

Innovating for stronger growth

How retail and consumer leaders use innovation to drive business success

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Among today's connected consumers, tastes and preferences seem to shift at supersonic speeds. Innovation plays a crucial role in staying ahead of customer trends and driving growth.

Most of the 266 retail and consumer executives interviewed in PwC's Global Innovation Survey 2013 bank on innovation for business success today, and more say it will be increasingly important over the next five years.¹ These assumptions are on target: We found a clear correlation between innovation and revenue growth. Over the past three years, for instance, the most innovative companies grew faster than the least innovative. And during the next five years, innovation leaders predict their growth rate will be more than double that of the average for retail and consumer goods companies. (Figure 1)

Harnessing the power of innovation demands a strategy that is aligned with business goals. We found, for example, that 78% of the most innovative retail and consumer companies have a well-defined innovation strategy compared with only 47% of the least innovative firms.

In today's hypercompetitive business arena, an effective innovation strategy is every bit as important as a well-crafted business strategy. A solid innovation strategy aligns teams and helps companies more efficiently and rapidly take ideas to successful commercial reality. It also allows the company to navigate rapid changes in consumer demand and effectively leverage the potential of multichannel retailing.

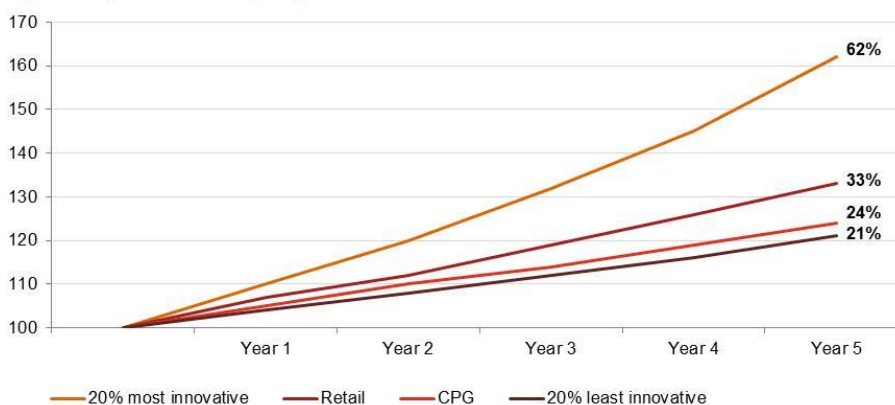
This lesson is not lost on consumer goods companies. About three quarters (74%) of consumer goods respondents say they have a solid strategy for innovation. Retailers have some catching up to do, however: Only 61% of retail respondents report they have a clear strategy.

Without a sound strategy for innovation, retailers may be hard-pressed to understand what customers want and to keep up with rapidly changing consumer trends. Consider, for instance, the

pace of the fast fashion segment. Seasonal shows dictate styles that clothing manufacturers produce and ship to retailers in a matter of months. Retailers, in turn, must have the right assortment mix at the right stores at the right time. Some have adopted strategies that center on assortment planning technologies and analytics to ensure that an appropriate mix and quantity of inventory is on hand. This enables them to innovate by getting in front of trends.

An effective strategy also will help balance the types of innovation a company pursues. When asked to name their top innovation priorities, CPG executives most often cited product innovation while retailers emphasized service innovation. These answers make sense for their businesses, but leading companies have a balanced portfolio of innovation that also includes technology, business models, the supply chain, and customer experience. These companies also review their strategy periodically to ensure that it is working.

Figure 1: Top innovators expect to grow much faster



¹ PwC, *Unleashing the Power of Innovation*, 2013

While retail and consumer companies have traditionally emphasized incremental innovation, we found that both retail and CPG companies predict more radical and breakthrough innovations in nearly all areas compared with the 20% least innovative group. (Figure 2)

Technology, systems and processes, and customer experience are the prime targets for breakthrough and radical innovations. Almost half (47%) of retailers are planning to achieve breakthrough and radical innovations in technology. This reflects a major shift to a multichannel retail experience that encompasses a variety of shopping platforms such as the Web, smartphones and tablets, mobile apps, and social media.

