



Rethinking Innovation: The New Retail Business Models

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It is a question of survival. Competition is everywhere. Traditional retailers continue to up the ante, retailers in seemingly unrelated sectors creep into your categories, global entrants appear from abroad, and large retailers continue to consolidate to achieve economies of scale.

How can retailers compete? The answer often lies in differentiation. There are many ways to accomplish this. Innovative strategies, products and services have traditionally provided the means. But recently, wildly innovative new business models have begun to emerge, with great success. Because they are innovative, they are seldom well proven, and retailers find themselves in uncharted territory. The risks are plentiful, but the rewards can be significant.

New Channels, New Selling

The Internet has spawned a variety of new business models. Many of these would have been unthinkable ten years ago. One of the best examples is eBay, who has launched an entire new industry through its innovative business model and constant reinvention.

eBay began by matching private buyers and sellers through auctions. Who could have predicted that this would succeed? Next brick and mortar retailers joined in the selling, some closing their stores and others adding to their channels and reach through eBay. New businesses emerged to help sellers with sales and fulfillment, such as iSold It and Quick Drop. And a variety of other auction retailers like ubid.com have emerged and portals like Yahoo! have launched their own versions.

Other e-retailers have similarly achieved success with their own Internet-based business models. For example, Amazon's unique model continues to evolve. It built its success selling books online and now capitalizes on its relationships with customers through its increasingly expanded merchandise assortments in online stores around the world. And then a new business model emerged: the company discovered its platform was marketable, and now represents other retailers in its online store.

We are immersed in a hit driven society. There is only so much space on the retailer's shelf, so retailers limit products to those that generate sufficient demand to earn their keep. But with online retail and distribution, a new business model based on abundance is now available. Amazon, for example, offers 2.3 million books whereas Barnes and Noble stocks only 130,000 in a typical store. Yet 57% of Amazon's sales come from books that are not available from Barnes & Noble. Similarly, Netflix offers 25,000 videos whereas Blockbuster offers 3,000, and 20% of Netflix sales stem from titles that can't be found at Blockbuster.ⁱ

There are other striking examples of innovative web-based retail models: Yub.com launched an online virtual mall representing brick and mortar retailers, with Yubbers reaping tangible rewards for recommending products to each other through an online social network; and Apple iTunes continues to outsell competitors in its category with its high priced iPods linked to its online store.

These examples illustrate what is possible. Yet we have only scratched the surface on new business models for selling on the net.

New Brick and Mortar Store Models

But the story and opportunity go far beyond web sales. Retailers can harness the Internet to change the brick and mortar store model and experience. Customers, for example, used to surfing the net at home for product information, can be provided with the same access in the store, to serve themselves quicker and more efficiently. The result: higher customer satisfaction and less personnel required!

Those same customers, fully comfortable with technology as it pervades every aspect of their lives, might welcome a fully automated brick and mortar store, with faster navigation and checkout. They might also significantly enhance the retailer's offer (and sales and customer loyalty) if given the opportunity to contribute their ideas through the right tools.

New models can also dramatically alter what employees do, along with their contribution. For example, with access to information in real time, they can be empowered to up the bar on customer service, answering customer questions on the spot and guiding those customers in making the right product selections to address their needs. They might also be provided tools to communicate with others, both internal and external to the company, to address issues as they arise. And they just might learn to love their jobs, once they realize their voices matter.

The trick lies in using technology innovatively to change the business model. Rather than duplicate competitive business models, study other industries, and think out of the box. The rewards will be well worth it.

ⁱ Chris Anderson, "the Long Tail," *Wired Magazine*, October 2004.