

Innovation Labs Help Retailers Keep Pace With **Industry Shifts**

The pace of change within the retail industry is accelerating and shows no signs of slowing down.

Some businesses are struggling to keep pace with new consumer trends and other disruptive forces. In fact, 45% of retailers say consumers' purchasing behaviors are extremely unpredictable, albeit important to understand, according to [Retail Systems Research \(RSR\)](#).

"How, when and where people shop has changed, and retailers need to shift how they think about the overall shopping experience to meet consumer expectations and demands," said Kevin McKenzie, Global Chief Digital Officer at [Westfield Labs](#), the innovation lab for mall operator Westfield. "As we continue to see the physical and digital worlds blend, the focus of retail is going to become more about creating fully immersive shopping experiences that start at the point of consumer inspiration and need. We need to embrace the new shopper journey. Understanding the best ways to participate in that journey should be a key focus for retailers across the board."

Macy's, Neiman Marcus, Zappos and **Walmart** are among the growing list of retailers launching internal innovation labs. These labs feature dedicated tech teams and change agents who focus on understanding shifting customer preferences, investigating emerging

technologies and solutions, and implementing new strategies across channels.

Sephora is one retailer that recently announced the launch of its namesake innovation lab, which will "encompass both a physical space in San Francisco, as well as programs that foster the culture of innovation development and deployment, along with grooming Sephora's next generation of digital leaders," according to a company [announcement](#).

If set up correctly, innovation labs can be a "powerful way to spark a culture change and help retailers engage with customers in new and exciting ways," said Zichuan Xiong, Retail Design Principal at [ThoughtWorks Retail](#). Retailers with successful innovation labs can:

- Better prioritize innovation initiatives;
- Experiment with new ideas and enhance digital capabilities;
- Shift from a culture of legacy tactics to a more innovative, customer-centric mindset;
- Bring initiatives from idea to business impact; and
- Attract top digital talent and new skillsets.

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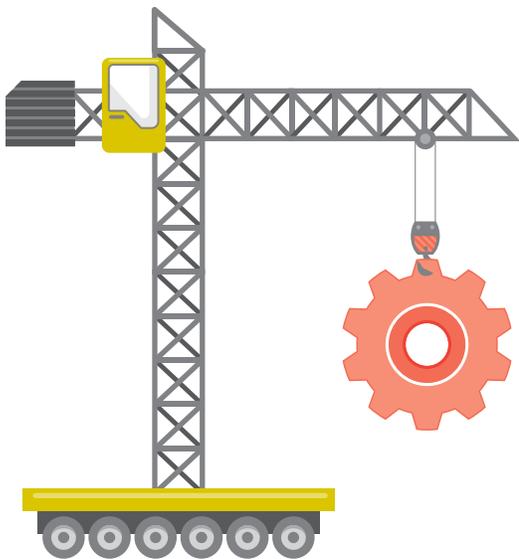


In this feature, industry experts will provide a series of tips, best practices and insights to help retailers at all phases of their innovation lab strategy see success.

Building A Foundation For Innovation

In order to stay relevant with today's highly connected and empowered consumers, retailers such as **Lowe's** and **Westfield** understand that they must innovate or risk falling behind. But to ensure time and money are spent wisely, retailers must develop a cohesive plan of what their innovation strategy will entail.

"We understand that we have to get ahead of the curve by building disruptive solutions for employees,



customers and the industry that they may never have imagined possible," explained Kyle Nel, Executive Director of [Lowe's Innovation Labs](#). For the home improvement retailer, it was imperative that its lab focused first and foremost on solving business problems across the entire organization. "We're focused on building and introducing technology that solves everyday challenges and creates a better experience for customers and our employees."

From there, businesses must determine whether it is more effective to build their lab internally; onboard strategic, third-party innovation labs; or implement a hybrid model of the two. They also must consider how many team members will encompass the innovation lab or division.

Westfield Labs, for one, decided to develop an internal lab with the Westfield San Francisco Centre and build a dedicated internal team.