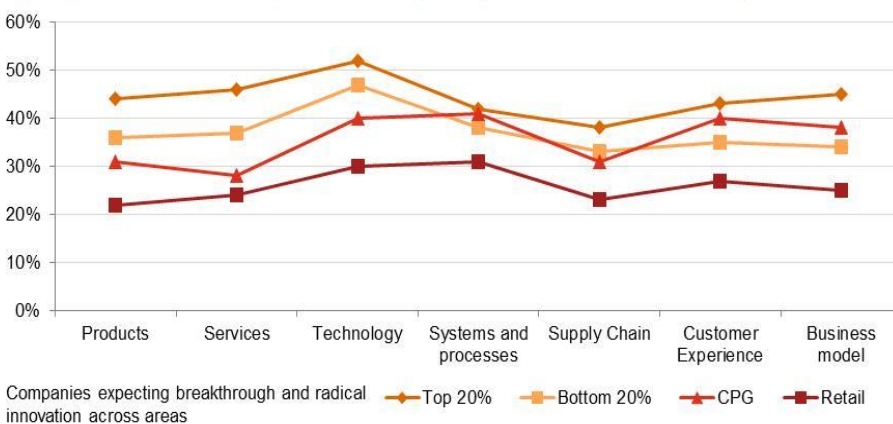
While slightly fewer (41%) CPG executives foresee significant innovations in technology; it is nonetheless a top category. The retail and consumer focus on technology is so intense that companies like Target, Walmart and Unilever have set up innovation centers in Silicon Valley to position themselves near the center of tech innovation and talent.²

Of course, the innovations extend beyond technology. We found that 43% of CPG companies expect breakthrough or radical innovation around systems and processes, slightly higher than retailers (37%). Significant innovation in customer experience is predicted by 41% of CPG respondents and 35% of retailers.

Business model innovation, which can lead to the creation of fresh and profitable services and solutions, is another growth area cited by more than one-third of respondents. For example, Walmart and other grocery retailers have expanded their pharmacy business to include clinical medical services. Similarly, Procter & Gamble's incubator, FutureWorks, recently launched Tide Dry Cleaners and Laundry, a franchise of retail outlets that combines a novel business model with a tried-and-true brand.

Some of the most effective innovations don't fit neatly into one category. Consider, for instance, the adoption of a private label strategy in which retailers market their own "store brand" to budget-minded shoppers. Equal parts product and business-model innovation, private labeling has become a powerful growth engine for a long list of retailers including Target, Walmart, and Walgreens. These companies have leveraged private labeling to drive growth and capture higher gross margins.

Figure 2: Retail & consumer companies are starting to target more radical and breakthrough innovation



² <http://www.digiday.com/brands/why-target-set-up-shop-in-silicon-valley>

Why innovation thrives on collaboration

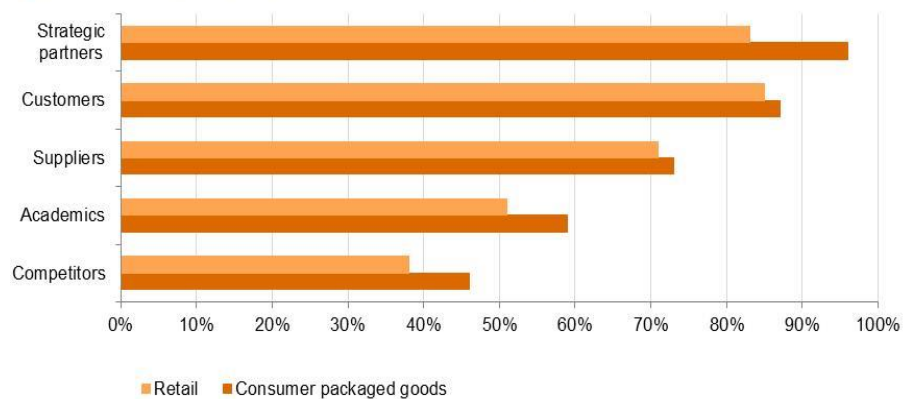
An innovation strategy is essential, but strategy alone cannot drive growth. Leaders understand that a culture of internal collaboration is critical to successfully realize the commercial potential of innovation. Real success demands that employees with a high innovation IQ collaborate with other talented individuals outside the corporate walls. A motto of successful innovators is that there are a billion IQ points outside your walls and connecting and collaborating with them improves innovation and delivers a major competitive advantage.

Our survey shows that the top 20% of innovators understand this—and they make it happen. Innovation leaders collaborate more than the average company across a mix of associates that includes strategic partners, customers, suppliers, academics, and even competitors. (Figure 3)

Open innovation—collaboration by internal company members with external partners—is the approach favored by executives to drive the most growth. An example comes from a joint venture between Procter & Gamble and the Clorox Company. The two companies combined R&D efforts to create a “game-changer” trash bag that includes chemical disinfectants to block odors.³

Another approach that is gaining favor among retailers in particular is one that gives individual employees the freedom to conduct their own innovation projects. In our survey, 25% of retail respondents have embraced this method of driving innovation.

