RILA
RESEARCH

(R) TECH
center for innovation

Building an (R)Tech Culture

accenture

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About the (R)Tech Center for Innovation

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.

The Center periodically releases reports covering various topics that the (R)Tech Center's Advisory Council has identified as areas of interest. This report focuses on what we call an *(R)Tech Culture*.

Methodology

This report, released in July 2017, provides the (R)Tech Center's viewpoint on what it takes to create an *(R)Tech Culture*. It is based on in-depth secondary research on practices that drive innovation in corporate cultures, especially in retail and consumer brand companies.

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 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.
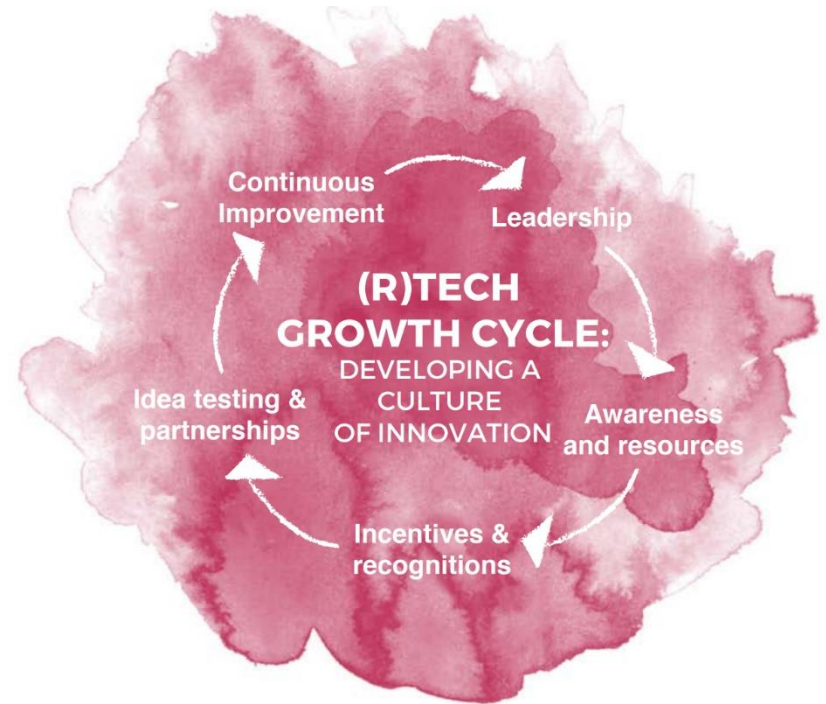
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Creating an (R)Tech Culture

Though often listed as a top priority, retailers still struggle to infuse innovation across the organization. Creating an (R)Tech Culture is about structuring the business to foster innovation throughout.

In the (R)Tech Center for Innovation's Blueprint: The Emergence of (R)Tech, we introduced the divergent retail paths that characterize the success or failure of retailers overcoming legacy systems to enable a culture of innovation. The most successful companies align with the *(R)Tech Growth Cycle*, building momentum toward change that permeates every level of the organization.

