Retail Innovation: Adoption of Leading Product Development Practices in a Digital World

2017 Research Results
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Executive Summary

The retail, footwear and apparel (RFA) industry is in the midst of a massive transformation. Despite a daily barrage of negative news about the struggles of traditional retailers, the emergence of potentially disruptive business models and digital technologies – specifically for a broader set of functions including planning, design, development, sourcing and production – provide great promise for leaders to dramatically improve their businesses.

Although there is a high level of excitement about these business models and digital technologies, very little information has been available for leaders to understand levels of adoption and associated insights.

With this in mind, in 2016, Kalypso partnered with the Indiana University Kelley School of Business Center for Education and Research in Retail to launch a research effort that created a digital fact base. For the 2nd annual survey in 2017, this partnership grew to include PI Apparel, an organization dedicated to peer-led knowledge sharing of innovation in the fashion, apparel, and footwear industry.

The research sought to understand the value of specific use cases to organizations, the level of importance and success of digital technologies that enable those use cases, the timing of their investments, and the barriers faced in adopting those digital technologies.

A clear picture emerged from the 2017 research. Retailers have made progress both in understanding the overall value proposition of digital in the product development lifecycle as well as in adopting specific digital technologies compared to 2016 research findings. While awareness around digital benefits and opportunities has increased significantly, those who are trying to execute have had limited success. The opportunities are potentially big, but so are the challenges.

Three key findings:

1. Implementing digital technologies and business models are potentially very valuable for improving their businesses

2. Very few companies are successful yet with any form of digital technologies or business models

3. Significant barriers of both understanding and execution are preventing leaders from realizing the promise of digital
Respondent Demographics

The research surveys senior leaders with prominent influence in innovation at their companies, in order to understand their view on the business possibilities for digital technologies and business models.

Our respondents represented more than 45 of the most notable RFA brands, of all sizes and formats.

- Brand apparel/footwear manufacturer
- Vertically integrated retailer
- Retailer with private brand program and national brand program
- Other

- < 1B
- 1-10B
- 10B+
- Not Available

- 0-19%
- 20-30%
- 31-50%
- 90-100%
Today’s market leaders are turning to a new set of levers to drive effective, tangible results, enabled by digital tools and technologies. The study surveyed dozens of leaders on the selection, prioritization, value and adoption of digital technologies across five business areas (called dimensions):

**3D Digital Product Creation**
- Use Cases
  - Design
  - Prototyping & Sampling
  - Marketing
  - Assortment Visualization & Sales
  - Style Out & Adoption
  - Manufacturing
  - Store Planning/Visual Merchandising
- Digital Technologies
  - 3D Design Tools
  - Visualization Platform
  - Body Scanning
  - Avatars
  - Fit Analytics
  - Augmented Reality
  - Virtual Reality

**Decision Making via Advanced Analytics**
- Use Cases
  - Development Ratios
  - Buy Quantities
  - Trend Intelligence
  - Initial Retail Price
  - Country Sourcing Intelligence
  - Customer Experience
  - Feedback
  - Early Market Test
- Digital Technologies
  - Voice of the Customer Analytics
  - Machine Learning
  - Internet of Things (IOT) Platform & Sensors

**Innovative Products & Materials**
- Application of Digital
  - Materials Innovation – Smart conductive materials
  - Smart Connected Products – Wearables, Labels, Products, etc.

**Digital Enabled Business Models**
- Application of Digital
  - Mass Customization / Personalization
  - Subscription (for private/proprietary brands)
  - Crowdsourcing for design

**Digital Products & Materials**
- Application of Digital
  - Proprietary POV about the future
  - 3rd Party Collaboration
  - Recruit & Retain Talent
  - Strategic Acquisitions & Ventures
  - Cultural Transformation
Digital Dimensions: Highest Potential

3D Digital Product Creation and Advanced Analytics tools stood out as having the highest potential business value with 80% of respondents claiming importance in the related use cases for both dimensions.

Respondents believe that 3D Digital Product Creation can provide value to many important use cases, including improving the prototyping and sampling process, as well as the design process.

