Technological advancement and digitalisation, coupled with shifting political and societal values, are changing consumers’ expectations and behaviour. These structural forces are driving the retail real estate industry towards a new paradigm focused on experience and convenience.

Historically, organisations have been driven to innovate in response to a crisis or other threat, such as spiralling costs, falling revenue, a new competitor or the loss of key personnel. However, whilst retail real estate companies are indeed under pressure, they increasingly recognise innovation as a core component of a successful retail strategy and are creating new positions, such as Chief Innovation Officer, Chief Transformation Officer, Chief Digital Officer, as well as internal innovation labs, to help them navigate the future of retail property with creativity and agility.

Innovation versus iteration

Innovation in the retail real estate world has the potential to impact a multitude of functions, including building construction, sustainability, site selection, financing, amenities, marketing, property management, security, logistics/fulfilment, consumer engagement, data collection/analytics, payments and the in-store experience.

Yet despite the many ways in which both retailers and retail landlords can employ innovation, critics would argue that the industry has been slow to generate original ideas and that many innovative initiatives are actually not very innovative at all. Retail industry futurist Doug Stephens is particularly scathing, asserting that “by definition, innovation means developing products or processes that have never existed before, while iteration is a process of incremental experimentation and development along a known path. While there’s nothing wrong with linear, continuous improvement, problems arise when we start characterising it is innovation. It is simply not.”

According to Rupert Clarke, Chairman of Milligan Retail, when faced with a choice of radical innovation or iteration, retail market participants are more likely to iterate their approach, although in many centres, bold innovation is required.

This hesitancy to embrace radical innovation can be attributed to several factors, such as a fear of failure, a ‘no’ culture, a lack of experience and intuition in generating and recognising good ideas, despite landlords’ need for radical innovation in many centres, fear of failure and slow bureaucratic processes make them more likely to engage in incremental change.

A partnership approach to innovation enables retail landlords to leverage diversity and fill a creativity gap that may exist internally.

From an operational perspective, working with PropTech companies can reap multiple significant rewards for shopping centres.

Collaboration between the retail real estate industry and start-ups can reap mutual benefits, including an enhanced experience and services, and a more efficient, frictionless environment for building users, whilst providing fledgling companies access to resources, capital and connections.

Accelerator programmes are an increasingly common way in which the retail real estate industry is supporting the start-up community.

For many the primary purpose of innovation efforts is revenue growth, with expectations of an immediate ROI2; however, growth in knowledge, experience, efficiency and quality are also valuable metrics.

Innovation should be viewed as an ongoing learning process, not a one-off event, to protect the long-term growth of retail real estate and ensure that retail assets are fit for the future.

Artificial intelligence (AI) has been identified as the emerging technology that will affect the retail industry the most in the near future.

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**Key Takeaways**

- Despite landlords’ need for radical innovation in many centres, fear of failure and slow bureaucratic processes make them more likely to engage in incremental change.
- A partnership approach to innovation enables retail landlords to leverage diversity and fill a creativity gap that may exist internally.
- From an operational perspective, working with PropTech companies can reap multiple significant rewards for shopping centres.
- Collaboration between the retail real estate industry and start-ups can reap mutual benefits, including an enhanced experience and services, and a more efficient, frictionless environment for building users, whilst providing fledgling companies access to resources, capital and connections.
- Accelerator programmes are an increasingly common way in which the retail real estate industry is supporting the start-up community.
- For many the primary purpose of innovation efforts is revenue growth, with expectations of an immediate ROI2; however, growth in knowledge, experience, efficiency and quality are also valuable metrics.
- Innovation should be viewed as an ongoing learning process, not a one-off event, to protect the long-term growth of retail real estate and ensure that retail assets are fit for the future.

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2 Rupert Clarke, ‘Real Innovation is Needed to Meet Retail Market Challenges,’ Property Week, 25 May 2018.
slow bureaucratic processes and policies, and lack of a defined innovation strategy. The retail real estate industry’s inherent aversion to risk-taking is principally deemed to be a result of a rewards structure whereby performance—and ultimately compensation—is linked to success and compliance only. According to Stephens, this culture needs to change: ‘The most truly innovative organisations treat success and failure equally. What matters is whether the effort—successful or not—moved the organisation forward in its understanding.”

