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Executive Summary

The onset of the rapidly evolving digital world will change retail product development more in the next five years than it has in the last 15. As a result of this disruption, retail, footwear and apparel product leaders must find ways to transform their end-to-end product development lifecycles to deliver top and bottom-line results.

Product leaders have always been expected to design and develop differentiated brands and merchandise at a relentless pace, while also driving growth, profitability, high levels of compliance and consumer satisfaction. Historically, they have drawn on a proven set of levers, including:

1. Adding or extending brands into adjacent categories
2. Consolidating operations across organic growth, acquired brands and business units
3. Streamlining the end-to-end process using leading practices, shared across the industry
4. Moving from a one-size fits all approach by segmenting products into differentiated product development tracks
5. Consolidating fragmented capabilities, such as quality assurance, into a shared service model across brands
6. Strategic sourcing to drive down the cost of sourced goods
7. Instituting KPI programs to measure results and prioritize areas of improvement
Retail Innovation in a Digital World

Today’s market leaders are turning to a new set of levers to drive effective, tangible results, enabled by digital tools and technologies.

To understand where leaders are focusing their transformation investments, Kalypso and the Indiana University Kelley School of Business Center for Education and Research in Retail partnered on a research study of leading product development practices in the industry.

The study surveyed dozens of leaders on the selection, prioritization, value and adoption of six practices:

1. Voice of the Customer
2. Materials Innovation
3. Digital Product Creation (DPC)
4. Smart Connected Products
5. Mass Customization
6. Crowdsourcing for Design
Main Research Findings:

Voice of the Customer, Materials Innovation and Digital Product Creation ranked as the most important practices.

Digital Product Creation emerged as the practice area where most respondents have begun actively investing.

Smart Connected Products represented another new practice of significant importance, though most respondents indicated that they were uncertain of when and how to invest.

The lack of sufficient funding and necessary technology and tools emerged as the most significant barriers to success.

Retail innovation leaders must critically assess their preparedness for the retail innovation transformation already underway. To establish or maintain a competitive advantage in the industry, these practices will be significant and the barriers must be overcome.
Leading Product Development Practices Defined

Within the context of the research study, the six leading product development practices are defined as follows:

**Voice of the Customer**
The solicitation of qualitative or quantitative feedback about design or product concepts, from customers through traditional and emerging methods, at one or more stages of design and development, prior to production.

**Materials Innovation**
A heightened level of focus on the materials as a source of innovation and differentiation. Companies make a notable commitment to competing based on materials used. Materials innovation started in performance apparel and footwear, and is being applied more broadly to all categories of apparel and footwear, soft home goods and hard lines.

**Digital Product Creation (DPC)**
The development and prototyping of products in digital, virtual and collaborative environments. This practice can encompass multiple aspects of the product development process, from 3D modeling to 3D printing of samples, and ultimately mass production using additive manufacturing technology. Digital assets can also be used for market research or sales activities, including catalogs and web sites, eliminating costly photo shoots.

**Smart Connected Products**
The application of the Internet of Things (IoT) to products sold to consumers, where the individual piece of merchandise includes embedded technology which can send and receive information. For example, base layer performance garments that transmit biometrics to smart phones and devices, or a coffee maker that receives instructions to brew coffee from a smart phone or other source.

**Mass Customization**
The design, development and manufacture of a product, or a part of the product, to be unique for each customer, executed at significant scale across a large number of customers in varying degrees of customization. Examples range from custom-fit denim jeans to custom color uppers on sneakers.

**Crowdsourcing for Design**
The solicitation of ideas or concepts from any community outside of standard in-house design resources, typically submitted in some form of rendering (i.e. 2D or 3D, complete or partial).
Which Product Development Practices Are Most Important?

Respondents rated the level of strategic importance of each of the six leading practices and categorized each as “important for our business” or not. The graphic below summarizes their responses:

As shown above, five of the six emerging practices are of strategic importance to a majority (>50%) of respondents. Voice of the Customer, Materials Innovation and Digital Product Creation emerged as “important” to more than two-thirds (>66%) of the companies surveyed.
Key Findings: Most Important Practices

Further analysis and assessment of these results fueled the following insights:

96% say **Voice of the Customer (VOC)** is important; yet most are unsuccessful with it.

68% say **Digital Product Creation** is important in driving efficient, effective and profitable new product development (NPD).

