

THE IMPACT OF INNOVATION ON THE RETAIL COMMERCE

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Abstract: *This paper highlights the contribution of innovation process in retail development. Lately, in this area has appeared many innovations (related to products, processes or technology) which have brought many benefits for the performance of trade activities. Many retailers have realized the benefits of innovation and have gradually adopted them, offering to their business the chance to grow. Romanian retail companies are trying to adjust to the changes in the field, being aware that long-term, innovation is the key to business success.*

Key words: *innovation, retail, merchandising.*

1. Introduction

Retail has become a dynamic sector, with a rapidly evolving and a diversity of organization forms, especially because of economic development and technological progress seen in recent years. The rapid development of retail was sustained by innovation, which helped it to adapt rapidly to market conditions, to continued growth in consumer demands and requirements and to traders need to streamline business activities.

In Romania, the importance given to both marketing and innovation is very small, considering the European ranking for Innovation - European Innovation Scoreboard - 2010, where Romania is placed in the fourth group - recovery countries with innovation performance well below the EU average.

The modern economy has led to new demands from the retail, determining it to develop and provide services to improve the system of satisfying consumers' needs. To achieve these objectives, commerce

appeals to an innovation process. This could be a new product, a change, a technical improvement or streamlining for applied solutions.

2. The importance of innovation in retail trade

Innovation means both creating and bringing into profitable use of new technologies, new products, new services, new marketing ideas, new systems and new ways of operating [3]. According to the Oslo model [2], the main types of innovations are: product innovation, innovation process, marketing innovation and organizational innovation.

In the commerce area, all four categories of innovations are important because, combined, they lead to a positive image of companies among consumers and employees, help to increase sales, to facilitate distribution and to create products that are attractive to customers.

The sources of innovation could be the emerging opportunities in the market

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structure and industry, regulatory changes, the way of perception of things, etc.

In commerce, innovation fulfills multiple roles: maintains the competitive advantage, retains or develops market position, facilitates the traders' activity and performs various operations, reduces production costs, ensures the survival of firms in the market and gives them the possibility to advance, faces the frequent changes of customer expectations and needs.

3. Types of innovations in retail during time

The evolution of world economy shows that, throughout the globe, trade and especially retail, has become progressively a very dynamic economic sector, knowing a series of changes in all areas: methods of sale, distribution forms and geographical distribution of business management.

Retail trade has an important role in the commercial circuit of products because it is the intermediate link in the producer-consumer flow of relations. When this trade appeared, there were introduced some techniques and technologies for attracting more customers, offering customers a variety of products, making distribution more efficient and fast.

The first innovation introduced by supermarkets was the *self-service*. This way the sale was born in 1920 in America, entering gradually in Europe (first time in France - early 1950) and in Romania appeared in 1970.

This technique is based on the presentation of a large number of products in the same place without the involvement of retailers. The consumers gain more time by this way. The products are presented in prepackaged units in sufficient quantity. They are emphasized through exposure furniture, markings, signs, point of sale advertising, etc. and the payment is done at the way out from the store.

Self-service leads to: increased sales volume, contribute to the development of modern trade in rural areas, increased selling space and the number of staff, reduce serving time, give the possibility of lower prices compared to those charged by traditional retailers, facilitate the sales.

Another innovation in commerce is the introduction of *barcodes*. They appeared to simplify and streamline customer service and they are defined as representations of data to be read and decoded by using optical scanners that measure reflected light and interprets the code numbers and letters and send them to a computer [11].

Bar codes allow rapid identification of a product and its characteristics (nature, origin, type, weight, price, etc.). Their advantages are: effective control of inventory, the import and export of product management, tracking serial numbers; automatic selection of prices, elimination of errors caused by human operation, simplifying the physical distribution, allowing the immediate release of bills containing detailed information about the products purchased, reducing waiting time for the customers.

Today, barcodes are scanned over ten billion times a day in the world, being regarded as "a journal of modern life and cultural symbols of the cold efficiency, identification and control techniques" [5].

But lately, bar codes are replaced by a new innovation: *RFID - Radio Frequency Identification*. This technology involves using devices called RFID tags - to store and retrieve data remotely using radio waves, RFID transponders of an RFID reader device.

RFID tag is a very small object (sometimes can be 1mm x 1mm size), which can be applied or incorporated into any product or object, animal or person and normally contains the following parts: an integrated circuit or chip - for storage

and processing; antenna for receiving and transmitting radio signals.

