



## Organizing for (R)Tech



# Table of Contents

<b>Four Cardinal Challenges</b>	<b>5</b>
<b>Challenge 1: Prioritizing</b>	<b>6</b>
<b>Challenge 2: Funding</b>	<b>12</b>
<b>Challenge 3: Talent</b>	<b>15</b>
<b>Challenge 4: Culture</b>	<b>18</b>
<b>The (R)Tech Center's Role</b>	<b>21</b>

The [\(R\)Tech Center for Innovation](#)'s mission is to help retailers navigate the industry transformation, and to spur the adoption of the "(R)Tech" term within the retail innovation ecosystem.

## Methodology

In 2017, the (R)Tech Center distributed an online survey to its founding members to develop a baseline of companies' organizational structures for innovating. This report is a snapshot of retailer's current activities and challenges. The data is from 27 respondents; of which 80 percent have annual revenues of six billion dollars or more.

Additional insights were collected at the (R)Tech Center's inaugural meeting held on March 19, 2017, which informed the recommended practices noted throughout this report. The meeting featured a facilitated conversation by Accenture between 15 retail companies on the practices they employ, and the challenges they face, to innovate.

The following survey results represent a "snapshot in time" of some RILA member companies' policies and activities related to the topics covered by this survey. Not all RILA member companies participated in the survey. Therefore, the survey results do not represent a complete picture of the policies and activities of the whole RILA membership or the retail industry on these issues.

# What is (R)Tech?

(R)Tech is a new term that describes the confluence of retail and technology.

An (R)Tech company embodies the strongest values of both industries – global and local, nimble and entrepreneurial – to delight profoundly empowered consumers. The term is meant to accelerate retail innovation and to invigorate retail's reputation with innovators, the next generation of retail talent, policymakers, and the public.

Visit [www.rtech.org](http://www.rtech.org) to learn more about the (R)Tech Center for Innovation's activities and to engage in the conversation.

## About the Retail Industry Leaders Association

RILA is the trade association of the world's largest and most innovative retail brands. RILA members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales, millions of American jobs and more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad.



# Organizing for (R)Tech

An (R)Tech company embodies the strongest values of both retail and technology – global and local, nimble and entrepreneurial – to delight profoundly empowered customers.

The retail industry is facing unprecedented disruption, prompting the need to adopt an (R)Tech mindset. Many retailers are pursuing low-risk, incremental innovation projects that primarily target improvements in operational performance. Yet, some companies are focused on high-risk, transformative ventures that address business model transformations. Figure 1 details respondents' current innovation focus based on level of risk. A company with primarily low risk projects lands on the left side of the chart. A company that takes on higher risk projects is reflected on the right side of the chart.

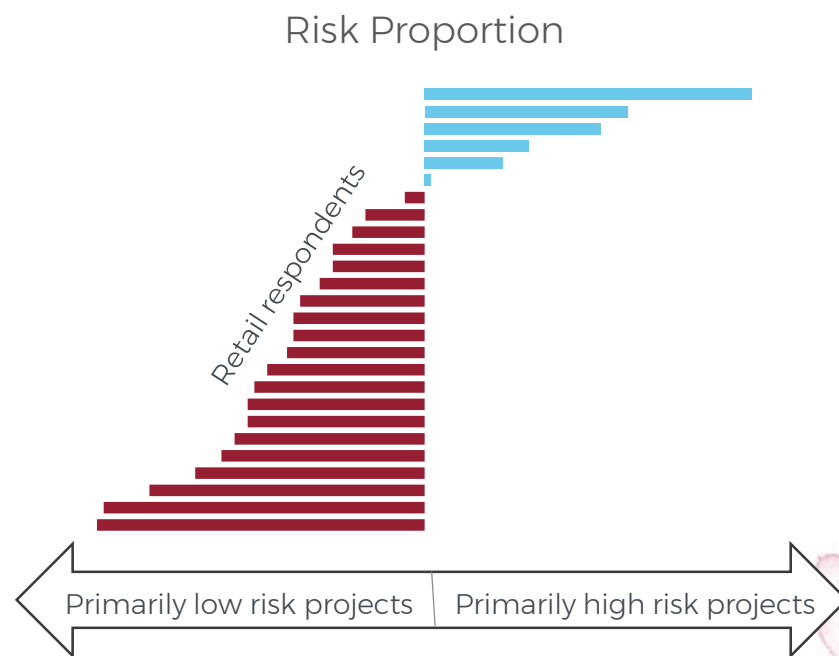
The Innovation Management Model, which documents how retailers are organizing to address incremental and transformative innovation in their companies, can be found in [The Emergence of \(R\)Tech](#).