Respondents Avg. % of Cases

<table>
<thead>
<tr>
<th>Rated Important or Very Important</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>3D DPC</td>
<td>80%</td>
</tr>
<tr>
<td>Decision Making via Advanced Analytics</td>
<td>80%</td>
</tr>
<tr>
<td>Innovative Product &amp; Materials</td>
<td>65%</td>
</tr>
<tr>
<td>Digital Enabled Business Models</td>
<td>59%</td>
</tr>
</tbody>
</table>
Leading vs. Lagging Technologies

Overall, the importance of digital technologies and business models to enable these use cases fell into two groups: leading and lagging.

It is more critical now than ever for retailers to start their journey into the adoption of the technologies in the leading category – such as 3D design tools, voice of customer analytics, and machine learning – that will bring the most value to their business.

That does not mean that the lagging technologies should be disregarded. We expect that as the lagging technologies – such as virtual reality, augmented reality and IoT platforms – mature over the next few years, there will be a higher defined value coming from them across the industry.

**Leading**
- 3D Design Tools, ideally complemented with visualization, fit analytics, avatars and body scanning tools
- Voice of the Customer Analytics
- Machine Learning
- Materials Innovation
- Mass Customization/Personalization

**Lagging**
- Virtual Reality
- Augmented Reality
- Smart Connected Products/ IOT Platforms
- Crowdsourcing
- Subscription
The Big Challenge: Importance vs. Success

Although there is plenty of excitement behind the digital technologies and business models, the respondents indicated that a sizable gap exists between the level of importance vs the degree of success to date, for even the most important digital technologies and business models.

These gaps may be the result of both barriers of UNDERSTANDING and barriers of EXECUTION. On average, across all the technologies and business models surveyed, the barriers of UNDERSTANDING came in above those of EXECUTION.

However, as more companies begin to invest time in understanding the value propositions of these various technologies, we can assume that more executive sponsorship and funding will follow, and then the big question will become how to execute.
Methodology for Digital Adoption

Given the current state of digital within the RFA industry as revealed by the survey, there is urgency for better ways to drive adoption. Embracing a digital program requires a different strategy and approach.

We recommend a five-step approach for driving effective digital adoption outlined in the chart below.

The approach ensures that digital adoption is scalable and built on a strong foundation that includes an understanding of the technologies and ecosystem, as well as the value propositions and use cases.

<table>
<thead>
<tr>
<th>Methodology for Digital Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Understanding &amp; Curation</strong></td>
</tr>
<tr>
<td>We understand the possibilities and the players</td>
</tr>
<tr>
<td><strong>2. Vision &amp; Value Proposition</strong></td>
</tr>
<tr>
<td>We know how we want to change the business via digital</td>
</tr>
<tr>
<td><strong>3. Prototyping &amp; Trial</strong></td>
</tr>
<tr>
<td>We are using strategic experiments &amp; prototyping to validate our strategic hypotheses</td>
</tr>
<tr>
<td><strong>4. Justification &amp; Roadmap</strong></td>
</tr>
<tr>
<td>We have translated the vision, value proposition &amp; experiments into a business case and roadmap</td>
</tr>
<tr>
<td><strong>5. Adopting &amp; Scaling</strong></td>
</tr>
<tr>
<td>We are successfully scaling up successful strategic experiments</td>
</tr>
</tbody>
</table>

There are two distinctly different ways companies can get started on their digital journey and drive differentiation:

**Aligning on a clear path**

Consensus on where to start or what to do does not yet exist

There is a need to produce a compelling case for change and roadmap in order to get support

**Get Started, Get Better**

Leaders have a general idea of where the major opportunities lie and agree on initial areas of focus

Use success from first initiative to build broader case for change and roadmap
The Bottom Line

While awareness around digital benefits and opportunities has increased significantly, those who are trying to execute have had limited success. The opportunities are potentially big, but so are the challenges. To succeed, retailers need to have a point of view on the future, build a strong case for investments, run strategic experiments and bundle these new leading practices together into transformational programs.

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