Retail real estate landlords move towards a partnership model

Having witnessed the success of innovators in other property sectors, such as Airbnb, retail landlords are looking beyond tried-and-tested strategies to ensure their assets are fit for the future. The old adage that ‘location, location, location’ is the key to success in real estate no longer rings true in a digital world. Indeed, KPMG believes that the new battleground in real estate is ‘technology, technology, technology.”

In building an ecosystem of idea-generating sources, retail real estate corporations are employing a partnership approach to leverage diversity and fill a creativity gap that may exist internally within their organisations. Previously seen as a threat to ‘traditional’ retail, digitally native start-up companies are now viewed as innovation partners that can deliver focused, practical solutions and strengthen operations. A 2018 KPMG survey of 270 real estate decision-makers across EMEA, the Americas and Asia Pacific revealed that 93% agreed with the statement: ‘Traditional real estate organisations need to engage with PropTech companies in order to adapt to the changing global environment.”

In recent years an influx of PropTech start-ups have aimed to optimise the work of real estate professionals and change consumers’ interaction with the market. The challenge, however, comes in choosing which partners to work with and recognising which innovations could provide real and tangible value.

Research by the British Property Federation reveals that property sector purchasers tend to favour products and services from established brands backed by strong marketing, which hinders new entrants in gaining footholds in the market. Even if companies can identify the problem, they often struggle to source solutions and to differentiate between competing products and services. On the other hand, PropTech companies often have trouble in identifying which traditional real estate companies are serious about innovation and would offer an advantageous partnership.

Mutual benefits of collaboration

Whilst retail real estate organisations often have a lengthy bureaucratic decision-making process built on strategic planning, start-ups can adopt a fail-fast approach – actively taking risks and learning from success and failure. In working with start-ups, landlords increasingly recognise the need to reduce internal complexity and develop a greater appetite for risk if they are to become innovation leaders and adapt to changing market forces with speed and agility.

From an operational perspective, working with innovative retail and PropTech start-ups can reap significant rewards for shopping centres, notably by:

- Delivering better and more targeted services and an enhanced experience to consumers;
- Using short-term pop-ups to create a sense of urgency and exclusivity; and
- Testing the popularity of new concepts and revenue streams before potentially scaling up across their portfolio.

Implementing new technology in retail assets can drive business efficiencies and sustainability and reduce friction, as well as improve building performance and management. Start-up businesses founded on emerging technologies, such as AI/machine learning and augmented/virtual reality, can significantly improve both the experience and productivity for building users, as well as streamline a landlord’s internal systems.

According to a global survey of 400 commercial real estate (CRE) executives by Canadian property services and software company Altus Group, driving efficiency through automation is a key priority and the use of AI/machine learning is approaching a critical mass. Approximately two-fifths (41%) of CRE firms are using automation for benchmarking and performance analysis, 39% for scenario and sensitivity testing, 36% for budgeting and forecasting and 34% for valuation and cash flow analysis. One-fifth (19%) of companies are using AI and machine learning for scenario and sensitivity analysis, followed by 16% for accounting and property management. (See Chart 1.)

On the other side, an alliance with retail real estate owners can prove extremely valuable for start-ups, with large corporates contributing the following advantages of scale:

- **Resources and knowledge**—widespread talent at their disposal across many disciplines, experience and an in-depth understanding of the market and their customers;

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3 Stephens, ‘Retail’s Innovation Problem,’


6 PropTech refers to technological and digital innovations relating to property.


• **Capital and reporting**—additional funding and performance measurement/analysis tools; and,

• **Connections and access**—ability to open doors and provide new opportunities that would otherwise be difficult to obtain without the backing of a known and trusted large organisation.

