SEMINAR

Digital Media innovation in Retail

"What trends using innovations in digital media are changing the retail sector?"

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TABLE OF CONTENT

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INTRODUCTION

In the summer of 2016 while I was on vacation in Stockholm I had the opportunity to visit the headquarters of a luxury fashion brand. Seeing a little bit of the creative process that goes into building a collection, the research that goes into choosing fabrics and such was a very neat experience. But the thing that stayed with me the most was the conversation I had over lunch with one of the employees on what was, according to her, the biggest change the company had made in a while. It had nothing to do with something obvious like adjusting steps in the design process or adding a line of products they were selling. Instead it was streamlining and making accessible already existing databases of information and adding webshop plugins on instore mobile devices, tablets, to be used by shop employees in easy to use ways.

Over the last couple of years I've read quite a few articles and attended a number of seminars touting this or that new technology, often as hyperbolically stated as possible, as the next new big thing that is stated totally going to change the way we shop (work and live) forever. But technologies such as the internet of things or virtual reality have been talked about for at least two decades and we've yet to see them really break into the mainstream in a big way. This while making a slight adjustment such as giving store personnel access to (already existing!) data on mobile devices is, anecdotally at least, apparently a big and positive change for a company.

This got me thinking about how and why some digital innovations work and why some don't. At first my plan was to perhaps look into a specific technology and its implementation but early on in my research, before forming a research question, what I found was that I missed a more broader understanding and overview on the subject matter that both looks into what trends and technologies are changing the way retail works right now and what factors make them work effectively, or why not. This seemed like useful information to know about in multiple aspects of the CMD workspace. What almost all of these new technologies and trends have in common is the need for communication products in different mediums to be able to function. You can't buy a product in an online store without a website or app to visit, and as such the field of digital innovation within world of retail seemed to me like a good subject to explore for a seminar.

"What trends using innovations in digital media are changing the retail sector?"

METHODOLOGY

Because of the exploratory nature of my research question and my previously stated desire to come to an overview of the subject matter, for this study I relied on desk and literature research combined with trend analysis. Due to the relative 'newness' of many of the mentioned technologies I found that there was a low amount of quantitative research projects in on and offline literature to do any form of statistical analysis on and thus I've had to rely on qualitative analysis on a case to case basis to verify my own findings.

RESEARCH QUESTIONS: WHY?

"What trends using innovations in digital media are changing the retail sector?"

Meriam-Webster defines retail as all transactions encompassing the sale of items in small quantities directly to the ultimate consumer and innovation as to introduce or affect change. To affect change in the way end consumers consume can be done in plenty of ways that do not involve digital media, nowadays for example conscious consuming of products made in a fair trade, recycled and/or animal cruelty-free way can demand a premium price on the market place because consumers find this important. While these kinds of innovations necessitate changes in messaging content, adapting the storytelling of a company to include these changes do only that: change the content. By limiting the analysis to looking only at situations involving trends in digital media not only the content of communication changes but also the form. Making use of a technology such as augmented reality requires a completely new set of design rules and vocabulary that is wholly divorced from changing just content. It gives more opportunity to truly innovate.

What was retail in the past like?
Looking at innovation in the field of retail before digital technology became available serves two functions: historical records give insight into general lessons to be learned from the past and close inspection of these fields where innovation was found before can point towards places where the likelihood of finding innovation now is higher.

What are the factors to successfully innovate using digital means?
This is a question to find out more about what makes certain innovations click with the general public and using the available information on the topic a framework consisting out of multiple factors that came back in literature often is discerned. By answering this question the framework can be used to analyse changes in the retail sector, telling us something about the expected success rate of a particular trend.

What has been going on with digital innovation recently?
Further research into the digital innovation of today, combining the knowledge of where to look gained by answering the first sub question and using the parameters in the sub-question gives insight into what technologies and trends are at forefront of innovation today.

Conclusion: What can retail innovations on the horizon tell us about general trends?
Looking to the future is taken as an opportunity to test the framework set out in the previous research question and to go a bit deeper into what the underlying trends are regardless of the technology used.

WHAT WAS RETAIL IN THE PAST LIKE?

The death of traditional retail?
Last year one of the common sights in Dutch city centres disappeared forever. V&D a Dutch department store plagued with many problems, filed for bankruptcy after many years of struggling. This was not a surprise to most consumers as the V&D seemed to have been stuck in the past. Everything from their product selection to their communication strategy didn't show much change over the years that they have been a part of the consumer's market. One of the reasons Dutch department store Vroom & Dreesman filed for bankruptcy in 2016 was their slow adoption of ecommerce. The company didn't open up their webshop until 2008, by which time most early adapters had already found other avenues to get the same types of goods that the store offered. Even though V&D had been a relatively trusted retailer, they were never able to overcome upstart internet department stores like bol.com and its rivals that had adapted to the growing e-commerce market for household products.