Four Cardinal Challenges emerged from the survey and interviews; these factors inhibit the growth of innovation programs in retail companies. This research illustrates:

## Four Cardinal Challenges

- |                   |         |
|-------------------|---------|
| 1. Prioritization | Page 6  |
| 2. Funding        | Page 12 |
| 3. Talent         | Page 15 |
| 4. Culture        | Page 18 |

Figure 1



# Four Cardinal Challenges

## 1. PRIORITIZING



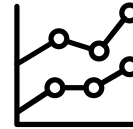
Assessing consumer insights, futures planning, and visiting other innovators are the most used techniques for sourcing new ideas and identifying trends

Top challenges: identifying highest value projects and scaling them

Innovation focus areas:

- Customer experience (96%)
- Big data analytics (70%)
- Internet of Things (67%)
- Experiences & Services (67%)
- VR & AR (59%)

## 2. FUNDING



Example metrics include customer perception, customer count, % new product, sales/orders, or innovation project milestones and budgets

do not track  
61% specific metrics



Top challenges: securing funding for and measuring successes for innovation

## 3. TALENT



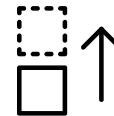
32% plan to increase the size of their team by 10+ in the next 2 years



Top challenges: dedicating resources and attracting the right talent

Innovation teams mostly have technology, design, and engineering backgrounds. Senior leaders most often come from operations

## 4. CULTURE



41%

of CEOs are heavily involved in innovation programs

19%

of companies focus on higher-risk innovation projects

Top challenges: breaking free from legacy structures, established processes, and operating environments





01

**Challenge: Prioritizing**  
Identifying the highest value  
projects and scaling them



# Prioritizing

Retailers want to transition from uncoordinated innovation, where solutions are looking for problems, to focused problem-solving. Defined processes that identify priorities, set strategies, and tell innovation stories to key decision-makers can legitimize innovation activities — proving that innovation can drive its own agenda.

Companies use two types of processes to prioritize innovation:

## 1 Narrative-Driven Innovation:

1. Engages executives in visioning and storytelling
2. Includes short stories about the world in 2, 5, and 10 years; stories are informed by marketing and trend data
3. Stories are a snapshot of life at that time, complete with a narrative arc, characters, and conflict; and should illustrate how people and technology trends merge, and how that leads to unexpected outcomes
4. The stories are then used to develop a shared long-term vision of society, consumers, and the company's role
5. The company develops plans using these stories as guidance; focuses on technologies and partners that can bring the story to fruition

## 2 Linear Innovation:

1. Defines the problem that innovation is trying to solve
2. Clearly lays-out the objectives and success metrics
3. Elevates the conversation, engage executives from across the organization
4. Develops a plan and shared accountability mechanisms
5. Executes on the plan
6. Reports on progress and outcomes



# Prioritizing

Innovation chiefs are oversaturated with technologies, startups, and ideas. Therefore, their top three needs are direct exposure to new technologies, consumer insights, and divergent ideas to determine which opportunities are worth prioritizing (Figure 2).

In addition to exposure, senior executives and the board of directors are critical for setting priorities. While 41 percent of respondents have a heavily engaged CEO – because the innovation chiefs report directly to their CEO – only 4 percent have actively involved boards (Figure 3). Corporate culture, a critical element for the success of innovation programs, is addressed in Talent section of this report.

