading innovation and causing disruption. This option is available even to the smallest of retailers, provided they have the right mindset and the know-how to do it.

By leading innovation and creating their own forms of disruption, two formerly small retailers have become giants of the global retail industry. Both Walmart and Amazon came out of nowhere, as all new companies do. Within the short span of a few decades, these highly disruptive companies turned the entire global retail industry on its head. Today they continue to disrupt each other, and other retailers scramble to adapt.

While Amazon and Walmart may be the world's biggest and best-known examples of retail innovation and disruption, they are certainly not alone. The global retail industry has a proud history of innovation and disruption that goes back more than 150 years in France, Germany, the United Kingdom, the United States, Canada, and many other countries.

In the past 25 years alone, The Limited in the United States applied Toyota's quick-response modular manufacturing process to reduce lead times from concept to market. Then Zara in Spain and H&M in Sweden rose to near-global prominence by perfecting the concept. They created fast fashion. Again in the United States, Victoria's Secret re-invented the foundation business by applying the methods of fragrance launches to introduce new bra collections.

Amazon continues to disrupt by using Big Data and statistical algorithms to build targeted promotions and suggest additional items to customers. Amazon is also re-inventing the retail supply chain with same-day delivery. And they are using locker boxes where customers can pick up deliveries at convenience stores.

Innovation and disruption are overused words, especially in the tech industries. Nevertheless, both elements are key to achieving breakthrough business growth in many industries. Both have the power to unseat corporate giants that neglect them. Innovation and disruption are every contender's surest path to achieving market leadership.

Fortunately, retailers of all sizes can lead their own forms of innovation and disruption, much as Amazon and Walmart have done. Smaller retailers can innovate and disrupt on a scale that's appropriate for their ambitions and means.

In 2001, several emerging methodologies of innovation began demonstrating their value in other industries. The main value of these methods is in reducing the costs and risks of innovation. The methods have since shown themselves to be equally suitable for use in companies ranging from startups to well-established enterprises.

By studying and appropriately modifying the methods of innovation, retailers of all sizes can innovate and disrupt at low risk with relatively small investments of money and resources. The biggest barriers to using these methods are the current limits to management thinking, lack of know-how, and resistance from established corporate cultures. These methods are not well known or widely practiced because until the past five years only a few business schools have taught them.

Introduction

This document is for management leaders in retail companies of all sizes around the world. It has three purposes:

- To suggest practical things retailers can do to lead innovation and create disruptions that establish new market leaders.
- To define agile retailing as a topic worthy of further exploration.
- To identify resources for further exploration of agile retailing.

What is agile retailing? Some consulting firms and technology vendors have suggested ways they can help make retailers more agile. Writers in the business and trade media have used the concept of "agile retail" to connect a handful of loosely related innovations, including pop-up stores, holiday stores, dark stores, crowdsourcing, crowd voting, subscription retailing, truck retailing, and others.

We at Columbus Consulting International propose a new definition. We suggest that agile retailing is *the combination of mindset, principles, process, methods, and tools that enhance a retailer's ability to lead change and adapt to it.*

As agile retailing becomes better established, we believe it will borrow heavily from the emerging body of techniques for managing entrepreneurship and business innovation. The challenges are similar whether your goal is to increase agility, innovation, creativity, or entrepreneurship. For each goal, managers must decide and act amid uncertainty and risk. They must overcome institutional resistance to change.

Our thinking about agile retailing owes much to ideas and approaches first explored in the growing volume of literature on agile software development, design thinking, and lean startups.

This document begins what we expect to be further explorations of related ideas.

Whether you're driven more to achieve the great benefits of agility or to avoid the big risks of not being agile enough, we hope you'll find value in the pages that follow.

Change and uncertainty drive the need for agility

As consumers' buying behavior has changed in the past 20 years, retailers have scrambled to respond fast enough. Figure 1 shows some of the technical changes that have influenced consumers' behavior since 1990.