The Netherlands is not alone in this trend, in the United States of America in 2017 alone a record number of retailers are either downsizing or disappearing from the market. 2017 is shaping up to be an even worse year for many retailers then 2007/2008 during the start of the great recession.

Articles in a variety of publications claim that traditional retail must be dying, to be replaced by e-commerce giants like Bol.com or Amazon. This is not limited to just department stores as many sectors within retail have been hit. American fashion mainstay Abercrombie & Fitch: downsizing. Previous consumer electronics market leader RadioShack: bankrupt, among many others.

What actually ties all these companies together is that they are traditional retailers in every sense of the word, not all retailers are going through the same struggles there are retailers that are growing; a company like H&M is opening more stores instead of closing them. These are often stores that serve consumers in ways that they have gotten used to which are not offered by most of the retailers that are dealing with shrinkage, they got on board with new technologies at the right time.

A Look back in History
Back in the 19th century the media was equally concerned and infatuated by the innovation of its day; the department store. Back then the introduction of such big shopping centres within urban areas offering up until then what consumers considered to be unimaginable amounts of products in one place with new policies such as money back guarantees and set prices were revolutionary when compared to individually owned shops that usually only offered a fraction of these products. Which of course eventually led to…

At the same time another innovation was sweeping through the rural areas of these same countries. The introduction of mail order

catalogues. Mail order catalogues, books containing lists of products that could be ordered through the mail and delivered to your doorstep; e-commerce before e-commerce existed.
Both these innovations led to people writing about the supposed job loss due to smaller shops and door-to-door salesmen going out of work. Nothing could be further from the truth; to this day the biggest absolute and relative group of people working in the United States are people employed in the retail sector. Yes, certain businesses disappeared but others came in its place the same can be said for now or any other era between then and now and the innovations happening at that time. There are not many butchers or vegetable shops around as there used to be but these have been replaced and the same kind of products are broadly accessible through supermarkets (or depending on the country even hypermarkets).

Sizing up - Economy of Scale
Continuing on this trend companies have not only grown in shop-size but also in the amount of shops in total, within a given brand. Not only does this mean that consumers have the same products available to them in multiple places, but this also has an effect on the price point of a product as withdrawing scale companies are in a better position to bargain with their suppliers. This is referred to economy of scale in economics. Growth does not need to be organic, often times retailers grow by merging instead of opening new stores. A recent example of this is the merger between Ahold and Delhaize.
When it comes to the size of companies nowadays national borders are not of huge importance to the consumers. More often than not the same company offers the same product in most markets, with only slight influences by cultural and geographic differences between products. You are unlikely to find Western style bathing suits in shops located middle Eastern countries like Saudi Arabia.

Ecommerce
What is undoubtedly the biggest change in the retail landscape in this century is the introduction of retailing online, so called e-commerce. Not only does this make available products from the comfort of your own couch. It also does not matter where these products are located as nowadays they can be send from the other side of the world and arrive at your doorstep within a couple of days. A company such as Amazon is continuously innovating. Always adding new product categories and delivery options but also making developments in drone delivery and subscription services with many extras including next day delivery as well as books and their own streaming services.

Amazon Dash

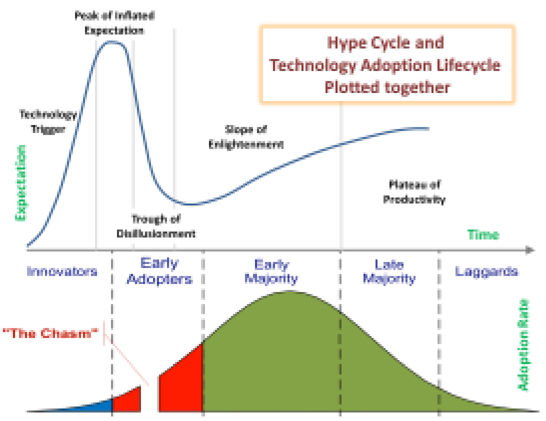
Specializing
Whereas Amazon has the widest range of products available, not all e-commerce is based upon this business plan. Another choice that can be made is concentrating on a niche, in other words focusing on a specialised product category being more knowledgably and providing more side services than Amazon has the availability to do so. Shops like these can be specialized sporting goods, board games and feminine hygiene products. These shops offer something Amazon and its competitors cannot offer or isn't successful in due to the lack of expertise. Therefore, even though these shops do not offer a wide range of products or in some cases the best price, they still have a huge potential to be a successful e-commerce shop.