Although the overwhelming majority of respondents recognize the strategic importance of adopting a VOC program into their product lifecycle, only 38% report being successful at it today. This gap in the ability to execute initiatives such as focus groups, VOC software and social media integration, suggests a real need to invest in this area. When executed well, these programs are shown to improve development of high-quality, trend-right products that drive higher sell-thru/sell-in rates and increased consumer acceptance.

By leveraging Digital Product Creation in the assortment visualization and approval, as well as the prototyping and sampling phases, companies are seeing improvements to cycle times, quality and productivity. As leading retailers continue to advance these capabilities, they position themselves to out-pace and out-perform their competition for years to come.

83% say **Materials Innovation** is an important practice and is fueling loyalty and engagement today.

With the recent and transformative disruptions in the traditional retail landscape, the trend toward lower consumption, and the saturation of new competitors fueled by low barriers of entry, the need for retailers to differentiate their products is greater than ever. Many retailers turn to Materials Innovation to successfully create a competitive advantage (63% of respondents report being successful at it today) built upon proprietary material technologies that are proven to build brand loyalty and increase customer engagement.
Where and When Are Leaders Investing?

The previous section illuminated innovation leaders’ mindsets regarding the strategic importance of these leading practices. This section assesses which initiatives receive, or will receive, the investments needed to develop in earnest. The graphic below summarizes the responses:

Investment Horizon for Leading Product Development Practices
Key Findings: Investment

Given that Digital Product Creation has existed in many forms and has been enabled by many solutions across other industries such as aerospace, automotive and high tech for the better part of the last 30 years, logic follows that this leading practice is among the easiest to invest in today. As investment grows, industry-wide adoption will expand rapidly in the years ahead.

More than half of all respondents (58%) identified Smart Connected capabilities as being of strategic importance, though 57% of those respondents don’t know how or when to invest. As this capability becomes commonplace in the minds of customers, market leaders should develop an informed opinion and assess the impact not just on product development but also on the transformation of business models that can enable these new and attractive revenue streams.

Likely driven by the demands of the modern customer who has come to expect proprietary performance materials and customized products, Investments in Materials Innovation and Mass Customization will see the most growth in investment over the next two years; 24% and 20% respectively. Those who fail to track this mega-trend and to invest accordingly will find themselves facing exponential difficulties in winning customer loyalty.
What Are the Barriers to Success?

Although innovation leaders may wish to drive toward the future of retail with new product development practices, many find that scarcity of resources, organizational hurdles and underdeveloped traditional capabilities can easily delay or derail their efforts.

Respondents identified the most significant barriers they face in bringing these leading practices into their organizations. The graphic below summarizes their responses:

**Strategic Importance of Leading Product Development Practices**

- Lack of Funding to Build Program: 53%
- Lack of Technology and Tools: 52%
- Lack of Executive Sponsorship: 40%
- Lack of Talent / Expertise: 38%
- Lack of Effective and Efficient Processes: 27%
- Lack of Effective Change Management Capabilities to Drive Adoption: 18%
Key Findings: Barriers to Success

Lack of funding and lack of proper technology and tools are hindering most efforts.

Most respondents indicated that the lack of funding (53%) and the lack of proper technology and tools (52%) were among the most significant barriers. Without the dollars to invest, the return on such investments cannot be realized. And without an awareness of the newest technologies available to bring these capabilities to life, the challenge can seem insurmountable. Facing these barriers, strategic initiatives may not even get off the ground.

Lack of will and ability to execute are troublesome too.

Many respondents indicated that the lack of executive sponsorship (40%) and the lack of talent / expertise (38%) were also significant barriers. The presence of these barriers suggests that even those organizations who identify these initiatives as important often do not have the know-how or the dedication of leaders to see them through. Innovation leaders must link these practices to a vision of real business benefits and invest in the right talent, internally or externally, to execute the effort.

Poor innovation fundamentals and organizational inertia prove challenging to some.

Some respondents indicated that the lack of effective and efficient processes (27%) and lack of effective change management capabilities to drive adoption (18%) were notable barriers as well. Both of these barriers reflect the very real difficulties in bringing about meaningful change within an established organization. Only by communicating a compelling case for change, building a realistic transformation roadmap and rallying support across the organization can innovation leaders hope to overcome these barriers.
Retailers that can quickly pivot and embrace the rapidly emerging digital world to drive new rounds of end-to-end product lifecycle transformation will deliver powerful, effective results. 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.
Kalypso is a global consulting firm, helping clients deliver better results from innovation in a digital world. The firm delivers a comprehensive set of capabilities across strategy, operations and technology to improve innovation performance. For more information, visit kalypso.com.