Figure 1. Changes affecting consumer buyer behavior since 1990

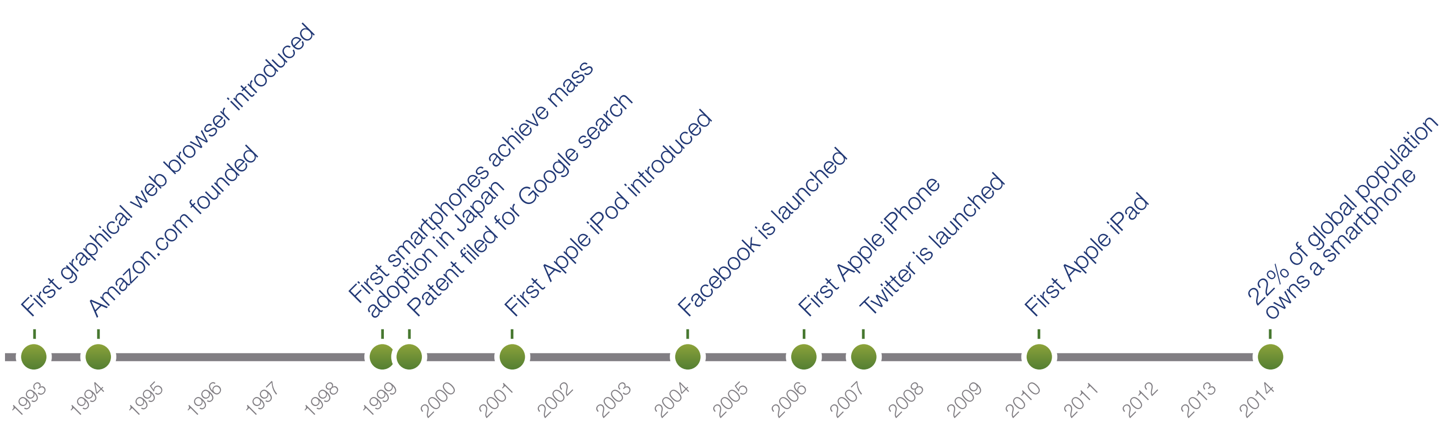
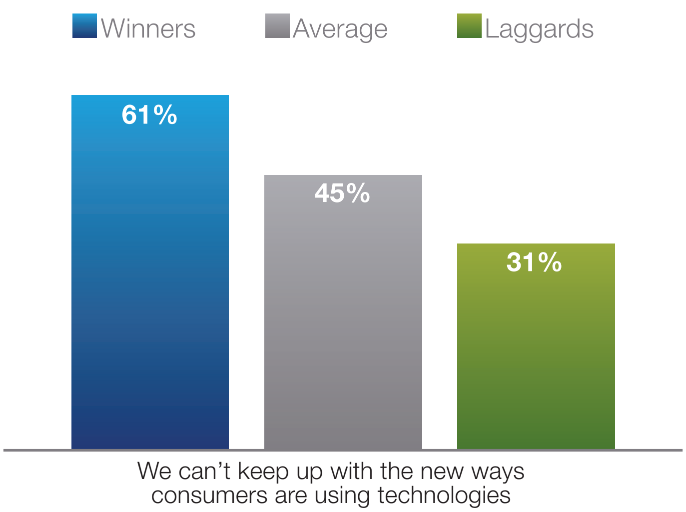


Figure 2 shows the percentage of U.S. retailers who said in 2014 they can't keep up with the new ways consumers are using technologies. Note that the more successful retailers (called "winners" in the figure) are more likely to say they can't keep up. The less successful companies (called "average" and "laggards") were more confident. Maybe winners know more or have higher expectations.

Figure 2. Marketing Challenges for big retailers in 2013



Source: RSR Research. "Retail Marketing 2013: Organizational Drift." RSR conducted the survey online from May to July 2013. The percentages represent 122 qualified respondents from companies with more than $1 billion in revenue in 2011. Seventy percent of the respondents were from U.S. companies.

Considering the fast introduction and consumer adoption of such changes, it's reasonable to think the disruption of buyer behavior is likely to continue.

Retailers face at least three kinds of uncertainty:

- **Demand uncertainty** makes it hard to know whether customers will buy their products or services.
- **Technical uncertainty** makes it hard for retailers to know if new developments will disrupt their current offerings and if they can create appealing new ones.
- **Environmental uncertainty** relates to the macroeconomic environment in which retailers operate (including social, demographic, political, and regulatory factors).

Agility is more important than foresight

In the 1970s and '80s, futurists Alvin Toffler, John Naisbitt and others warned business leaders to anticipate a future that brings change at an accelerating pace. Although their predictions were often right, futurists missed some of the most consequential changes of all—including the fast growth and global influence of the Internet.

The recent past is often our best indicator of things soon to come. But current trends often mislead us about the future. Considering how hard it is to predict the future, agility offers a more reliable way to mitigate disruption. Better still, agility enables retailers to profit by initiating disruptions of their own design.