Lessons from the past: Where to look?

From this it easy to discern to forms of companies that have the ability to innovate effectively. First of there is the **big companies** that have a lot of capital that they can invest in a **wide range** of innovations, not all of them have to be successful, if only a few of them pan out they might have a competitive advantage on their rivals. The other type of company that stands the game a lot from innovation are the **start-ups** as they have the **flexibility to pivot**; a small organisation makes it easier to be flexible. Moreover, these start-ups are usually **set up to make innovative** changes within the market. Digging a little deeper into what other factors are at play when looking at innovation there is a distinctive pattern that products that change, whether due to trends or other technological and other occurring changes come with more competitors and therefore change is inevitable. Consumers get used to changes they like, if a company doesn't offer something the consumer has gotten used to they will look for it elsewhere. Its Darwinism at play: **you evolve or you die**.

What are the factors to successfully innovate using digital means?

Technology
When looking at innovation one aspect to success is the adoption of new technology. There is a need to discern whether a subject matter is actually a new technology itself, or whether it's a trend based on existing technology or a combination of the aforementioned. More often than not fashionable phrases that get picked up by the media, for example omni channel retailing, is more a way to implement and combine existing technologies. When it comes to technology a sizable amount of the success can be a tribute to where this particular technology exists on the hype-cycle scale. Meaning that the most recent most publicized technology doesn't always make the revolutionary leap that was expected. Most impactful innovation happens when technology has already matured a bit.



Cost
Cost is a factor that is greatly linked with technology: without fail new technology is expensive. Over time production becomes cheaper as it becomes more efficient (many times economy of scale also plays a part in this, the bigger the factory the cheaper the individual production costs). Often times truly new things get settled with the inefficiencies of the old: a famous example comes from the time when the switch between steam and electrically powered factories were being made. For a time, the original setup of the factories was kept. While this was unnecessary and took up a lot of valuable space within these factories as steam powered machinery required a substantial amount of space. Only after these inefficiencies were pointed out did factories change. This still happened at a slow space as people were used to working in a certain way and were averse to change.

Ease of Use
The way ease of use works is two-fold. First of there needs to be an established language (which can mean an actual language in words, gestures or symbols). Secondly the familiarity you have with this language is important. These two things usually are quite in sync, but as in most things this is not necessarily the case. Looking at for example the development of early websites; at first there was no set language, however quickly unwritten universal standards started to appear. Due to technological limitations and the fact that these were iterative, this language was not entirely logical and in modern web-design some of these idiosyncrasies have been fixed and/or improved. Many users however were fluent in the weird ways the web worked, and now have to unlearn certain aspects to get used to the way the 'new' things are now.

(Perceived) Safety
Safety is a tricky concept, there is a huge difference between the perception of risk that comes with something being new and circumstances in which something that is not actually safe is seen as highly safe just because there are familiar elements. An example of this being the use of Facebook logins for apps where an otherwise unsafe app is given an air of respectability because you can log in through Facebook, thereby automatically giving this app and the company behind this information which you might not want to share with them, or are unaware of the fact that you are sharing this information with them.

Some ways consumers look at these are actually more forms of perceived safety then actual safety from harm. And it works both ways; some activities are safer than the average user perceives them as. Through these ways ease of use and (perceived) safety are highly intertwined, something that is easy to use is commonly perceived as safe because it is often part of your routine.

Nudging versus Pushing
In essence this is the difference between small incremental steps and having to jump a great distance at once: people do not like change. Human beings are creatures of habit and do not necessarily have the intrinsic desire to change the way they do things. Especially when it comes to a thing such as consuming goods. Because above all else in this activity things needs to be easy, remember the old adage: customer is king. Ordering products from online sources is now seen as safe, easy and reliable. Arranging banking or ordering through mobile devices was not always seen as safe and now most of us have our bank accounts linked to our mobile devices and implement these services in our daily routines. This wasn't always the case but bit by bit we've gotten used to these things being available. It therefore shows that familiarity breeds investment.

Hybrid/Integration
Just as most of these factors are connected in one way or another technologies and trends get combined all the time. Using one thing to piggyback on the other helps integrating this new product or service while still feeling familiar to the consumer. For example, instead of using a totally augmented reality based on payment environment products that use augmented reality as part of their sales process, they choose to keep more traditional web shop elements as part of their shopping experience process.

WHAT HAS BEEN GOING ON WITH DIGITAL INNOVATION RECENTLY?

Building upon insights gained through the first sub-question, it was determined that product categories with quick changing products are likely to see the most innovation. To this end two categories have been selected to elaborate on and within these categories two kinds of companies have also been selected; one being a market leader within the category and one being a start-up.