By leveraging these capabilities, retail real estate owners can be an effective vehicle to scaling for start-up companies. Indeed, according to McKinsey & Company, it is less important to be the first to market than the first to scale. In the U.S., 80% of the time the market leader in some high growth categories was not the inventor – it was a second or third entrant.9

**Supporting entrepreneurship in the retail real estate industry**

While some are watching and waiting, trailblazers in the retail real estate industry are taking a proactive approach to innovation and are actively engaging with, and even investing directly in, PropTech and start-up firms at the forefront of innovation.

For the past two years, Portuguese-based Sonae, incorporating Sonae Sierra (owner of 41 shopping centres globally), has been recognised as one of the best European companies working with start-ups by the Startup Europe Partnership (SEP) initiative of the European Commission.10 Sonae’s acknowledgement reflects the work developed by its retail business, such as Bright Pixel’s Insert Coin ‘start-up on demand’ initiative, which calls for entrepreneurs to address challenges for which the market has not yet managed to provide an appropriate solution. Preliminary ideas are tested, with the help of Sonae businesses, moving forward to execution and investment when there is a market fit.11

**Unibail-Rodamco-Westfield (URW)** is also prioritising collaboration with start-ups in its corporate strategy, driven by URW Lab, its innovation incubator, founded in 2012 and based at its Paris headquarters. The company’s progressive ethos is particularly evident in URW Germany’s plans for Westfield Hamburg-Überseequartier—a 419,000 square-metre mixed-use quarter, forming part of Hamburg’s HafenCity urban development project, comprising retail, entertainment, over 40 gastronomy units, offices, three hotels, a cruise terminal and 650 apartments.

Scheduled to open in 2022, a variety of innovative solutions are being implemented in URW’s new development from intelligent building technologies, smart logistics and traffic control systems, tailor-made solutions for retail and gastronomy concepts and virtual and augmented reality concepts. However, the initial focus is on mobility, where URW is partnering with two Hamburg-based start-ups: e-floater and Wunder Mobility. E-floater develops low-emission e-scooters for short distances in city centres, which registered users can borrow via an app, and Wunder Mobility offers an innovative technology solution for commuter carpools, where employees from different stores can utilise an app to share a vehicle.

**Loyalty schemes**

Through its URW Link open innovation platform, URW was also an early supporter of start-up Transaction Connect, a firm founded in 2016. Transaction Connect’s technology essentially turns consumers’ credit or debit cards into **multi-brand loyalty schemes** that automatically recognise consumers at the point of sale with personalised rewards and smart promotions.12 The company received the MAPIC 2018 Best Innovation for the International Retail Property Market Award.

UK-headquartered shopping centre owner Hammerson has recently been trialling the technology in its ‘Programme FIDELA’ loyalty scheme at Espace St Quentin in France. As a result of positive consumer feedback and a redemption rate of over 65%, Hammerson is looking to roll the programme out to other flagship destinations by the end of 2019.13

**Accelerating success**

**Accelerator programmes**, in which fledgling companies can apply for strategic partnerships and investment, are an increasingly common way in which retail real estate landlords are engaging with entrepreneurs and start-ups. In 2017, UK-based shopping centre operator intu launched its Accelerate programme, run in partnership with innovation specialists L Marks. The programme aims to discover the most innovative young businesses in retail and develop them over a 10-week incubation period. It also includes mentoring from senior leaders and an opportunity to pilot and test concepts, alongside access to central London office space and potential investment.

In 2018, the programme’s second year, intu invited seven start-ups to pilot their technologies, including:

- **Grid Edge**, which saves money and reduces carbon emissions by using AI to control energy usage;
- **Roialty**, a hi-tech marketing platform that turns anonymous social media data into valuable customer insights; and,
- **CarTap**, which provides secure access to vehicles to deliver shoppers’ bags straight to their cars.14

Continental European shopping centre owner Klépierre, headquartered in France, has a similar digital innovation platform aimed at engaging with start-ups. Launched in 2016, Klépierre ID features an annual pitch contest in front of a jury to present the solutions that best meet the organisation’s key challenges. In 2019, the company has focused on how technology and innovative solutions can decrease customer pain points and create new delightful moments and innovative solutions to enhance its environmental and social performance as part of its ‘Act for Good’ policy.15