Figure 2

## Innovation Needs

On a scale of 1-5, 5 is extremely high priority

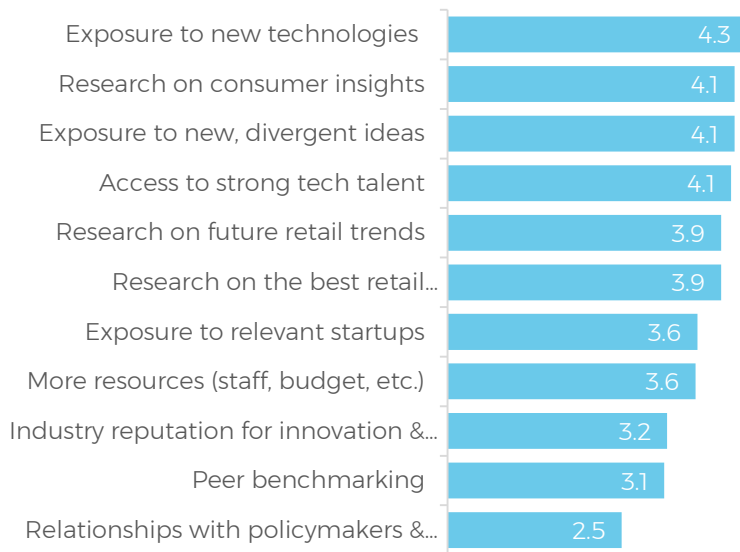
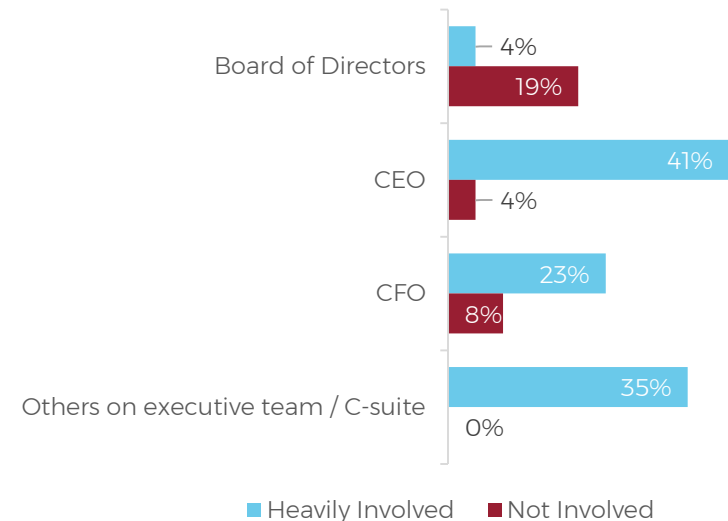


Figure 3

## Leadership Involvement in Innovation Programs







## Closer Look: How Storytelling Ignites IT Innovation at Lowe's

Business as usual can no longer support continued long-term success in the (R)Tech age and successful retailers are looking to the unusual to help them thrive.

In a recent article on Retail Dive, Kyle Nel, executive director of Lowe's Innovation Labs provided insight into how Lowe's gains support for their innovation projects by creating comic books. The following is an excerpt from that article:

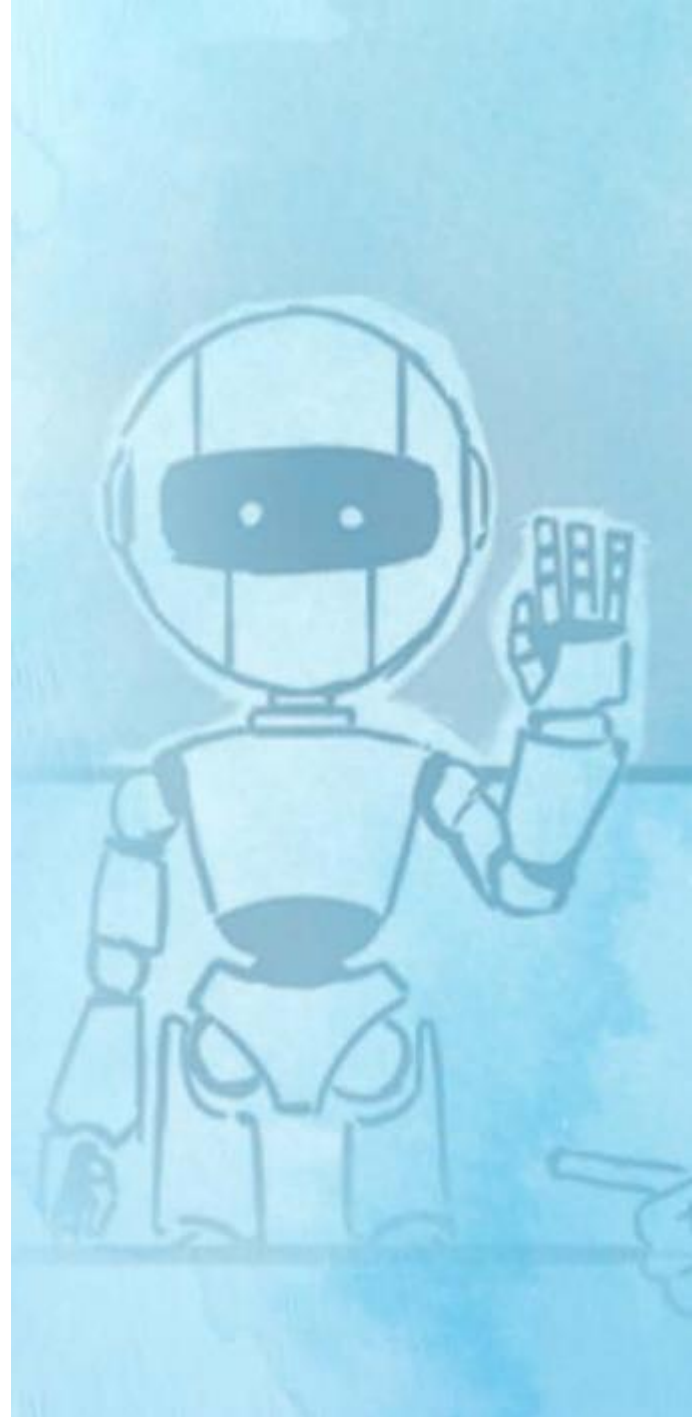
The narrative driven comic books, written and imagined by science-fiction writers, serve as a step in strategic planning that empowers characters to face the potential challenges and use-cases that a new project may garner. From there, tangible concepts can be derived and the painful background work can begin, leading to popular projects like HoloRoom, LoweBot, and 3D printers built for astronauts that are being rolled-out today.

[He] sees innovation as an opportunity for large companies – as disruption is no longer just about young startups. Though, many retail cultures are built on business models of the past; and selling disruptive cultures is a tall order for their leadership teams. Nonetheless, these critical conversations with CEOs, boards of directors, supply chain and sales leaders – the entire retail ecosystem – are needed to see long term success.

Source: [retaildive.com](http://retaildive.com), Original Article by Corinne Ruff



**RILA**





# Prioritizing

Retailers are prioritizing technologies and innovations that use data to enhance the customer experience and provide valuable services.

The two hard technologies ranked in the top half of the priorities – the internet of things (IoT), and virtual and augmented reality – have both business and consumer applications. Retailers have begun selling those products on their shelves, while also using them for marketing, store operations, supply chains, planning, and more. Interestingly, nearly 50% of respondents are experimenting with new business models like renting, sharing, and product take-back, recognizing that those models can satisfy new consumer needs. And still other technologies like cybersecurity, FinTech payments, and automated manufacturing and robotics, are lower on the list, likely because other retail executives are addressing those issues (Figure 4).

To keep a pulse on innovations, retailers assess consumer insights, engage in futures planning, and attend innovation/technology conferences, according to the Innovation Pulse on the following page (Figure 5).