The advantages of RFID technology compared to barcodes are, in principle, the following [10]: objects identification, inventory and location instantly; identifying moving objects; possibility of process optimization and automatization; increase efficiency in production, storage and distribution; realise the evaluation and control stocks in real time; permanent availability of statistics and reports; reduction of losses; combining identification and securing objects in a single system; possibility to read RFID tags when they are outside the range of view of the reader.

An innovation in terms of goods exposure and selling is *merchandising*. This concept is based on a set of methods and techniques of presenting products in an active form, into the best material and psychological conditions of a product, at the point of sale, in order to optimize sales. Merchandising includes several activities, one of them being the continuous availability of products, to be covered the supply intervals too (it is necessary to adjust inventories to sales) [4].

By all specific merchandising activities, trader seeks to maximize the space for sales activities, to attract consumers through an assortment structure corresponding to its expectations and make him loyal. As merchandising advantages can be listed: ensuring continuity of products in the store, reducing the situations "out of stock", solving current problems (wrong prices, goods returns, command influence, information about competition etc.), information about inventory status, sales trends, information about direct competition.

Because of the gaps in the delivery system, the hypermarkets have to deposit their goods. To keep track of stock and goods to be ordered large retailers have

been forced to innovate again, appealing to a *commercial information system*. These systems provide to the managers the necessary data, collecting, organizing and storing continuously relevant information for the right decisions. These information systems include the following components: environment, trader philosophy, strategies, information control center and business operations [1].

Information systems used by large retailers are usually composed of management information system, accounting information systems, logistics information system, human resource information system and decision information system, each component having a specific and important role in the functioning of the larger stores.

The latest innovation in commerce is the *electronic commerce* or e-commerce. This is a dynamic exchange of information and ideas through web between business partners and inside the companies to maximize efficiency, design and product development, supply chain actions and manufacturing processes [6].

Electronic commerce provides advantages both to traders and consumers. The main advantages for traders using electronic commerce are:

- Attracts new customers through a new distribution channel;
- Allows employees to work from home, thereby reducing traffic and pollution;
- Allows some goods to be sold at lower prices, so that lower income people buy more, raising their standard of living;
- Allow Third World people and those in rural areas have access to products and services, which otherwise wouldn't have been available;
- Support the provision of public services such as health, education, distribution of government social services at a reduced cost and improved quality.

In Romania, in 2012 there can be seen that the market has an accelerated growth rate under the influence of several factors. Thus, on one hand, several campaigns to promote online payment are in progress by Visa and Mastercard, attracting a growing the number of buyers. On the other hand, a strong impulse is given by new players entering the industry, most notably the mobile operator Cosmote. Last but not least, it is about the natural evolution of the

market as buyers' confidence level increases [7].

4. Trends of retail commerce in Europe

An essential aspect of European retail market recovery will be the growth of Central and Eastern Europe and South-East Europe the previous at the rate before the crises, according to a survey of real estate consultancy, King Sturge.

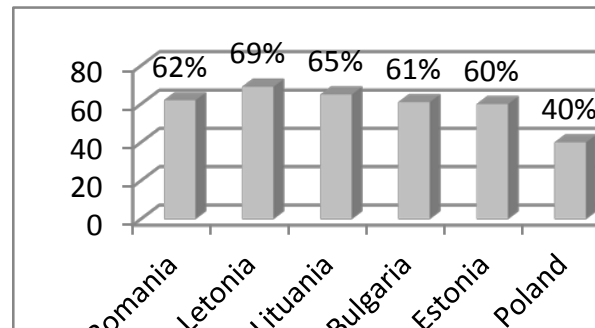


Fig. 1. Retail sales evolution in the next ten years

Less mature markets such as Romania, Bulgaria and the Baltic countries will register sales' growth of over 60%. Retail sales in Romania will record in a decade an increase of 62%, one of the largest in Europe. Latvia will have an increase of 69% and Lithuania - 65%. In Bulgaria, retail sales will advance by 61% and in Estonia by 60%.

Larger markets such as Poland, Czech Republic and Hungary, will have a growth of over 40% the next decade.

These growth rates, although strong, will be less explosive than in the period 2000-2010 when, in Romania for example, has been an advance of 123%.