Innovation must be a part of a company's core values, creating a sense of purpose for employees, and enabling the organization to rapidly learn and adapt in an ever changing environment.
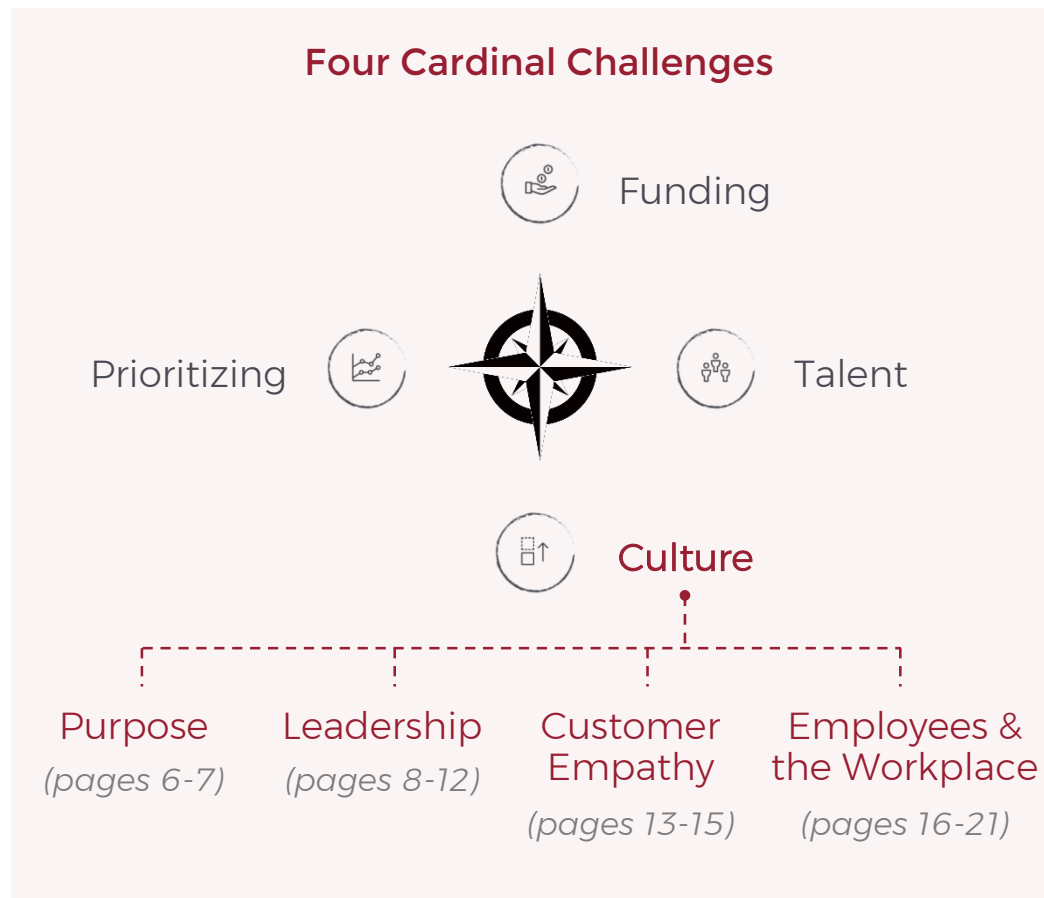

Continuous Improvement

Leadership

(R)TECH GROWTH CYCLE: DEVELOPING A CULTURE OF INNOVATION

Idea testing & partnerships

Awareness and resources

Incentives & recognitions

Addressing the Cardinal Challenges

In its **Organizing for (R)Tech** report, the (R)Tech Center identified culture as one of the *Four Cardinal Challenges* retailers face in building enduring change.

To support this push to create an (R)Tech culture, RILA has studied the culture of companies that are praised for their innovation. Common themes emerged, namely that three elements characterize an (R)Tech culture:
1. Purpose
2. Leadership
3. Customer Empathy
4. Employees & the Workplace

This report explores these four critical characteristics.

Four Cardinal Challenges

Funding

Prioritizing

Talent

Culture

Purpose	Leadership	Customer Empathy	Employees & the Workplace
(pages 6-7)	*(pages 8-12)*	*(pages 13-15)*	*(pages 16-21)*

01 | Purpose

Quest for a Corporate Purpose

A corporate purpose inspires both current employees and prospective talent, as well as retail customers, which builds alignment, support, enthusiasm, and loyalty.

A purpose defines the company's mission and values, lays the foundation for the corporate culture, and becomes a brand story that excites and engages employees, who are increasingly seeking to align their own values with the brands they work for. Millennials in particular are attracted by company purpose and find value in working toward a greater cause.

Corporate sustainability and social responsibility are integral to those values; companies like Best Buy, CVS Health, Gap Inc., Kroger, Levi's, Nike, Target, and Unilever align their innovation and sustainability philosophies. CVS Health, for example, "helps people on their path to better health" and Nike "brings inspiration and innovation to every athlete (everyone) in the world."