This approach allows Westfield Labs "to observe and interact with our end customer, which not all labs are able to do as easily," McKenzie explained. "Our team can look out their windows or go on a short walk to see how our visitors are actually interacting with the environment, identify their pain points, and speak with our retailers about what they're seeing and what struggles they're facing."

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After the Westfield Labs team builds products and programs, “the next step is to pilot those products and programs to get actionable feedback that we can use to make the next version even better.”

Conversely, Lowe’s implemented a more hybrid approach that consists of an internal team and a strong network of external partners, thus combining a variety of perspectives, resources and skills.

“With an internal team, we’re co-creating new technology and contributing actionable insights and real business challenges,” Nel said. “We know our business better than anyone and want to introduce innovation that moves our business and industry forward. At the same time, we lack experience building new technology. That’s why we work alongside startups, universities, specialized professionals and others to rapidly prototype and test solutions.”

LESSONS FROM WESTFIELD INNOVATION LABS

Regardless of where retailers are in their innovation journey — whether they have a fully operating lab or are just thinking about one — Kevin McKenzie of Westfield Labs offered a few best practices to facilitate success:



Win buy-in from the top down: “CEO support is critical to nurture innovation centers. Innovation should be a top-down approach where the leadership team embraces and helps to foster a culture that supports innovation throughout the organization.”



Don’t push technology, just for technology sake: “Have a clear goal and strive to solve a key pain point. There’s no lack of ideas or opportunities, but it is important to keep focused and not just test flashy products or ideas without a clear plan and strategy.”



Embrace the on-demand revolution: “Shoppers will continue to embrace the ‘I Want What I Want When I Want It’ mentality, and the industry will need to evolve along with that sentiment. On-demand shopping experiences and streamlined shopping opportunities will be keys to success for any retailer.”

Internal Benefits From External Perspectives

Although a number of big-name retailers have developed internal innovation labs, sometimes it is more strategic to hire a third-party innovation lab or partner.

“Bringing a partner on board guarantees that they will try to cultivate top talent and, more importantly, will be exposed to other client projects,” explained Robert Berris, VP of Digital Strategy at [352 Inc.](#), a custom web development agency. “The insights, successes and failures from those projects will provide tremendous value to you. More importantly, it frees your team from the internal politics or territorial biases that can hinder internal innovation.”

Taking this approach also allows the internal retail team to focus on day-to-day obligations, while the

third-party lab partner focuses on forward-looking plans and strategic initiatives.

“A lab partner is going to have a sharper talent pool that can be laser-focused on establishing the core functions needed for the lab to be successful,” noted Samara Anderson, Director of Business Development at [redpepper](#).

Before retailers decide whether to bring their innovation initiatives in-house or find a partner, they must determine the pace at which they want to plan, test and roll out new projects, Berris said. “If a retailer feels like this is a smaller investment, an in-house team may not make sense if they are only focused on a few initiatives per year, which could be handled more efficiently with an agile technology partner.”

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AN INSIDER'S LOOK INTO LOWE'S INNOVATION LAB STRATEGY

During an exclusive interview with *Retail TouchPoints*, Kyle Nel, Executive Director of Lowe's Innovation Labs, revealed how the retailer develops, tests and implements its experiments.

The foundation of the process is science fiction prototyping. “We provide market research and trend data to science fiction writers who then help us envision possible ways that technology and cultural trends may converge and impact our lives in the future,” Nel said. “By beginning with a story, we create a common language and vision.”

Below is a high-level overview of the entire process:



Market research
and data gathering



Science fiction
prototyping



Onboard technology
partners



Gauge customer
demand



Determine how to
make improvements

Measuring Successes... And Going Back To The Drawing Board

A primary benefit of innovation labs is that they allow retailers to test and learn on a more consistent, ongoing basis. The concept of “failing fast” has long been avoided in the retail community for a number of reasons, but retailers can leverage innovation labs to build and test ideas. Should they fail, they can move on quickly.

“Companies have to be constantly testing and experimenting,” Berris said. “It may take a dozen tries to reduce long lines in-store or increase the average number of items in a user’s online shopping cart. There’s rarely a silver bullet that will solve all your retail woes. Instead, you can chip away at it — innovating through iteration, rather than sheer will.”