Figure 3: Consumer packaged goods companies are more likely to collaborative with external sources



3 <http://investors.thecloroxcompany.com/releasedetail.cfm?releaseid=182697>

The freedom to innovate is a key attribute of an intrapreneurial culture. This type of highly collaborative environment fuses the passion and pace of entrepreneurs with the resources, technology, market savvy, and channel presence of an established company.

Social networking is becoming the communications conduit of collaborators. Leading innovators are leveraging social media to connect internal teams with external sources such as customers, partners, and supply chains.

Consumer social media sites can be especially useful for companies looking to communicate with a wide audience of consumers. We found that 67% of the most innovative companies (overall) use social media to collaborate externally. Among retail and consumer respondents, 57% of consumer goods respondents and 55% of retailers say they use social media to create open

innovation communities. More—68% of both consumer goods and retailer respondents—say they use unstructured forums on social media to drive innovation.

To be truly effective, companies should employ a formal strategy that ties the use of social media to business objectives. In this regard, retail and consumer companies have room for improvement. Less than half (49%) of consumer goods executives say their companies take a structured and disciplined approach to collecting and evaluating new ideas gleaned from social media, and only 39% of retail companies do so.

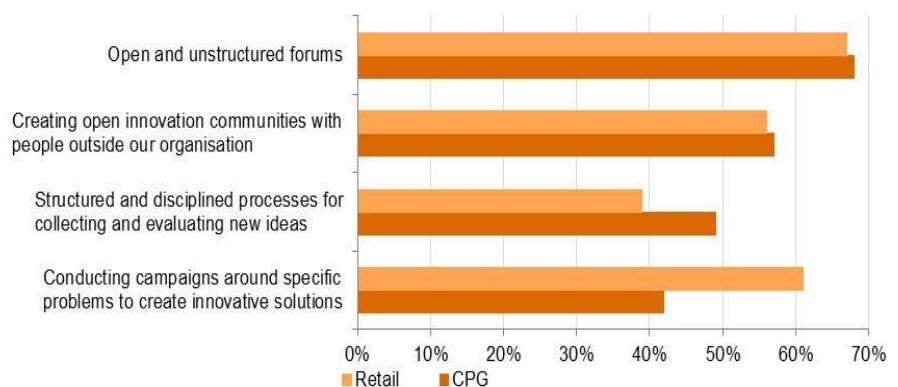
How to know if you are winning

As innovation portfolios diversify, metrics for breakthrough and radical innovations should reflect the new processes and types of value created.

An increased rate of profitable growth is the ultimate benchmark of successful innovation. Growth is a lagging indicator, however, and many companies want an ongoing method of measuring progress toward goals. Indeed, having the right metrics is a challenge cited by 48% of CPG executives and 44% of retail respondents. The most innovative companies are employing leading indicators to depict the success of innovation. Examples include measures like increased customer satisfaction associated with new offerings as well as process measures such as quantity and quality of ideas in the pipeline.

These indicators are critical not only to measuring success, but also to tracking failure. And as innovative leaders know, the lessons learned from both can be equally as valuable when it comes to driving future business success.

Figure 4: Retail and consumer companies are leveraging social media to create open forums and innovation communities outside the organization



Want to find out more?

For help and advice with your innovation strategy and process, please contact one of our innovation leaders.

Steven J. Barr

US Retail and Consumer Leader

Partner

(740) 485-2485

steven.j.barr@us.pwc.com

Robert Shelton

Global Innovation Strategy Leader

(408) 817-4251

rob.shelton@us.pwc.com

Kevin J. Schwartz

Principal

(415) 730-9760

kevin.j.schwartz@us.pwc.com

Lillian Borsa

US Retail and Consumer Risk Assurance Leader

Principal

(973) 236-4149

lillian.m.borsa@us.pwc.com

Barbra Bukovac

US Retail and Consumer Tax Leader

Partner

(312) 298-2563

barbra.bukovac@us.pwc.com

Bob Moncrieff

US Retail and Consumer Advisory Leader

Principal

(408) 817-4333

bob.moncrieff@us.pwc.com

Leanne Sardiga

US Retail and Consumer Deals Leader

Partner

(312) 298-3183

leanne.m.sardiga@us.pwc.com