REI's corporate purpose resonates with employees and consumers because it embodies their values and is consistent throughout their corporate decisions. In lieu of Black Friday, REI closed their doors for the OptOutside initiative, encouraging people to get outside and connect with friends and family.

This move connected deeply with people, supported the company's purpose, inspired valuable goodwill among staff and media. In tangible terms, it doubled the number of employee applications that REI received.

02 | Leadership

Aligning the Leadership Trifecta

The *Innovation Leadership Trifecta* are the three executive influencers in a retail company: the CEO, CFO, and General Counsel. Each executive, along with their teams, can either accelerate or decelerate innovation, enabling or disabling a culture of innovation throughout their company.

It is the responsibility of all executives and managers to build a culture of change, but the (R)Tech Center has found that three executives are integral. The CEO leads by example, providing a vision, support, and guidance to others. The CFO invests in the business's future. And the GC provides frameworks that promote measured risk-taking.

The Chief (R)Tech Officer – the C(R)O – and other executives leading innovation sit in the center of the *Leadership Trifecta*. They benefit from the CEO, CFO, and GC's support, or – in contrast – are inhibited when there is a lack of leadership, financing, or risk-taking. A committed and engaged executive team lays the foundation for a culture of innovation.

Innovation Leadership Trifecta

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              CEO


           C(R)O


  CFO ----------------- GC
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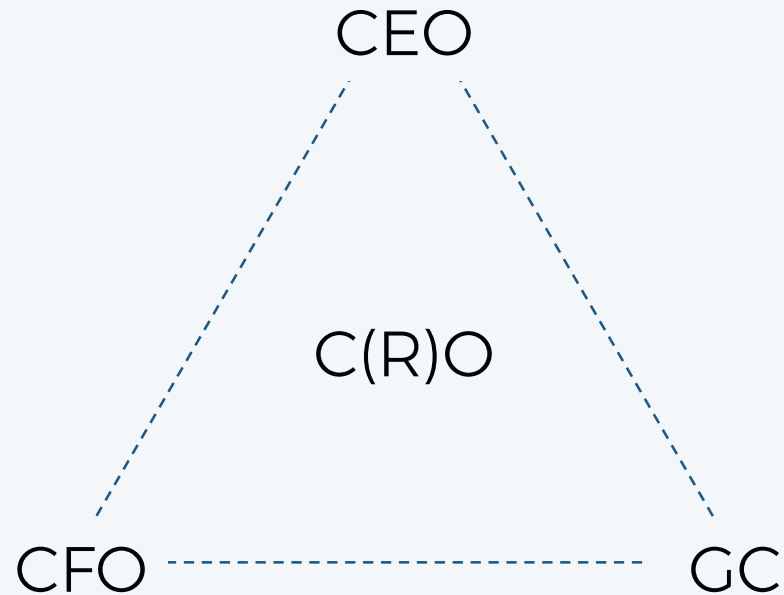
Getting to "Yes"

A simple practice for executives and managers alike is to end the stigma of reactionary "no's." Corporate cultures often create an environment where managers instinctively dismiss new ideas, leaving employees to abandon them. Innovative cultures green-light more ideas, which encourages their employees to innovate further.

Quick Wins with Capital One

Recognizing that many employees receive quick "no's" from their supervisors, Capital One saw a chance to change. A small team started to use innovative ideas to help those who were too busy and would otherwise refuse. Accumulating quick wins helped them prove innovation's worth and create internal "Innovation Champions" willing to help employees test new ideas. This created a valuable role for both managers who focus on the core business and those willing to experiment with change.

Say Yes, More with Amazon

To inspire innovation, Amazon says "yes." They believe their managers say "yes" more than any other company on the planet. For them, what counts most is how committed an employee is to their idea, not how well each idea pans out.