But that doesn’t mean retailers are freed from calculating the bottom-line business impact of their innovation labs’ efforts. Rather, companies need to redefine how they view and calculate ROI, according to Anderson of redpepper. “Experiments

are about learning; not profit. The value of the knowledge has to outweigh the value of the profit.”

Rather than relying on strict ROI equations, retailers should instead focus on setting strategic objectives and outlining the desired business impact for each project, according to Xiong of ThoughtWorks. “A strict ROI equation can stifle a lab’s creativity and effectiveness, as it leaves little room for experimentation. There must be some room to take risks when disruptive innovation is the goal.”

Innovation Labs Help Drive Customer And Employee Loyalty

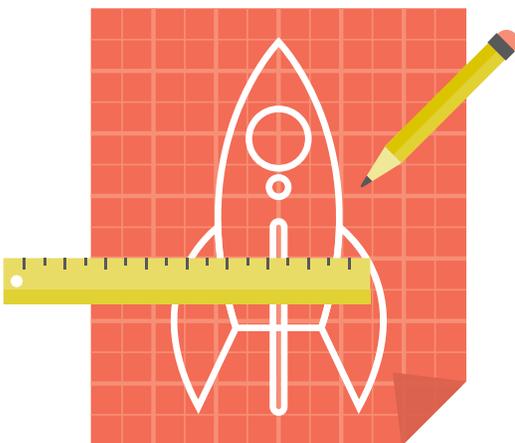
By integrating an innovation lab into their overall corporate strategy, retailers will be able to differentiate and show their customers that they’re focused on constantly improving their brand experiences. It also shows internal employees that the brand is continuously evolving and pushing the business boundaries.

“An innovation lab can help drive brand positioning,” Anderson noted. “The mere fact that you have an innovation lab or work with an innovation partner sends a strong signal about what is important to your brand.”

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The Risks And Rewards Of Innovation Labs

By Russell Young, SVP, Marketing and Creative Services, [STRATACACHE](#)

Retail industry executives understand the importance of innovation in an effort to keep up with fast-paced consumers. Oftentimes, these retailers strive to reinvent their customer experience by opening innovation labs that focus exclusively on digital in-store.

These labs have the potential to drive impactful innovations back into the business, helping brands remain competitive in a market that has grown increasingly difficult to differentiate in. In recent years we have seen a steady increase in the amount of retailers like **Walmart, Staples, Nordstrom** and others, who are investing in creating these spaces designed to foster collaboration and innovation.

While the opportunity may sound inspirational, creating an innovation lab can be too much of a burden for some retailers to embrace. Many have found a more popular route through partnering with vendors or startups that are currently equipped and accustomed to providing rapid prototyping and innovation services. Partners can quickly stand up test environments for performance testing against existing business process. This allows retailers to fail fast in a safe environment with minimal investment when measuring results against predetermined KPIs.

The most important asset in the innovation lab is its people. While team makeup will mix from industry and

retail veterans to strategists, analysts, creatives and developers, there will be a core group of people who think and act collaboratively to drive the greatest results. Cater to creativity.

One risk to consider in establishing an innovation lab is not having set borders. Retailers should quickly define where they do and do not want to innovate. This should be aligned with the business regarding which types of opportunities will be addressed with digital. Retailers also need to determine the amount of process and governance that will be placed on the innovation lab's efforts. It is important to ensure that the efforts remain aligned with the overall strategy and business priorities without intruding on the agility and inspiration required for innovation to prosper.

There are the doubters who view labs as "pet projects" and "future concepts." To that end, labs do need to demonstrate their value in establishing new revenue streams or impacting the business in other meaningful ways. As innovations pass through key gates, retailers should establish ongoing KPIs to evaluate efforts against continued progress or "failing fast." Once ready, they can move quickly into formal testing to identify opportunities for pilot or larger scale next steps. Uncovering data-driven insights will help further define and develop future concepts that continue to connect more brands to consumers through retail innovation.



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