Figure 4



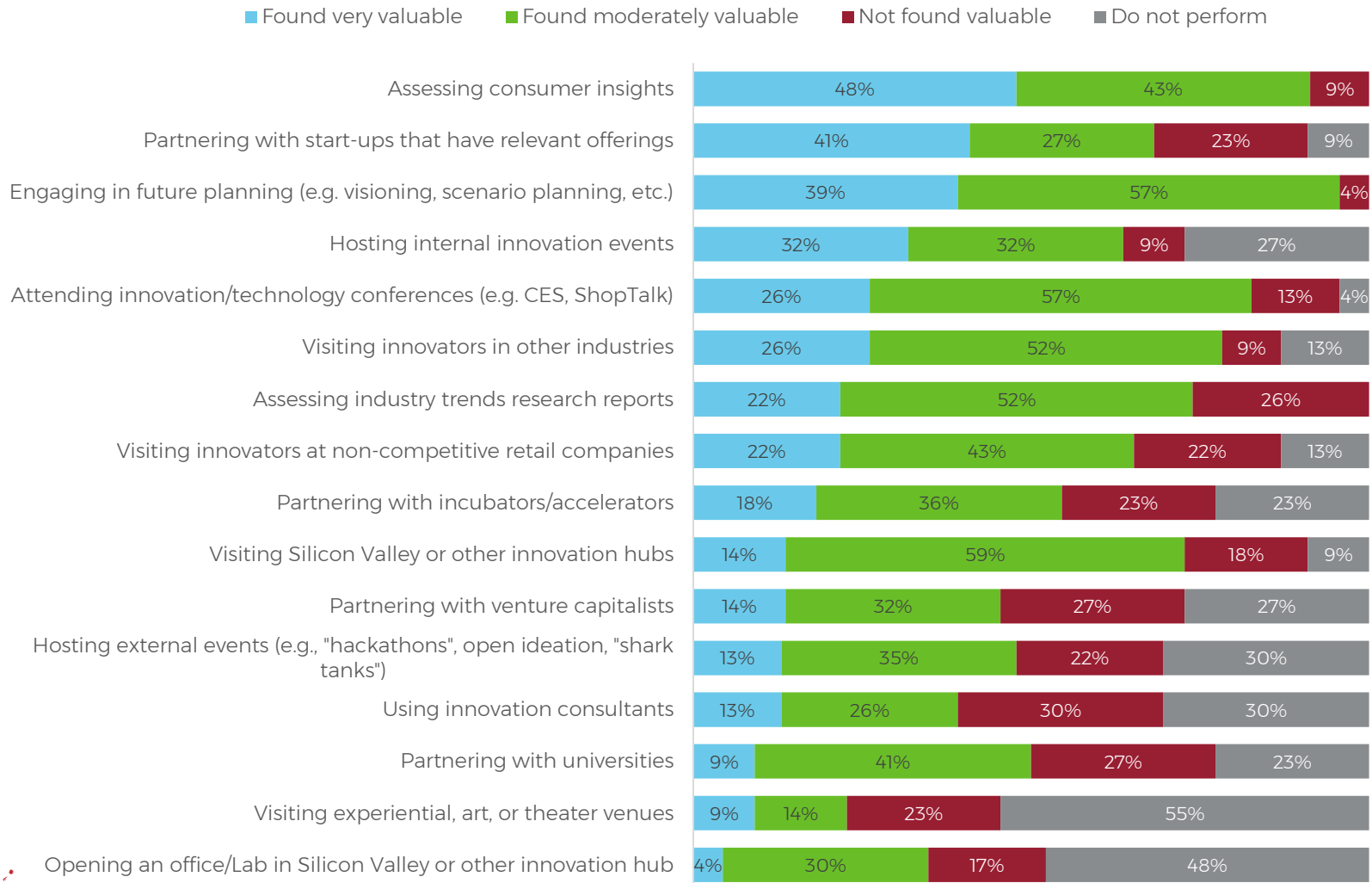
Other items included: natural language engagement, flexible retail formats, and retail formats of the future

# Innovation Pulse

Figure 5

How valuable are the following processes for sourcing new ideas or keeping a pulse on trends?

Answered: 23





**02**

**Challenge: Funding**

Securing funding for, and measuring successes of, innovation



# Funding

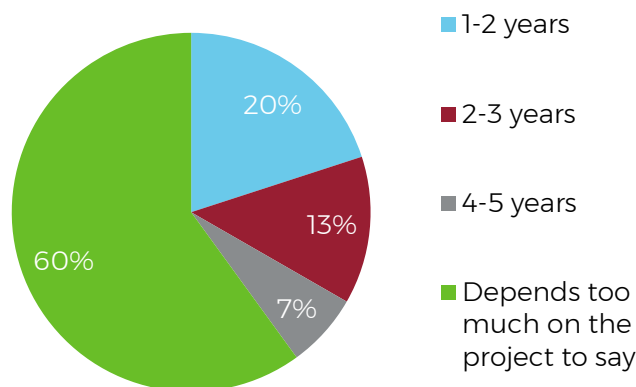
Retailers face challenges in investing in innovation; investors and finance teams are looking for short-term payoff. Flexibility in funding mechanisms can promote investments for the long-term and offset funding uncertainty.