Changing the institutional "no" into "yes" has become ingrained in the company's DNA, allowing them the freedom to explore many new ideas without the fear of failure reflecting on employee's annual reviews.

Comfort in Failure

For innovation to thrive, a company's culture must support fast decision-making.

This is not only true for initiating projects, but also for ending experiments. Making quick decisions often means not waiting for every possible answer and being willing to take risks. The retailers leading innovation are those who have the capacity to quickly act, and whose executives and managers are empowered to do so.

Coca-Cola, for example, has had a lingering distaste for change after the company's reformulated soda recipe bombed in 1985. But, as consumer preferences are changing, CEO James Quincey recognizes the need for innovation. According to Quincy, while having some fear of failure is justified, inaction is what causes a company to fall behind.

> " IF WE'RE NOT MAKING MISTAKES, WE'RE NOT TRYING HARD ENOUGH. "
>
> - JAMES QUINCEY, CEO, COCA-COLA

Building Toward Transformation

The (R)Tech Center's Innovation Management Model identifies 30 dimensions for effective retail innovation programs. While many dimensions relate to building an innovation culture, two specifically focus on comfort with failure: Incentives for Innovation and Experimenting & Iterating.

Elements of the (R)Tech Innovation Management Model	
Incentives for Innovation	
Incremental innovation: • Compensation systems for senior- and mid-level employees that recognizes, celebrates, and rewards innovative employees and ideas	*Transformative innovation:* • Compensation systems that recognizes and rewards failures to highlight that it is okay to fail, so long as the company learns from it • Financial or equity compensation for employees that introduce or lead new, disruptive innovation projects
Experimenting & Iterating	
Incremental innovation: • Design, build, test, learn cycles – not only applied to technology adaptation, but also to market learning (e.g. daily builds, alpha & beta testing) • Leveraging design thinking processes that include rapid prototyping	*Transformative innovation:* • Specific processes and resources in place to rapidly test new technologies and business processes/systems • Defined metrics to test/measure the success of innovation projects

03 | Customer Empathy

Building Empathy for Customers

Customer-centricity is the heart of an innovative culture. Retailers' must immerse themselves in their customer's wants, desires, frustrations, joys, hopes, behaviors, and aspirations, building a deep empathetic understanding their customers.

Jeff Bezos, CEO of Amazon, calls this customer obsession, the first component of his Day 1 platform. Retailers must understand more than just customer segments, they must understand the customer as a person. Customer empathy equips retailers to create the strongest possible connection to their customers, in turn, honing the focus of innovation efforts.

Companies that ranked in the top ten among the 2015 Global Empathy Index doubled in value as compared to the bottom ten. Of the top 20, seven RILA members made the list: Unilever #5, Whole Foods #8, Johnson & Johnson #9, Starbucks #14, Apple #15, Proctor & Gamble #17, and Nike #20.

Closer Look: 3M

3M has long been considered one of the most innovative companies, largely due to their innovation processes centered on customer empathy. The most valuable innovations are not always the most glamourous, but are the everyday features that people use to make their lives easier and more productive.

For example, hospitals clean their floors with a mop and bucket to avoid spreading infection. The process of constantly lifting the mop bucket to refresh the soap and water led to the cleaning staff enduring a high amount of shoulder injuries. This insight, identified through a customer empathy process, permitted 3M to develop a self-cleansing floor mop that reduces chemical and water use, cleaned more effectively, and eliminated shoulder injuries.

