By Ajay Lalu

How retailers can win the innovation game

Technology innovation is key to success in the highly competitive retail world. Learning how to work with start-ups is a must-have capability for retailers wishing to create smart ecosystems.

One of the most burning questions in retail is how to access the best innovations, and successfully use them. Retail's basic premise – selling goods to customers – is quite simple, and the barriers to entry are theoretically rather low. As a result, retailers have been enthusiastic innovators in the perpetual drive to keep abreast of customer demands and stay one step ahead of competitors.

Much of the innovation that occurs in retail revolves around technology. E-commerce, digitalised supply chains, loyalty programmes and stock management systems are some of the areas where innovation continues to help retailers push the boundaries of customer service while improving profitability through streamlining business processes and exploiting the insights contained in their data.

The importance of technology in retail is underlined by escalating spending. Gartner predicted retailers' technology spend to reach $218.5 billion in 2021, and then continue growing by a further 3% in 2022. The sector's spending on artificial intelligence alone was expected to reach $7.3 billion by 2022.

Two enduring challenges continue to keep retailers up at night, and thus are a focus of technological innovation: how to ensure that shelves are always fully stocked (with the right items at the right price), and how to make payments easier and more convenient for customers, be it at a physical point of sale or on an e-commerce site or app.

Innovation related to these areas – and others, of course – is occurring at breakneck speed. For retailers, therefore, the question is how to ensure access to the best innovations and bring them to commercial viability. A key dynamic here is that it is the larger retailers that typically have the investment clout to finance innovation, while the inventions themselves are typically created by small firms, often start-ups.

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It's vital to understand this dynamic because it holds the key to turning a promising technology into a gold-plated competitive advantage. The challenge is that there is literally a chasm between the way a large corporate retailer and a start-up operate. For the corporate, it's all about long planning and budgeting cycles, with multiple stakeholders from the board and exco down having to be brought on board; for the start-up, it's all about speed. The latter is typically short of cash and long on ambition, eager to get the solution perfected and working.

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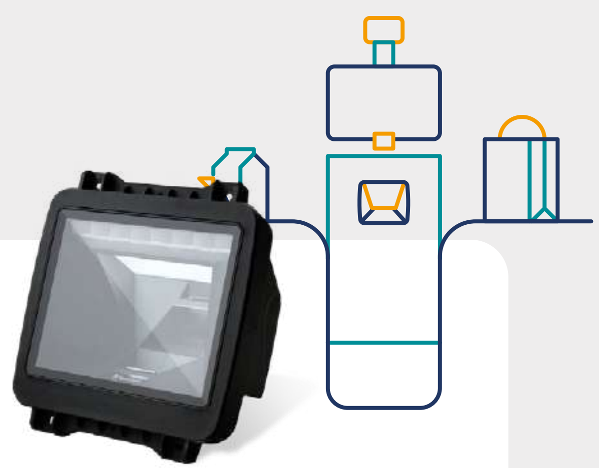

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Both need each other, and both therefore need to understand how to work with the other. For corporates, this is essential in order to access the new ideas and technologies that will keep them ahead of the pack; for the innovator start-ups, it's all about access to the financial resources to keep on developing and testing, along with a route to market.

Making the right choice

In my experience and based on my observations of the industry in South Africa, there are basically two models that corporates use to access the innovation they need, once the appropriate start-up has been identified. The first is simply to acquire the company and its development team. This is the approach followed, for example, by Pick n Pay, which simply bought out Bottles, its online shopping partner.

The second option is to enter into a strategic partnership with the start-up – or to acquire it – but keep it as a separate company, insulated from the slow, bureaucratic processes of the parent. I believe this model offers the best chance of success and offer Checkers X as an example – its back end is powered by Zulzi, which remains a separate company, and its growth has been nothing short of phenomenal. The founder, Vutlharhi 'Donald' Valoyi, has been quoted confirming my essential point: "Big corporations must be more flexible and be open to work with start-ups and allow them freedom to continue to grow."

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Success factors

Given the inherent and profound cultural differences between them, both parties need to play their part in making the relationship work. Start-ups need to understand the competitive landscape very well – and what their unique value proposition is. Corporates see hundreds of good ideas a month; it's important to stand out.

Start-ups also need to understand that corporates do not buy in a hurry, and that the sales cycle is typically one to three years long.

A major disconnect is that start-ups often imagine that the corporate will provide the cash for them to realise their idea. Nothing could be further from the truth – corporates want something real to buy. However, that doesn't stop a smart start-up from validating its idea with corporates, and then keeping them in the loop as the technology is built. In this way, the start-up builds a relationship that might ultimately result in a sale.

Conversely, corporates need to understand the challenges that start-ups face, and be available to offer comment as needed during the development process. They should make arrangements to be able to close any deal and make the payment rapidly – start-ups do not have the resources for long negotiation and payment cycles.

The important point is that corporates need to establish how to work with start-ups in order to access the innovation they need. To do that, they need to look at the relationship as a strategic one, not a procurement transaction. SR

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Ajay Lalu is a serial entrepreneur who has founded several successful companies including the Black Lite Group. He has showcased CIRT's innovative solutions at the world's largest IoT Conference, IoT Solutions World Congress – Barcelona, 2019. He is a guest lecturer at the Gordon School of Business (GIBS) on digital innovation and strategy. Ajay is greatly involved in initiatives aimed at developing SMMEs and tech start-ups.