

Innovation in Retail Marketing

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Abstract – This paper elaborates on how a retail business model articulates a retailer and creates value for its customers and appropriates value from the markets. Innovations in business models are increasingly critical for building sustainable advantage in a marketplace defined by unrelenting change, escalating customer expectations, and intense competition. Drawing from extant strategy and retailing research, we propose that innovations in retail business models are best viewed as changes in three design components: the way in which the activities are organized, the type of activities that are executed, and the level of participation of the actors engaged in performing those activities. We propose six major ways in which retailers could innovate their business models to enhance value creation and appropriation beyond the levels afforded by traditional approaches to retailing. We also describe the drivers of business model innovations, the potential consequences of such innovations, and numerous examples from retail practice that highlight our concepts and arguments. In doing so, we provide a starting point for academic research in a domain that is deficient in theoretical and empirical research, and offer retailing managers a framework to guide retail business model innovations for sustainable competitive advantage.

Key Words: Retail Marketing, Innovation, Innovative Methods for Retailing

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INTRODUCTION

Retailing

Globally, retailing is witnessing seismic shifts. The growth of the Internet has powered upheavals in the retail landscape that are revolutionary in scope, and unprecedented in nature. Some firms have created new markets, such as Apple with iTunes, and some have changed existing markets, such as Priceline.com. Today, most large retailers have morphed into multichannel firms, where the same customer visits the retailer via different channels for different purposes (e.g., obtains information online, makes purchases offline, and contacts customer support via telephone). Most have also expanded their focus from selling products to engaging and empowering customers, with the ultimate goal of creating a rewarding customer experience.

As a result, retailing practice is increasingly encompassing a broader range of activities as retailers expand the boundaries of their target markets and develop new ways for interacting with customers and channel partners. For instance, some retailers now use mass customization technologies to provide their customers with “made to order” products instantly (e.g., Build-a-Bear). Others effectively use technology to streamline the supply chain to rapidly align their product assortment with seasonal trends (e.g., Pantaloon’s “fast fashion”

approach of releasing five times as many collections per year as the industry average). Some have devised innovative customer interfaces (e.g., Shop24 dispenses over 200 grocery items 24/7 using automated kiosks). Yet another category of retailers simultaneously cater to multiple niche segments and as a result effectively exploit the “long-tail” (e.g., Amazon.com Flipkart.com). Finally, in countries like India and China, the opportunity to satisfy the needs and wants of the populations at the “bottom of the pyramid” has spawned numerous retail innovations, such as Project Shakti implemented by Hindustan Lever, which has enabled poor rural women to become distributors of branded products in villages.

This paper focuses on *retail business model (RBM) innovations*. While many retailers continue to adhere to the adage “retail is detail”, retailers at the forefront of innovative practices recognize that paying attention to details is not enough because many specialized firms can execute specific retail activities to near perfection on behalf of retailers (e.g., order fulfillment via Courier or delivery agencies). A new critical capability involves configuring, and when needed reconfiguring individual retail activities and processes into a coherent blueprint, their business model, which outlines the innovative logic for competing effectively in their markets.

A central aspect of our definition of a business model is that it incorporates interdependencies that transform a set of structures, activities, and processes into an integrated system. A business model is not *only* specified by a revenue model, a cost structure, a set of resources, or a value proposition; it is fundamentally about how these pieces of the business “fit together” to create and appropriate value. In this context, “fit” refers to multi-layered interdependencies among the elements of a business model such that the “whole” (business model) is not simply the sum of its “parts” (elements). If these interdependencies reflect a high level of complementarity or synergy among the elements of a business model, then the business model is likely to be more cohesive and effective in achieving its purpose (e.g., Porter 1996). Indeed, complementarities have been highlighted in numerous papers as a source of economic rents and competitive advantage. For instance, Milgrom and Roberts found that the total economic value added by combining two or more complementary factors in a production system exceeds the value that would be generated by applying these production factors in isolation. Conversely, if the elements of a business model, however well designed, do not reinforce each other, synergies are less likely to emerge and the risk of failure will increase. In sum, the beneficial interplay of the elements of a business model is pivotal to its successful implementation. Conceptualizing the business model as an Interdependent system thus encourages “systemic and holistic thinking” instead of local optimizations or piecemeal decisions (Zott and Amit 2010).

Retailers today can no longer be accurately characterized as “merchant intermediaries” that buy from suppliers and sell to customers. Rather, they are best described as orchestrators or conductors of two-sided platforms that serve as ecosystems in which value is created and delivered to customers and, subsequently, appropriated by the retailer and its business partners. Viewing retailing as spaces (sometimes, virtual) for staging customer experiences requires business models that go beyond traditional functions of procuring, stocking, and moving products. Specifically, conceptualizing RBMs in today’s world requires explicit consideration of interdependencies among, and choices of: the format that describes the way in which the key retailing activities will be sequenced and executed, the diverse activities that need to be executed to design, manage, and motivate the customer experience, and (3) the governance of actors that perform these activities, the roles they play and the incentives that motivates them. Thus, we propose that the RBM has three interconnected core elements: *retailing format, activities, and governance*, which together with their interdependencies define a retailer’s organizing logic for value creation and appropriation.