Much of 3M's product line can have a real impact on people's lives, which is why they believe empathizing with their customers leads to extraordinary results.
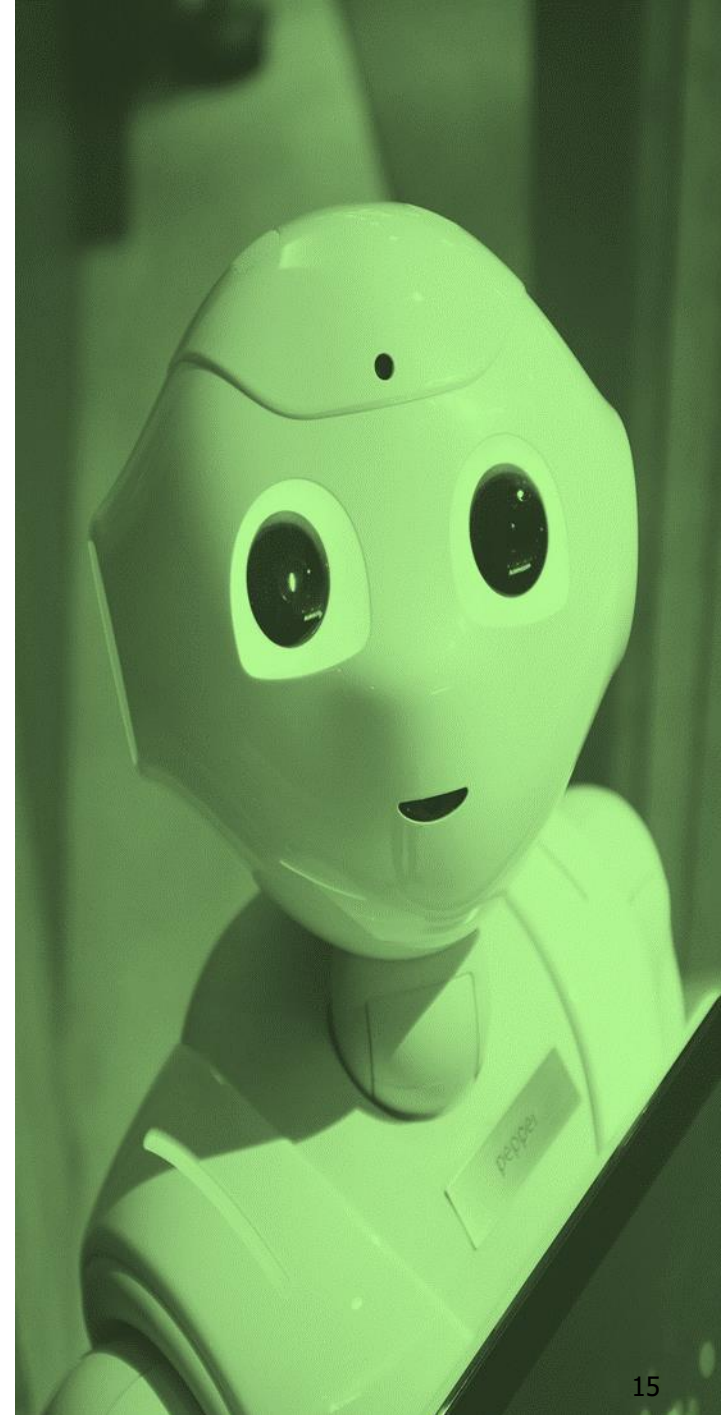
04 | Employees & the Workplace

Building Organizational Capital

Investing in employees drives a sense of worth, connection, goodwill, and loyalty – underlined organizational capital. Developing their innovation skills encourages them to engage with the company in even more dimensions.

For example, Autodesk uses workshops to train their employees to execute on good ideas, teaching them how to pitch an idea to management.

Encouraging employees to take ownership of, and accountability for, their work produces higher quality output and gives employees the opportunity to innovate, while increasing the company's overall productivity.

The (R)Tech Innovation Management Model highlights incentives for innovation, department level and HR mechanisms, and the physical office building and layout as key areas that help drive employee cultures towards innovation.