Agility requires different management skills

Many retailers have succeeded by optimizing their business for efficiency and scale. Big-box chains and mass merchants flourished in the 1980s and '90s by leveraging such economies. Yet retailers like Walmart and Tesco, for all their relentless efficiencies, lost market share by responding too slowly to the threat of Amazon.com and the likes of Aldi and Lidl, two German chains that between them operate nearly 20,000 discount supermarkets. You needn't look far to see many other examples of seemingly invincible retailers who lost ground in markets that changed faster than they did.

Efficient retailers enjoy a competitive advantage in price-competitive markets. But in response to some disruptions, agility may offer more advantage than efficiency does. To be more agile, some retailers must rethink the tradeoffs between efficiency and flexibility.

Scientific management principles taught in traditional business schools are appropriate for addressing well-defined challenges in stable environments. Despite the many benefits of sound business planning, it's of little use when uncertainty is high and outcomes are hard to predict. In such situations, managers need a different set of skills and techniques.

Agility is a matter of degree

Some industry veterans say retailers are already agile. Successful retailers, they say, have always been quick to respond to the changing desires of their customers.

The important question is not whether retailers are innately agile, but rather whether individual retailers are agile enough to adapt to the kinds of disruptions they face. The choice is stark: To disrupt or be disrupted.

Can retailers be too agile? Maybe in theory. But it's hard to think of a single example.

Bigger, older retailers face special challenges

Bigger, more mature retailers may have to work harder at being agile. They've invested heavily in the status quo. They own many physical assets and have well-established processes and systems. Physical assets, processes, systems, and culture are often slow to change.

Big, mature retailers, like any other successful business, face what Clayton Christiansen calls "the innovator's dilemma." With maturity, most organizations become reluctant to innovate in ways that may rock their own boat. They don't want to change the business model that made them successful. It's hard for them to retrench. Even so, a few big retailers with well-established processes and systems have stayed innovative and adaptable. They've done so because their company culture values agility. Amazon is a great example.

Another notably agile big retailer is NEXT. The 30-year-old British company built its core business by developing its own branded products. NEXT sells these products in about 550 apparel and home stores in the UK and Eire. It also operates a NEXT-branded ecommerce business that serves customers in 70 countries.

The company generates about £3.7 billion (or USD$4 billion) in annual revenue. NEXT recently displayed its adaptability—and its willingness to disrupt its own business—by launching a new online store called Label. The Label site offers major designer and fashion brands for men, women, and children. NEXT's strategic goal was to compete with ASOS, another British online retailer that also sells fashion brands for men and women. If Label's growth cannibalizes revenue of the NEXT site, so be it. Better to lose sales to one's own operation than to a competitor.

What you can do now

To begin making your retail organization more agile, we suggest five steps you can take immediately:

1. **Evaluate your potential vulnerabilities.**

   If your company has a Risk Management group, they've already assessed corporate risk from the perspective of audit, finance, governance, and compliance. Your goal, in contrast, is not to find and plug leaks in the hull of your boat, but rather to make the boat more maneuverable, flexible, and resilient.

   If you've already analyzed your company's strengths, weaknesses, opportunities, and threats, we suggest you perform similar analysis for business functions or groups within your company—including Merchandising, Planning, Supply Chain, Marketing, Store Operations, Information Technology, and so on.

2. **Assess which factors are most likely to prevent you from adapting.**

   Your company's agility is likely to vary with these factors:

   - Revenue and financial strength
   - Markets served (including geography and demographics)
   - Types of merchandise sold
   - Physical assets (stores, distribution centers, inventory)
   - Reach, complexity, and rigidity of supply chains.
   - Time to market

   It's also likely to depend on these factors:

   - Company culture
   - Branding
   - Business processes
   - Technical capability
   - Relationships with customers
   - Relationships with suppliers

   Evaluate your business processes and systems for flexibility and agility versus efficiency and scale. Look for ways to be more agile in every key facet or function of your business, including Store Operations, Merchandising, Buying, Planning, Sourcing, Design, Ecommerce, Marketing, Sales, Supply Chain, Information Technology, and even Accounting and Finance.

   Consider where and how you might optimize for flexibility and agility rather than efficiency.

3. **Identify the factors in your business you can change first.**

   To loosen constraints on your agility, what do you most need to change? Should you adjust your physical assets? Your markets or your relationships with customers? The kind of experience you provide to customers? Your business model? Your products or services? Your business processes? Your relationships with suppliers or service providers? Your internal organization? Your internal performance metrics and incentives?