Retailers' finance teams often require financial estimates (e.g., ROI) to justify new innovation projects. However, an excessive focus on near-term returns can stifle innovation. Instead, the conversation must be about investing in the long-term health of the business; insuring against future trends, engaging the consumer, building brand loyalty and new capabilities, and experimenting with new models of growth.

The majority of projects (60 percent) have variable time thresholds for new ideas to progress from ideation to implementation at scale. New ways of measuring impact can justify continued funding when the benefits of innovative projects cannot be quantified with traditional metrics.

**Figure 6**

Time Threshold for Project Implementation



---

## Some funding suggestions include:

- Gain senior leadership's buy-in for innovation project metrics that are different from traditional projects.
  - Obtain funding from other sectors — large tech companies, startups, the government — when you do not need to own the intellectual property. These entities are often willing to fund new concepts, especially if a retailer is committed to co-creating the project..
  - Begin with small experiments. Implement "Minimum Proud Product" as opposed to "Minimum Viable Product" so that executives focus on creating the best, rather than the cheapest, new technologies.
-



# Funding

Tracking metrics is critical in illustrating the value of non-traditional innovation projects and to obtain future funding. What steps are needed in order to think about success in new ways? Step one, start tracking.

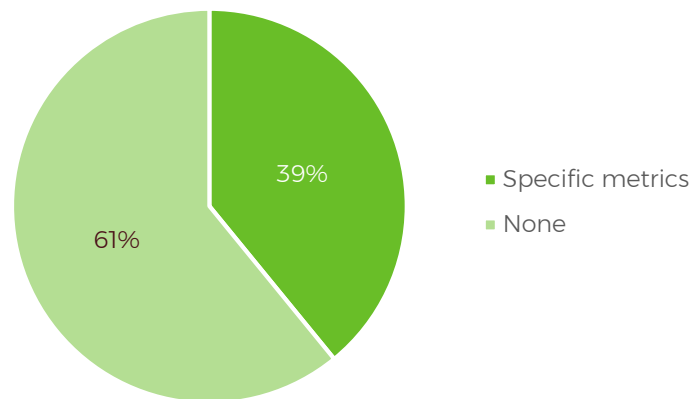
Over 60 percent of respondents do not currently track any innovation metrics. Producing alternative ways to show a project's success is vital to ensuring future funding and success of an innovation program.

For those that do track innovation metrics, the specific metrics that can be tracked include:

- Number of projects delivered
- Strategic partnership deals executed
- Revenue from innovation and value of innovation pipeline
- Commercial exits
- Failure rate
- Project KPIs
- Milestones
- Budget
- Consumer perception of company's innovations
- Percent of new products sold

**Figure 7**

What innovation metrics does your company track?



To be profitable, you need to keep searching and failing in order to find the projects that generate profit. It's hard for companies to accept failure.





**03**

**Challenge: Talent**

Dedicating resources and attracting the right talent

# Talent

Attracting and retaining the necessary talent, especially engineers, designers, programmers, and data scientists, has been a challenge across the retail industry. Traditional retailers compete for talent with startups and tech companies.

Burnishing the industry's reputation as an innovation leader – a key objective of the (R)Tech Center – will play a key role in attracting fresh, creative, and tech-forward talent to the industry.

There are some potential solutions to the talent shortage issue that retailers can take:

---

**Determine what needs to be done in-house versus what can be outsourced**

If a function is not a critical core competency, then it can be outsourced

---

Work with universities, technology firms, startups, and even other retailers

---

**Understand the emerging workforce, including what motivates them**

They are excited by challenges, scale, data problems, growth opportunities, and responsibility

---

**Focus on developing a solid team of top programmers, rather than a large team**

Retailers can attract top talent by exposing prospective hires to the industry's big data problems

# Talent

Over 40 percent of respondents have dedicated innovation teams with 20 or more full-time employees, while nearly 50 percent have under 10 employees on their teams.

