

Coles Myer: the use of innovation incubators

Highlights

- After concentrating on its core business for a decade, a confident Coles Myer has developed a formula for managing and encouraging innovation.
- New specialty businesses are being trialled in 'concept stores' to test consumer reaction and marketing strategies. Each concept store pushes a product or service as far as possible, and the company then takes the learnings from each store back into the core business.
- When successful, the concept stores will be replicated to create national chains.
- The trialling of new ideas in this way lowers risk and enables management to encourage and nurture innovation.

As General Manager, Specialty Businesses, Greg Warren effectively runs the 'innovation incubator' for Coles Supermarkets.

Each of the four specialty businesses under his direction are in effect new concepts, trialling new approaches to retailing. The very act of creating his role, he says, reflects the growing commitment of the company and its senior management to innovation.

It also reflects a prudent decision to explore these new areas in a way which does not put at risk the company's traditional core business and proven systems. A concept can be tested and fine-tuned. If successful it can then be progressively replicated at other sites.

At present there are four very different operations being tested, two of which have already been expanded to a second outlet. These are:

- *Essentially Me*, which focuses on health, beauty and lifestyle products and services,
- *let's eat*, a food and wine emporium,
- *Coles fast & fresh*, a joint venture with Mobil designed to offer supermarket-standard pricing and product with petrol, and
- *Pick'n Pay* hypermarkets.

While the *Pick'n Pay* business in Queensland was an acquisition, the other three concepts were conceived within the Coles group.

Although the ideas are managed by Specialty Business, they come from a range of areas within the company: merchandising, state and regional offices, senior management and store personnel all played roles in developing the projects.

The importance of trialling these concepts, says Warren, is that while each of these specialty outlets presents significant opportunities for market growth, they also present

challenges in adapting the corporate culture and mass-merchandising operating systems that Coles has developed, and which underpins its position as Australia's largest, most profitable retailer.

It is not just a matter of redesigning the store furniture; it is a matter of culture – of staff training, changed approaches to service and the changed economics of businesses with these different focuses.

“In that regard,” he says, “*Pick'n Pay* is the closest to our core business, since it is in effect a combination of a range of Coles traditional business, a sort of Kmart, Target and supermarket under one roof. Much of the culture and operating systems can thus be retained.”

The other businesses have required greater adaptation.

Essentially Me was developed to capture a greater share of the growing market in health, beauty and lifestyle services and products. It provides the Coles group with an opportunity to offer not only traditional product lines, but also a range of beauty services and high-fashion brands.

“Prestige cosmetic houses aren't available in supermarkets,” says Greg Warren. “They want to be presented in the right environment.”

“*Essentially Me* is not just a place where you can get the full range of health and beauty products – across all price levels – but where you can also receive a specialist service.

“It has potential to attract a new market as well as present new products, but before we went further with a chain of stores, it was important to fine-tune the concept and ensure we had both the product and the economics right.

“It is a very different balance from supermarkets. It requires a different level and style of staff training and product knowledge, different levels of customer service, different store layouts and a comprehensive product offer that is credible to our customers.

“So far this is coming together quite well. Consumer response is good.

“We are about to open our second store – and as that proves successful we will consider more.”

Coles fast & fresh, which Coles is operating in conjunction with Mobil, presents different challenges, most notably that of offering supermarket-standard pricing and product on a petrol site, which is considerably smaller than traditional supermarkets.

“It is not just a matter of economics; there are also issues like staff security, particularly late at night. You need to consider safety issues as well as the number of people required to meet customer demand,” says Warren. “It is a new area for us and we have to learn how to operate smaller units and lower volumes.”

By far the greatest challenge is posed by *let's eat*. This ambitious concept encompasses fresh, semi-prepared and prepared foods, dining facilities, bars and wine retailing.

One commentator described *let's eat*, not entirely kindly, as every bright idea from every bright designer and merchandiser put together under one roof. Greg Warren can smile when reminded of this and says that it is also one of its strengths.

“At *let's eat*, Coles has pushed the boundaries of retailing further than in any other venture, both in concept, store design, layout and technology. If we need to wind back a little on some elements, we will still have a very exciting project.

“We’ve already made some refinements based on customer feedback – initially some found the layout a little confusing – but consumer response is now very positive. We will continue to evolve the store to meet our guests’ needs. We’ve also shifted the emphasis a little more towards an eatery than a store.

“We’ve now got something that customers love; but we still have work to do in refining it as a business. It is probably the most fascinating and most challenging of our innovations.”

When *let's eat* was launched, Coles deliberately recruited from outside the retail industry. Most of the new staff came from the hospitality industry.

“That has helped us achieve very high levels of product knowledge and customer interaction,” says Warren, “and this is a big part of its popularity with customers.”

Greg Warren recounts a recent visit to *let's eat* where a customer (or guest, as they are known at *let's eat*) asked him where she’d find a fairly well known brand of wine. Not seeing it on the racks, he referred the customer to a sales assistant who proceeded to explain that they didn’t stock it because there was a very similar wine from a neighboring vineyard that offered equal quality at far better value for money.

“The sales assistant explained the location of the two vineyards (which were in New Zealand) and the subtle distinctions between the two wines. By the time she had finished the customer was not only happy to accept the alternative, but delighted with her purchase. She took two bottles. “

Another time a customer telephoned to order a hamper for a special romantic picnic in the park. The assistant who took the call not only made up a beautiful hamper but put in a frisbee. It was a small touch, but one which delighted the customer.

“Somehow we need to retain that sort of passion for the product and that level of thoughtful individual service while adopting more of the business systems and handling efficiencies that make Coles such a successful retailer.

“If we can get that mix right, developing a culture that combines the best of both, we will have a terrific business concept that we can replicate.

“That’s the challenge for everyone involved – to make a good idea into a successful business.”

Creating an innovative environment

With four new business concepts being developed simultaneously Coles is clearly in an innovative mood. How does a very large and long established business build and maintain such a culture?

Greg Warren believes that two factors are at play: corporate confidence and the development by senior Coles management of a formula for managing innovation.

“Our core businesses is so strong that it has given us the confidence and the capacity to look for new ideas and new opportunities.”

Successful retail ventures are a complex blend of product range, service, pricing and ambience, backed by efficient business systems. It is not something that you can easily test in a laboratory or in a consumer questionnaire.

As Greg Warren says: “Retail innovation is not a one-off thing. It is a process of ongoing involvement and development in the light of customer reaction.

“Management has created a framework within which we can be more positive in our attitude to innovation because we have processes by which they can be trialled and risk and benefit can be assessed and managed.

“Hopefully all of the concepts will develop into viable businesses in their own right in time, but some of our learnings and benefits can find their way into supermarkets now.

“For example, a special meat humidifier, installed at *let's eat* to keep displayed meats moist, has been adopted by our supermarkets. A panty hose unit developed for *Essentially Me* is also finding wider applications.

“Some of our concept stores will inevitably be more successful than others but the point to remember is that today’s innovation is tomorrow’s growth.