Groceries

Albert Heijn
As market leader in the Netherlands Albert Heijn has long been seen as a big innovator in the supermarket industry. In 2014, Albert Heijn was the only Dutch retailer which placed within the top 50 of strongest retail brands. Taking the 26th place in the Interbrand retail ratings.
With a big amount of capital to spend on innovation Albert Heijn was the first grocer to offer home delivery in the Netherlands. AH is always experimenting with new ways to change and improve the shopping experience for their consumers. In the recent past they have implemented self-scanning devices as well as digital shopping lists that take into account the layout of the local Albert Heijn when it comes to product placement.
Not everything they try ends up succeeding, recent testing with self-scanning using mobile devices were so far deemed unsatisfactory, but because of the enormous cash reserves the risks the company is under are low.

Picnic
Picnic picks up where Albert Heijn leaves off. Even though Albert Heijn was the first to introduce getting your groceries delivered to your doorstep. The level of entry for Albert Heijn is high, to get groceries delivered you need to spend an amount that adds up to at least 75 euro's. Whereas while ordering through Picnic's services the minimum amount required is 25 euro's. Moreover, the pricing of the products in the Picnic app started off at a relatively cheaper price point (in the beginning Albert offered mostly A-list brands). Only introducing its other products at a later stage. These factors have all helped Picnic secure a 100 million euro's investment for the coming years. Right now, picnic only delivers in a selected amount of cities however, this is due to change as new cities are added at a fast pace. The idea of having groceries delivered seemed as a foreign concept as recent as a decade ago, when Albert Heijn started, but with the amount of online ordering increasing at an exponential rate has normalised in society, bol.com has nudged us towards accepting picnic as something 'normal'.

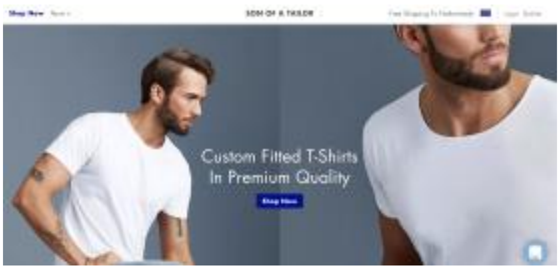
Fashion

ASOS

Was founded in the year 2000 and offers trendy clothing at an even faster rate than fast fashion outlets such as H&M and Zara do, in Brick and mortar and online shops. Due to the fact that ASOS has no stores to maintain, the company is free to experiment in certain ways. Currently they've added lines of clothing for both tall and plus(size) consumers, in the same styles as their regular sized items. Innovation like this would not be possible if they had limited amounts of space in stores for their products such as H&M has. With only distribution centres to worry about space is much less of an issue, literally, and therefore ASOS can serve an underserved target audience.

Son of a tailor

On the other side of the divide when it comes to fashion start-up 'son of a tailor' is making waves. They have only one product; a t-shirt which is tailored exactly to your size and is customized to your liking. While a product like this is certainly a possibility before e-commerce, it would have been an extremely niche product and administratively hard to keep up with. Nowadays with our kinds of databases and easy to use user's interfaces it is possible to sell to a large enough niche worldwide, at a low enough price point to make a concept like this feasible financially.



What can retail innovations on the horizon tell us about general trends?

Using your mobile phone to purchase things has become commonplace in our society but using other technologies such as virtual reality or augmented reality are not mainstream yet, and for familiar factors: costly, not easy enough to use yet for the layman and not safe. This hasn't stopped retailers from already experimenting with these things though. They might lack current usability for a broad audience and profitability, but what these technologies make possible do point to certain trends retail is heading to.

One 2017 buzzword is Omni Channel retailing, which comes down to being able to go from platform to platform in a **seamless transition** selecting the way you want to shop (mail or pickup? App, website or store?). AH is already investing in this trend by offering self scanners so you can skip lines and Amazon is willing to go even one step further: their proposed 'Go' concept only requires you to scan your payment method and scanners will pick up what items you take from their supermarket.

Another way to go is **individualisation** of products. No longer are consumers stuck with prefab products. Son of a tailor makes custom t-shirts, furniture maker Tylko offers an augmented reality app in which you can customise an ikea style bookcase. If every person is a snowflake why not the products they use?

All of the trends mentioned in this report in some way involve **data gathering** – the aforementioned amazon Go uses use advance surveillance for example and anything you do online you can be sure of is being monitored. The retailer that knows most about their clients can serve them the best.

This massive amount of data helps with the **personalization of experience**. Retailers want to make their client feel special, like they know them better then their competitor. Imagine a boutique where based on previous purchases and (online) browsing employees can suggest the perfect item.

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