4. **Consider ways to disrupt.**

   Identify areas of your business, however small, where you can change the rules of game.

5. **Identify the appropriate tools, principles and methodologies for the kinds of changes you've identified.**

   When your goal is to improve efficiency or to scale some aspect of your business, the practices and techniques of scientific management are likely to produce the best results. In contrast, you'll need entirely different practices and methods for managing uncertainty and disruption. You can dramatically reduce risk by studying and adapting the principles and tools for innovation and lean startups.

It's beyond the scope of this document to explain the principles of lean startups and innovation management. For more information, please see the sidebar on page 7 and the suggested reading list on page 10.

As you consider the cost of agility and the effort it takes to achieve it, remember that the cost of standing pat is always higher.

Quick tips for agile retailing

1. **Improve your decision-making processes.**

   In traditional management, executives make decisions based on experience and data. But data is hard to come by in situations of uncertainty. When circumstances require unfamiliar responses, executives must shift from making decisions to asking the right questions. They can encourage teams to find answers through "fast and frugal" experiments.

2. **Build diverse teams.**

   To improve efficiency or to scale operations fast, you'll probably achieve best results with a team of specialists and experts. But to find new and innovative solutions, you'll do better with a highly diverse team of people who don't necessarily know much about established ways to address the challenges you face.

   To increase innovation, cross-pollinate. Hire people with varied backgrounds and different cultural perspectives. Bring in people from outside your industry. Study how organizations other than retailers have solved related problems. Get dissimilar people working together. Establish small, cross-functional ad hoc teams.

3. **Get closer to customers.**

   The lean startup methodology offers many new tools and techniques for getting to know your customers better. Use of focus groups and survey research is not among the recommended methods.

   To improve knowledge of your customers, work like cultural anthropologists. For example, a department-store retailer might require 20- and 30-something merchants, buyers, planners, and designers to spend time face-to-face with female customers older than 40. Buyers and designers might also spend time meeting directly with important ethnic groups who are unfamiliar to them. Find out what these customers like and don't like about shopping. Uncover their desires and frustrations.

4. **Get out of the office.**

   In situations of uncertainty, you won't find answers or solutions within your four walls. Nor are you likely to get the information you need by interviewing people by phone. You have to get out and meet your customers where they live and shop. Talk to people on the front lines. Visit directly with store associates, not just regional managers. Reach beyond your flagship stores. Visit the boondocks.

5. **Start small. Use prototypes to test ideas. Iterate fast.**

   Don't worry about getting things perfect initially. Test ideas that are "good enough." Be prepared to make and tolerate mistakes. The key is to keep your mistakes small. Commit to continuous improvement. Plan to make it better next time, after you're sure you know what your customers want.

6. **Place many small bets.**

   Rather than waiting for managers to feel confident they've chosen the one best approach, try a few small, low-cost alternatives at the same time. Gather data from tests and scale the ones that produce the best results.

7. **Look everywhere for ideas and solutions.**

   Some of the most innovative ideas and solutions are likely to come from outside your discipline, or even from outside the retail industry.

   If you work for a big company, look for ideas in smaller companies. Also look to retailers in other geographies or other lines of business. Find inspiration in entirely different industries or different kinds of organizations, including, for example, well-run military forces.

   Read widely. Study business history, not just the history of retailing. Read biographies of inventors and innovators. Also look to the sciences—especially the life sciences, the social sciences, and psychology.

Summary and conclusions

Elevated levels of uncertainty and disruption are likely to affect the retail industry indefinitely. In this environment, agility can be as important as efficiency and economies of scale—sometimes more so.