Culture of Innovation from the (R)Tech Innovation Management Model		
	Incremental innovation:	*Transformative innovation:*
Development-level innovation & HR mechanisms	• Voluntary internal innovations working committee • Staff in critical departments have accountability for managing department-level innovations	• Systematically uses mechanisms to bring together cross-functional teams to overcome silos • Working with senior teams and HR to re-organize company to support future business growth • Exposes senior leaders from across the enterprise to start-ups and new business models • Company's innovation platform attracts new talent
Place: the physical office building and office layout	• The physical office spaces are organized to maximize departmental efficiency; e.g., relevant departments are physically located near one another	• The physical office spaces are organized to fuel creativity, connection, energy generation, and "planned serendipity" • The office's location is in a place (city or neighborhood) that fuels further innovation and creativity

Empowering Store Associates

Store employees are retail's frontline, bringing the company's purpose and customer-centricity directly to consumers.

Retailers like Costco, HEB, IKEA, Trader Joe's, and Wegmans are known for their store cultures, challenging their employees to seek improvement and reinforce the company's purpose. These efforts land them among the Glassdoor's "Best Places to Work" rankings.

These companies offer ample opportunity for growth, they have developed cultures where employees earn and are rewarded for their accomplishments — resulting in workplace pride, employee loyalty, and greater customer satisfaction.

> " RETAILING IS FUNDAMENTALLY A PEOPLE BUSINESS, WHICH MEANS IT HAS TO GET THE PEOPLE PART RIGHT. "
>
> - JIM SINEGAL, COSTCO FOUNDER

Closer Look: HEB

For HEB, employees come first. The company believes that investing in employees, and creating everyday purpose for them is extremely valuable to the workforce.

HEB challenges their employees to continue to grow by promoting a culture of "restless dissatisfaction" led by CEO, Craig Boyan. However, the idea of continuous self-improvement is not without speedbumps, often creating a "dog-eat-dog" environment. In order to foster collaboration and cross merchandising, and to eliminate internal competition, the company was driven to remove employee incentives in favor of store-by-store competition. HEB's efforts paid off in a trusted environment for employees.

What makes HEB stand out, is their unwavering commitment to pay employees more each year. This strategy has landed them on numerous top company rankings for employee satisfaction, consumer trust, and company culture.
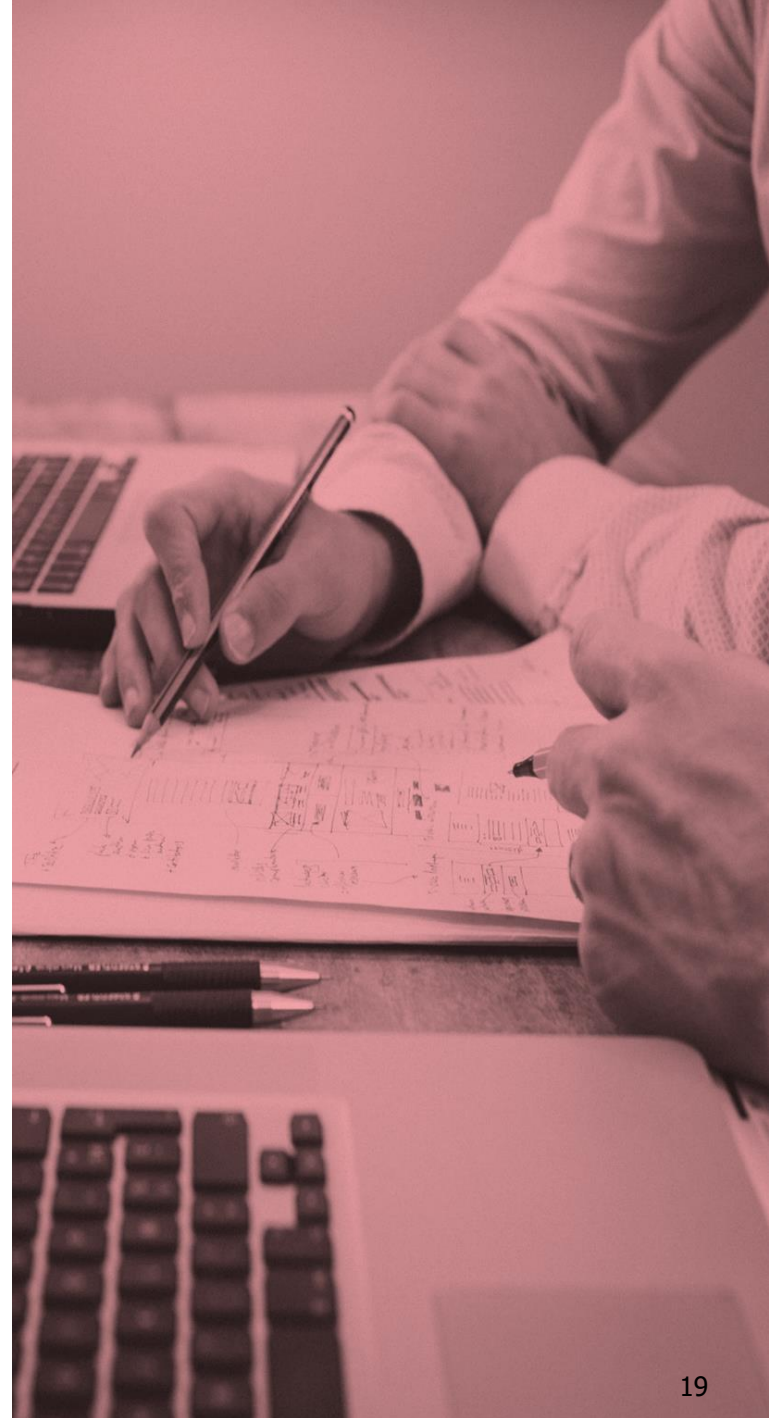
Enlivening the Workplace