Business Model Innovation

We define a RBM innovation as a change beyond current practice in one or more elements of a retailing business model (i.e., retailing format, activities, and governance) and their interdependencies, thereby modifying the retailer’s organizing logic for value creation and appropriation. First, this definition implies that the innovations in retail business models are system-wide changes: even though the change may originate in just one element of the business model, it also triggers changes to other parts of the system. Indeed, an isolated change in one of the business model elements that does not affect the other elements may be a retailing innovation, but would not be considered an RBM innovation. Second, a fundamental aspect of business model innovation is that it is intended to materially alter the firm’s value creation or appropriation logic. Therefore, focusing on the potential changes to the value creation and/or appropriation logic is a critical lens for examining and classifying business model innovation. Such a focus helps managers set revenue expectations, and evaluate the firm’s performance following the implementation of a business model innovation. Third, we take the perspective that for a change to qualify as a business model innovation, it should be a method of conducting business that has not yet been implemented in practice at the time of its introduction. In other words, such an innovation embeds “new to the world” formats, activities, governance mechanisms and the inter dependencies among them.

To illustrate business model innovation in retailing and to facilitate its critical review and future development, we provide a categorization of the major types of RBM innovations. We expect that such a categorization would lead to more focused research on various facets of business model innovation while also generating prescriptive implications for retailers who seek to update their business models.

Barriers of Innovative Retail Marketing

Both internal and external drivers can lead a retailer to innovate on its business model or even create an entirely new business model. With respect to *internal* drivers, one potential driver of business model innovation is a customer-centric orientation. A sustained focus on improving the customer experience may prompt retailers to identify innovative ways to best align their “backstage” (back-office), “frontstage” (physical environment, service employees, service delivery process), and “auditorium” (fellow customers) design areas. Oregon based Umpqua Bank, for example, redesigned its branches to reflect are tail feel that would generate heavy foot traffic. Its patented branch design, aimed to provide a unique customer experience modeled after the hotel

industry, has been highlighted as a success story. An emphasis on innovation in general can also lead to business model innovations, as experimentation will motivate and enable firms to discover viable new business models. Research also shows that service providers with an emphasis on innovation are more likely to also introduce service delivery innovations.

OBJECTIVE OF THE STUDY

- To study the influence of Innovation on various factors of Retailing
- To study the role of Innovation in impulse buying
- To study on the highly influential Retailing elements looking at Innovation and technology
- To explore the elements of Innovation used in Retail Industry
- To study the impact of Innovation on consumer buying behaviour
- To analyse the highly influential Innovation elements on consumer buying behaviour

CONCLUSION:

Retailers should maintain organizational flexibility to create a new brand if a new retailing format or concept shows potential, but cannot be directly integrated into their current business model. While in some cases this may involve a simple brand extension (Toys R Us and Babies R Us), in other cases it may require a fundamentally new business model. A good example is Procter & Gamble's first forays into retailing, the now defunct Reflect.com, an Internet retailer of custom skin care products. While Procter & Gamble's business model relied on mass merchandising and economies of scale, the business model of its retailing venture Reflect.com had to accommodate customer co-creation and entailed completely different retail format, activities, and governance components, which were difficult to integrate with Procter & Gamble's core business model.

Another context where organizational flexibility is of paramount importance is in ensuring that the various functional areas that define and bring to life each facet of the business model are in constant communication with each other. If feed-back between the functional areas is exchanged on a regular basis, it is more likely that the critical interdependencies between the retailing activities, format and governance components of the business model are maintained and updated for optimal business performance.

Finally, perhaps the best way to ensure that the business model stays current is to start thinking about the next business model innovation as soon as the current one is implemented. Walmart is a prominent example of staying ahead of competition by constantly innovating its business model –from the manner in which Sam Walton chose the location of the Walmart stores, to its innovative inventory management processes, to the way in which this retailer has embraced organic merchandise and now to the sustainability emphasis –and doing so with the nimbleness of a small retailer, rather than that of a large, stodgy incumbent. We hope that the concepts, arguments, and examples we provide in this paper help other retailers to innovate their business models to enjoy sustainable competitive advantages.

RECOMMENDATIONS:

- The Innovation of Retailing must be pre tested before finalizing.
- Innovative Retail marketing should be researched.
- Innovation helps in marketing and thus, it will help in increasing the business

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