**Measuring ROI**

For retail real estate companies, one of the challenges to investing in innovation is justifying the economics of that outlay and

10 SEP, created by the European Commission in January 2014, is the first pan-European open innovation platform dedicated to transforming European start-ups into scale-ups (companies with scale) by establishing partnerships with global companies and capital markets.
12 [https://www.transactionconnect.com/](https://www.transactionconnect.com/)
14 Intu, *Meet the intu Accelerate 2018 Finalists.*
15 Klépierre ID.
being able to measure ROI2. Boards and shareholders often view innovation efforts as cost centres that can be perceived as cannibalising resources from other activities, so the primary purpose of innovation for the large majority of organisations is a positive financial impact by way of revenue growth. (See Chart 2.)

The encouraging news for companies, however, is that PwC’s annual Global Innovation 1000 study, which analyses spending at the world’s 1000 largest publicly listed corporate R&D spenders, has found no statistical relationship between the capital spent on innovation and financial performance. This suggests that it is not the size of an organisation’s innovation budget that matters, but rather its use of money and other resources, as well as the quality of its talent, processes and decision-making, to create products and services that connect with their customers.\textsuperscript{16}

Calculating a company’s ROI2 is arguably a complex measurement that requires deeper analysis than simply taking the profits produced by innovation and dividing that figure by the cumulative investment required to create those returns. Indeed, Scott D. Anthony from growth strategy consulting firm Innosight believes ROI2 should be subdivided as follows:\textsuperscript{17}

\begin{itemize}
\item Innovation magnitude (financial contribution divided by successful ideas)
\item Innovation success rate (successful ideas divided by total ideas explored)
\item Investment efficiency (ideas explored divided by total capital and operational investment)
\end{itemize}

He asserts that “this split would highlight different innovation strategies available to companies. Companies that played it relatively safe could have a high success rate, low magnitude, and high efficiency. A company could achieve the same returns by compensating for lower success rates with higher efficiency or magnitude.”

One of the key issues, however, is that many companies (and their shareholders!) expect the ROI2 to be evident immediately. In reality, although growth is indeed measured in turnover and profit, it can also occur in knowledge, experience, efficiency and quality. For retail estate, which is currently subject to market pressures and continuing disruption, investing in innovation today should be viewed as an ongoing experimentation process with the aim of protecting long-term growth and making assets fit for the future rather than a one-off money-making initiative.

\textbf{Conclusion}

Challenges remain in identifying which innovations and strategic partnerships could add real, tangible value to retail assets and how the ROI2 should be measured. To some extent, that accounts for the retail real estate industry’s continuing caution toward investing in new technology, which can also be slowed by bureaucratic processes and systems. In that sense, the sector still needs to catch up with other industries. As pointed out earlier in this article, though, the start-up community would be very receptive to teaming with retail real estate due to the need to leverage the capabilities and resources of large-scale corporations.

Interestingly, the technology that has interested the industry is not what has garnered media attention (e.g., drones and robots), but rather AI. Nearly one-third (32%) of retail executives surveyed late in 2018 said AI was the emerging technology that would have the biggest impact on their industry in 2019, far outdistancing the closest runner-up, the Internet of Things (13%). Perhaps AI’s broad popularity may derive from its variety of potential applications, including personalized marketing, inventory management, logistics and customer service.\textsuperscript{18}

\begin{table}
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\caption{Most Important Metrics for Measuring Innovation*}
\begin{tabular}{llllll}
\hline
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\hline
Sales growth & Customer satisfaction ratings & Number of new ideas in the pipeline & Market share & Number of products in the pipeline & Net value of innovation portfolio & Time to market \\
\hline
69% & 43% & 40% & 36% & 31% & 28% & 24% \\
\hline
\end{tabular}
\end{table}

\begin{flushleft}
Source: PwC Innovation Benchmark
\end{flushleft}

*Percentages denote the number of companies citing each metric as among their most important ones.

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