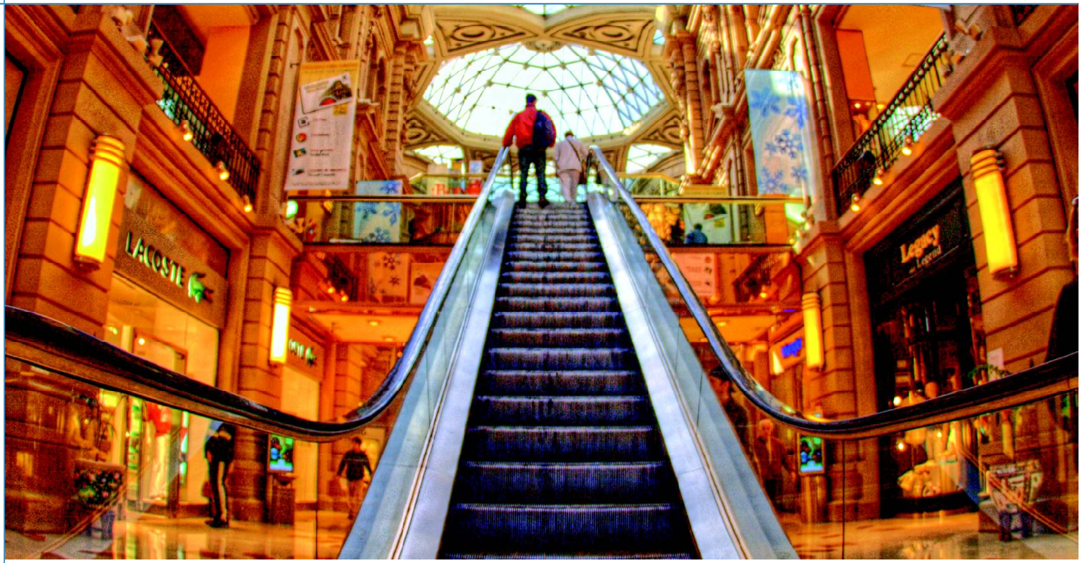
REVERSE INNOVATION

Climbing the Ladder of Retail Innovation for Emerging Consumers

Insights from Latin America

Emerging consumers want and need it all. Some Latin American retailers have created innovative and attractive shopping experiences that successfully and profitably moved these consumers from resignation to access in both a functional and an emotional way. Different roads may be used to cater to these vast needs, as proves our study of several retailers using a holistic, industry-specific approach brings out.



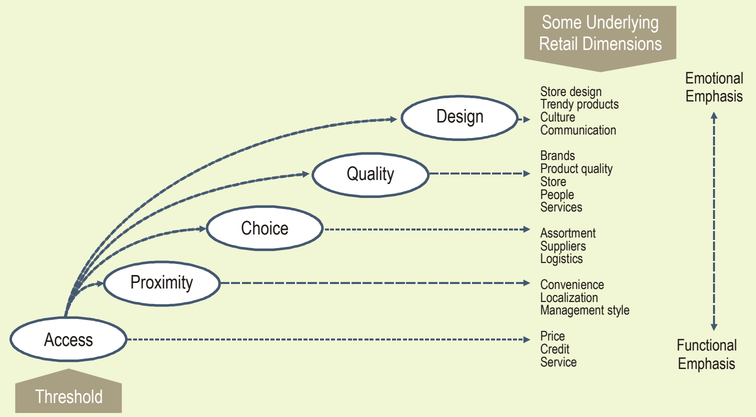
In recent years, we have seen numerous attempts at product innovation for emerging consumers. Prominent companies such as Unilever, Tata, Procter & Gamble, and Avon, have introduced a variety of concepts – ranging from simple incremental innovations like a new packaging solution for shampoo to radically new platforms like the Nano car – in an effort to better serve this rising segment's needs. The primary focus has been on providing access to higher-quality, lower-cost products than those emerging consumers could traditionally afford.

Product innovation, however, is difficult for retailers to embark upon. Retailers typically have no say in the specifications, functionalities, or design of the majority of the products they sell. By definition, retailers provide shelf space to exhibit and promote the sale of other companies' products. Electronics retailers sell the same laptops built by Apple and HP. Pharmacies sell the same drugs manufactured by Pfizer or Merck. How should retailers innovate when some of the most visible attributes of their business are beyond their control?

Retailers catering to the Bottom of the Pyramid (BOP) face additional challenges in innovation. To begin with, innovation requires costly investments which may or may not yield positive results in the long run. Some of these results may come from value-added services embedded in the retail experience – for which consumers should be willing to pay

Exhibit I: The Ladder of Access for Emerging Consumers

The ladder depicts five entry points to engaging emerging consumers. While retailers should strive to address all entry points at a minimum level, their chosen business models may emphasize a specific subset of them.



premium prices. But emerging consumers do not have much disposable income – most of their earnings go to covering essential expenses. Consequently, premium products or services rarely have a place in their shopping routines. Other positive results should then come from an increase in sales volume. Retailers are then faced with the difficult challenge of achieving this increase by tapping into emerging consumers' long-established shopping habits. It is not surprising to see, therefore, that this group has seldom been the target of innovations in retailing. How should retailers innovate to ensure both profitability and consumer satisfaction?