A noticeable shift in focus on the workplace environment and how it affects health, productivity, innovation, and work-life balance has emerged in the last few years.

Tech companies are well-known for their innovative workplaces that include collaborative areas; flexible work stations; outdoor, exercise, and entertainment facilities; health-centric cafeterias; and more. These elements have become the cornerstone of those companies' cultures. But even without ping-pong tables and gourmet chefs, the office environment can enable creative thinking and healthier, more productive spaces.

This fresh take on office environments is used as a way to spark innovative thinking and collaboration among employees. They are also seen as competitive "work perks" to attract young talent entering the workforce.

As with all innovations, some may not succeed. Innovations in workspace design is no different. The effort to configure the workplace – with the Millennial generation's spirit in mind – to encourage collaboration and innovation has sparked some controversy. Not all employees are accustomed to working in open spaces and "hot desking." To these employees, the space can often feel like a constant distraction. Even more concerning are the potential privacy issues of offices that can track employees throughout their campus. IBM, one of the early advocates of remote workers, reversed its work at home policy, hoping to improve collaboration and accelerate the pace of work.

The New and Trendy

Many new workplace trends have recently emerged. Here are several examples of office environments that encourage a culture of corporate innovation.

New Spaces with Apple

Apple's new Cupertino headquarters is a four story, circular building that emulates the iPod's dial. The design is meant to be attractive and productive to attract top-talent to their doors.

Apple CEO Tim Cook evokes founder Steve Jobs: "He intended Apple Park to be the home of innovation for generations to come….We've achieved one of the most energy-efficient buildings in the world, and the campus will run entirely on renewable energy."

Shared Views at Salesforce

Salesforce Tower will be a bold display of the company's culture, with views of San Francisco and planned nightly lightshows. The top two penthouse floors with breathtaking views will be used as an employee lounge, not executive offices.

But the real innovations are within. The LEED® Platinum pre-certification supports occupant health and wellness. And the high ceilings provide abundant daylight.

Healthier Workforces at J&J

Johnson & Johnson views its unique workspaces as helping to encourage healthy behaviors among employees. Campuses around the world have unique amenities like beach volleyball, gardens, "energy spaces," bicycle desks, fitness classes, and nature trails to help reduce stress and foster social interaction.

The company's goal is for the healthiest workforce in the world by 2020, a clear signal to its 125,000+ employees.

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(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 in early 2017, we embarked 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.

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