At national level, in Bucharest, Pitesti and Timisora retail sales growth over the next decade will be more than 60% and in Iasi, Cluj-Napoca, Brasov and Braila will exceed 50%, according to the report [9].

The main trends in retail over the next 10 years are:

- Changings in consumers' behavior* - economic crisis has changed the consumer behavior. To resist the market, traders will have to be aware of the competition, of product and brand management, or to the adoption of discount format.
- Reset luxury* - Luxury market will be segmented more and more and retailers are trying to make the rich customers more loyal. The traders can focus on the consumers' needs from emerging markets like China who aspire to luxury products.
- Retailers expansion from emerging countries* - Because of the success registered on neighboring markets (East Asia, Africa, Middle East or South America) these traders can become in

the near future, regional powers investing in developed markets.

- Social networks and retail* - these networks can provide information about consumers' shopping experiences, can help create new marketing strategies or personalized marketing, and even creates a more complete relationship between merchants and consumers.
- Streamlining assortments* - Retailers will need to focus on delivering relevant products for buyers and not just offering a wide range of products, some of them unwanted by customers. Providing products desired by customers involves monitoring technology on consumer behavior and communication networks to understand consumer preferences and lifestyles.
- Increased polarization* - Typically, merchants offer too cheap or too expensive products, and therefore the middle segment, medium price products, is barely covered. [8].

4. Proposals for innovation development in the Romanian retail firms

Wal-Mart is one of the leading innovators in retail. The American giant continuously innovates wherever possible. For example, products arriving at Wal-Mart warehouses in suppliers' trucks are transferred directly to distribution trucks which go to stores where they are needed. This way are reduced the costs with the goods' discharge - storage - recharging. Although the idea seems simple, it can occur only in an environment that encourages innovation.

In Romania, the issue is not the lack creativity, but lack of specialized personnel to investigate the problem of innovation and lack of financial resources for implementing the whole process. In the context of this problem, the first proposal is that Romanian authorities must become more responsible for innovation and

research, through specialists from European Union, or by using the services of specialized firms in commerce innovation. Regarding financial support, the European Commission is ready, according to the document reviewing *Community Innovation Policy in a Changing World*, to allocate money for innovation development in the member countries.

Also, another proposal would be to create a research platform for trade and logistics. This platform should be financially supported by both state and retail traders that deal with research and identification of needs of consumers and traders. Based on these studies, the platform must design innovations that lead to added value into the Romanian economy and the European competitiveness.

Due to limited financial resources, small firms in the retail sector, have difficulties to adapt to the changing needs of consumers, fail to implement certain innovations that facilitate commercial activity (e.g. lack of informational systems). This way, it appears a lack of balance in terms of technology used in the large (national or international) companies, and the technology used in small businesses.

To eliminate or reduce this imbalance, the small retailers could act in two ways:

A. Making various forms of association by which small traders will be able to improve their logistic system, to market a wide range of products and adapt more quickly to market changes.

The forms of association that small merchants can make are:

- Groups of small retailers;
- Voluntary chains - including the wholesaler and small traders, chosen usually among customers.

This organization is accomplished by using the services of a competent institution to develop different programs

for explaining to the small traders the benefits of these forms of association.

B. The collaboration of small traders with sites or blogs on innovation. For example, through Siemens blog, the first blog of innovation, small retailers can promote their businesses and have access to trade innovations. Since the beginning of the Internet, online presence has become mandatory for companies that want to state on its markets.

5. Conclusions

Retailer marketing system in Romania has a fragmented character by both the size of existing units and the degree of ownership concentration

Innovations introduced so far in trade led to its' intensive development, both as a way of sale (supermarkets, hypermarkets, specialty stores, etc.) as well as techniques and technologies used to attract and retain customers.

The electronic commerce is experiencing a rising trend, both in Romania and worldwide, because of the daily increasing sales and services online. The most important factor of market growth is the continuous development of payment methods and customer service. Payment online is not just credit card, but cards or internet banking rates with real time processing and banks and service providers and e-Commerce solutions provide growing attention the opportunities offered by electronic commerce.

In conclusion trade innovations have led to the expansion of this sector and contributed to its' dynamic. However, it can't be ignored the necessity of a financial support to promote and conduct programs to stimulate innovation and research at national level. These programs offer the possibility for trade companies to

use creative thinking for new ideas related to products or services.

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