Regardless of the innovation team size, more than half of the teams report to the C-suite, with the technology department the next most likely (21 percent) to oversee these teams (Figure 9). With such a large number of companies' innovation teams reporting to the C-suite, it is vitally important that they are heavily involved and provide the necessary guidance and support for these teams to thrive.

To drive specific projects, companies are supplementing their full-time innovation teams with support from workers in other departments on a part-time basis. Nearly half of companies indicate that they take advantage of more than 10 employees from outside of the innovation team (Figure 8).

Figure 8

## Employees Working on Innovation

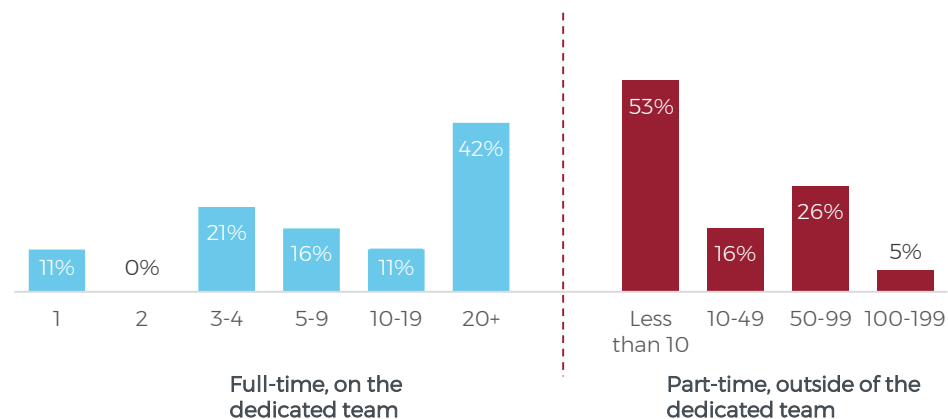
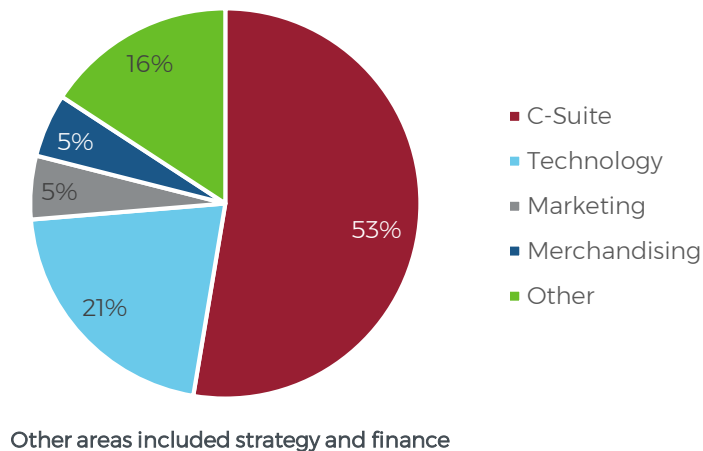


Figure 9

## Innovation Teams Report To...





**04**

**Challenge: Culture**

Breaking free from legacy structures, established processes, and operating environments

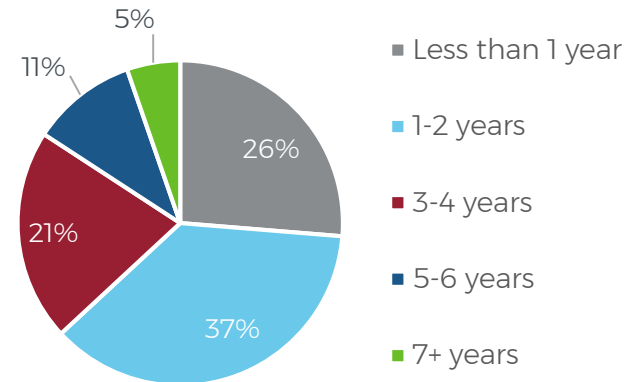
# Culture

Organizational challenges in retail tend to slow innovation; and while it is difficult to devote time and funding to transformative innovation practices, it is equally difficult to spread innovation as a culture across the company.