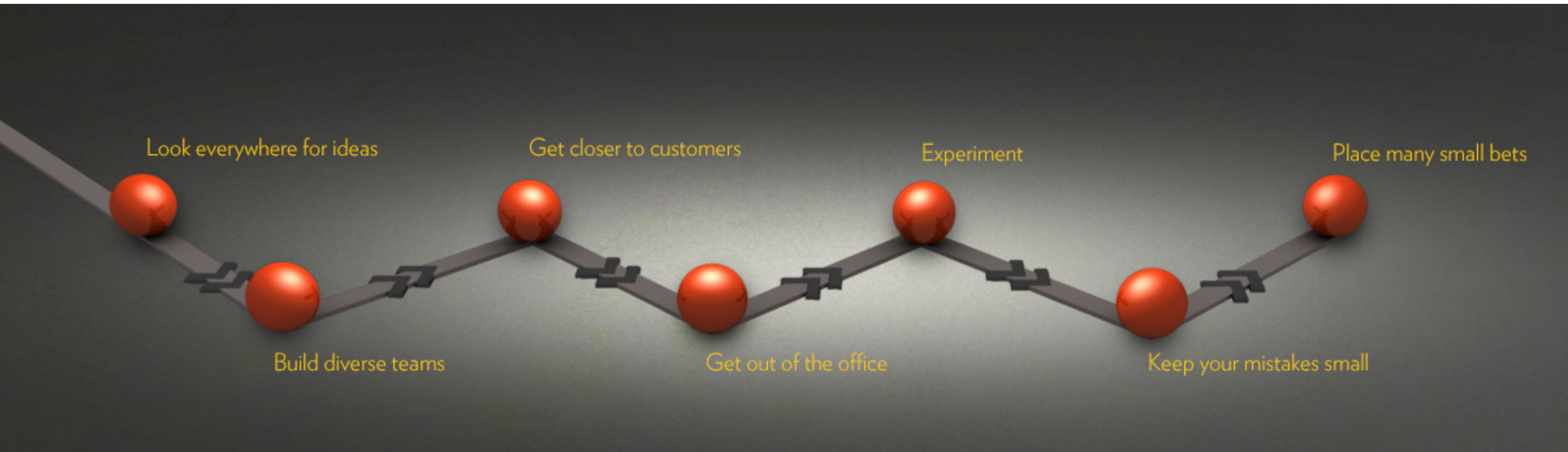
How agile must retailers be? That depends on the uncertainties and disruptions each faces. Agile adaptation is a defensive strategy, but agile innovation is aggressive. Rather than scrambling only to accommodate change, retailers of all sizes can initiate their own disruptions.

While innovation and disruption can move retailers toward industry leadership, they often increase risk unless companies manage them appropriately. Companies that manage innovation and disruption with the right tools and techniques can achieve big gains with much less risk.

For many retail challenges, traditional management techniques are most appropriate. The practices taught in most business schools work best when the environment is well known and stable. But in conditions of uncertainty and disruption, a newer and very different set of management processes and techniques is more likely to succeed. They include the emerging practices, principles, tools, and methodologies other industries have developed to manage innovation and entrepreneurship. Most business schools don't teach these practices, so they aren't widely known in established companies outside the technology industries. But the practices are worthwhile for all retailers to explore.

To discover more ideas that can help retailers increase their agility, we suggest these additional resources from Columbus Consulting International:

- "Multi-channel Retailing in Six Steps" http://www.columbusconsulting.com/omni-channel-retailing-in-6-steps/
- "Executive Guide to Achieving Faster Product Development: How Apparel Retailers Can Benefit from Integrating Assortment Planning and Product Lifecycle Management." http://www.columbusconsulting.com/faster-product-development/
- For notification when more content is available on agile retailing, please go here: http://www.columbusconsulting.com/agile-retailing/



About the authors

Richard Pedott is a Partner at Columbus Consulting International. He has more than 25 years of experience across multiple functional disciplines, including Planning, Sourcing, Supply Chain, and Store Operations. Rich has led initiatives focused on strategy, process, and systems development at leading US and international retailers. His additional areas of expertise include Omni-channel Retailing, Assortment Planning, Merchandise Planning, and Product Lifecycle Management. Before joining Columbus, Rich held senior leadership positions at several leading retailers.

Dave Vranicar is a writer and consultant who has worked with the retail industry for more than 25 years. He writes about retailing, supply chain, energy management, sustainability, innovation, and marketing.

About Columbus Consulting

Columbus Consulting comprises a team of highly experienced specialists in retail systems and processes.

- We combine pragmatism, innovation, and years of experience to deliver services ranging from strategic insight to tactical project delivery.
- Our experience stems from holding executive responsibility in retail, and from successfully managing some of the most challenging projects in the industry.

While we are adept at virtually all aspects of retail operations, our core strengths lie in the following:

- Planning, Assortment Planning, Allocation, and Replenishment
- Data Warehousing (business intelligence)
- Product Development and Sourcing
- IT Strategy, PMO, Mergers and Acquisitions, and Interim CIO services

Suggested reading

Blank, Steve. Dorf, Bob. *The Startup Owner's Manual: A Step-by-Step Guide for Building a Great Company.* Pescadero, California: K&S Ranch Press, 2012.

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