Retailers catering to the BOP can and should take active steps to control a critical aspect of their business that may have significant impact on their consumers – the shopping experience. We shall see that, especially in connection to this segment, retailers should be aware of both the functional and the emotional sides of the shopping experience. An innovation that provides access to a valuable and dignifying shopping experience is not only likely to be profitable in the long run but can also make a difference in the lives of emerging consumers.

The Ladder of Access for Emerging Consumers

In the course of our study, we have identified a set of five interconnected dimensions that retailers catering to the BOP should use to identify opportunities for innovation. We call this set of dimensions the 'ladder of access' because each step provides a different and, to some extent, sequential entry point for enhancing the shopping experience. As shown in Exhibit I, the initial steps in the ladder respond more closely to functional consumer needs, while the latter steps tend to address more subtle emotional needs.

The ladder begins with the threshold of access to goods and services that were previously beyond the reach of emerging consumers. This is a fundamental step. Emerging consumers devote most of their disposable income to household expenses; their ability to generate savings is, therefore, limited, as are their chances to acquire high ticket items such as quality furniture and useful appliances. Budgetary constraints are further

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exacerbated by the relative absence of credit options. Few emerging consumers possess bank accounts; still, 'bankable' individuals face difficulties obtaining loans because they lack adequate credit histories, proof of income, or collateral. Moreover, should consumers fail to comply with interest payments, financial institutions offer little or no room for debt restructuring. Innovative retailers grant access via affordable prices, the provision of credit, and value-added services.

After this initial threshold, emerging consumers appear to move to the next step: 'proximity'. Proximity refers to consumers' desire to count on a variety of retail outlets in the vicinity of their homes, their place of employment, or high-traffic areas, such as train and bus stations. The proximity step highlights the dimensions of convenience and ubiquity of shopping outlets, in contrast with size, which often requires stores to be located in faraway areas. Most emerging consumers cannot afford a car, so that commuting to stores on the outskirts of the city can be a strenuous and costly endeavor. Proximity refers also to affection and integration between customers and the retailer's sales force or management team. The larger the background similarity and understanding between company employees and emerging consumers, the higher the access offered due to proximity.

The subsequent step is 'choice', which is closely associated with the idea of an adequate degree of assortment in the store. Assortment shortens the purchasing process by presenting consumers with an attractive range of goods, at any one time, to choose from. This gives customers the perception that they have researched and compared a satisfactory number of alternatives, and contributes to their overall satisfaction. In order to ensure a proper degree of assortment, retailers must often work closely with suppliers and develop sourcing systems that will suit product turnover ratios.

The step of 'quality' is connected with attributes of the shopping experience, such as the durability and brand of the products, the store's layout and environment, and the service level provided by store personnel. Some emerging consumers reported finding sales assistants sophisticated, snobbish, cold, and out of touch with the real needs of low-income families. The absence of proper guidance and assistantship leads emerging consumers to believe that proper service will only come at a higher price. Some show surprise and even skepticism when stores offer complimentary services, such as free installation of household appliances.

The last step in the ladder is 'design', one of the most complex, yet most valued dimensions of the retail experience for emerging consumers. Emerging consumers take for granted that a modern, fashion-able shopping environment also carries a premium price. Thus, to provide this segment of consumers with access not only at a functional but also at an emotional level, retailers should offer an attractive, affordable and dignifying shopping experience. Empathic communication, both inside and outside the stores, could enhance the attractiveness of the whole experience. A more intangible aspect of the organization, its culture, also needs to be carefully designed and monitored to provide the right shopping experience. It is essential to note that each step in the ladder represents an opportunity to create a relationship with the consumer. In principle, retailers should view all steps as interconnected, and, therefore, strive to address them all (at least, to a minimum degree) in their business model. We see in practice that certain steps tend to gain preeminence. According to the dimensions of the business model the retailer chooses to emphasize given the reality of the target segment and the competitive scenario it faces.

A Holistic Approach to Climbing the Ladder

Our study shows that different dimensions of the retail business simultaneously affect more than one – and sometimes all – of the steps of the ladder. Thus, a holistic approach is needed in order to better understand and deploy an innovative retail solution. To stress the idea of a necessary 360° business model examination, and specifically, to learn from those retailers who successfully innovated in this manner, while catering to the BOP, we borrow from and combine two different frameworks: *the innovation radar*[1] and *8-Ways-to-Win in Retailing*[2].

The innovation radar is one of the few frameworks that offer a truly holistic and practical tool for analyzing the degree to which companies innovate in their business models. By graphically representing a company's initiatives in each dimension of the model, the radar helps managers evaluate possible interrelations between the dimensions

[1] Sawhney M, RC Wolcott and I Arroniz. 2006. The 12 Different Ways for Companies to Innovate. *MIT Sloan Management Review*, Spring 2006, pp. 75-81.

[2] Guillermo D'Andrea, Lawrence J Ring, and Douglas J Tigert. 2004. *Retail Management: Claves de la estrategia y gestión minorista*. Publishing house, city. Temas Grupo Editorial. Buenos Aires ISBN: 950-9445-01-0.

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