One of the innovation team's most critical roles is to build a company culture that has an eye towards the future. With 63 percent of respondent's innovation teams less than three years old, retailers are only in the early phases of that journey.

**Figure 10**

How long has the innovation team existed?



## Recommended approaches to overcome cultural challenges include:

- Educate the Leadership Trifecta – CEOs, CFOs, and General Counsels – on new and disruptive business models
- Use the narrative approach to define a shared vision amongst executives
- Align senior leadership's compensation with long-term transformation and purpose
- Change the dialog about “innovation” within the company. Innovation teams should intentionally act differently – but not randomly – from the core business
- Identify pockets within the organization where there is an appetite for innovation, then engage them

# Culture

Though many retailers have innovation teams that are fairly new, these teams will see growth over the next 2 years.

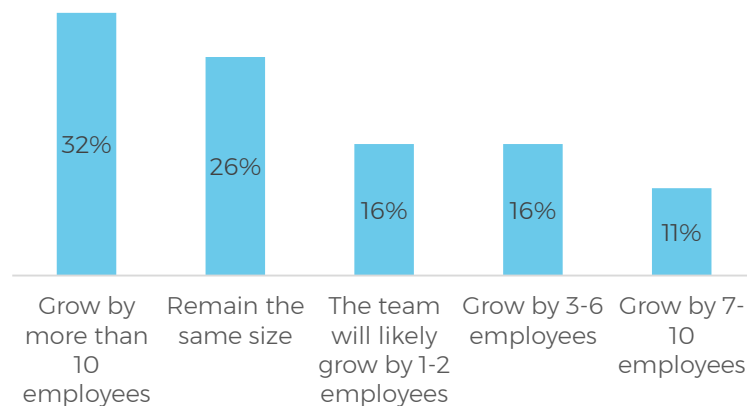
Retailers are ready to grow their innovation teams to meet the current and future business needs. 75 percent of respondents plan to add staff to their innovation teams in the next two years. Of those growing their teams, one-third project to grow by more than 10 employees (Figure 11).

Innovation teams are cross-functional groups striving to create new or improved products, processes, partnerships, and systems. For 85 percent of respondents, technology departments are the most likely to participate in innovation projects, followed closely by e-commerce departments (82 percent). Other departments likely to work on innovation projects include digital, marketing, omnichannel, and store operations (Figure 12).

Cross-functional teams help break down silos and promote the necessary changes in the corporate culture.

**Figure 11**

Innovation Team Growth in Next 2 Years



**Figure 12**

In the past year, which departments have participated in an innovation project?

Answered: 27

Technology	85%
E-commerce	82%
Digital	78%
Marketing	67%
Omnichannel	63%
Store Operations	59%
Research and Development	33%
Merchandising	26%
Human Resources	19%
Sustainability	19%



# (R)Tech Center's Role

Retail is a powerful and dynamic industry, where the best innovators are welcome.

In the next several years, the Center will partner with universities to engage students brimming with the latest ideas, and with incubators and accelerators to boost entrepreneurs' time-to-market. RILA and the (R)Tech Center will work with policymakers, in DC and in statehouses across the country, to pave the way for retail's new path driving the 21st Century economy.

With the launch of the (R)Tech Center for Innovation, we are embarking on an exciting journey to fundamentally change the retail industry. We hope you will join us as we enter the age of (R)Tech.

Join us at [www.RTech.org](http://www.RTech.org).

## Contact Us

**Adam Siegel**

Senior Vice President, Research, Innovation, & Sustainability  
[adam.siegel@rila.org](mailto:adam.siegel@rila.org)

**Charmaine Wiggins**

Director, Research  
[charmaine.wiggins@rila.org](mailto:charmaine.wiggins@rila.org)

**Katie Nicholos**

Manager, Research & Innovation  
[katie.nicholos@rila.org](mailto:katie.nicholos@rila.org)

Learn more at [www.RTech.org](http://www.RTech.org)