



Silicon Valley Meets Pittsburgh: How an 85-Year Old Startup is Transforming Itself



Scott Bowman | *Partner, Clareo*

Change and disruption are the new normal in virtually every industry, but especially so in the food and retail businesses. Both sectors are being up-ended by technology, changing consumer expectations and desires, new business models, and the rising tide of the venture space, where new entrants are capturing a disproportionate share of the sector's growth.

As innovators we often turn to the challengers (technologists, startups, VCs) for perspectives, only to hear them sound the death knell with terms like “the retail apocalypse.” And indeed, the very business models of big food and big retail are under fire – incumbents in both industries are facing an existential threat. But what we don't often hear are the perspectives of progressive growth-focused leaders that are embracing innovation and re-shaping their business prospects.

In late January, at the **Global Corporate Venturing & Innovation (GCVI) Summit in Monterey**, I led a fireside chat discussion with **Polly Flinn—Executive Vice President and General Manager of Giant Eagle**, the supermarket and convenience store chain that she refers to as an “85-year-old startup” for its approach to innovation. We talked about the ways the retailer is responding to change and disruption, and from that conversation emerged **five key strategies** that companies should embrace in order to adapt, transform themselves, and thrive in rapidly-changing markets.

1. EMBRACE FORESIGHT AND ORGANIZE TO COMPETE DIFFERENTLY

Retail is being transformed, fueled by emerging technologies, new business models and radically changing consumer expectations for simplicity, frictionless and on-demand experiences. The entrance of **Amazon Go** into the retail convenience store business in 2018 is paradigm-busting: Amazon is demonstrating that the digital and physical can be blended seamlessly to create simple, radically efficient store operations that bring experience and ease to entirely new levels. Given Amazon's ownership of Whole Foods and its commitment to retail, one wonders if Amazon Go is merely a harbinger of things to come. How is an incumbent in this industry supposed to respond to potential threats like these?

Polly believes in the power of the second-mover advantage. Why try to beat Amazon at its own game? Why not simply follow closely in the tail lights of powerful innovators like Amazon and find ways to respond that leverage your firm's unique assets and capabilities to capture value they may have missed or simply cannot reach? In a world where data is the oil of the new economy, Amazon has obvious motivations for its entry into retail. It stands to gain tremendously by leveraging and blending online and offline behavior to serve consumers in new ways. But it is also creating a market for other innovative players like Giant Eagle that are positioned to respond. With Giant Eagle's +450-store footprint in the most convenient locations in its markets, Polly believes the firm can leverage its scale and footprint to compete differently—bringing frictionless stores and on-demand experiences to the point and moment of consumer demand. Doing so requires **foresight**—seeing and sensing

what is happening at the periphery—and organizing for a rapid response, all while being willing to challenge conventional thinking and assumptions and evolve the customer experience. The frictionless store experience, automated retail kiosks, last-mile delivery and hyper-efficient store operations are all ways Giant Eagle is seeking to do precisely that, but also modernizing their secret sauce of capabilities and strengths that have enabled it to win for over 85 years. In the end, Amazon will no doubt transform retail, but significant value creation will exist for those that can imitate and transform the retail experience in their own unique ways that deliver value.

2. LEVERAGE STRATEGIC ASSETS TO CAPTURE GREATER VALUE

Trust is currency in the new economy, and those that build trust and engender loyalty have the potential to capture a greater share of consumer demand in their markets. Giant Eagle understands this well. Polly shared that beyond its real estate footprint, one of the firm's greatest assets is its immensely successful *Advantage Card* loyalty program. Giant Eagle sees potential to leverage this asset, but realizes that doing so requires thinking beyond the card and embracing personalization technology in new ways that add even more value for customers. Giant Eagle has created a *Digital Wallet* that enables consumers to store, track and spend gift cards from over 200 retailers like Home Depot, Kohls, Nike and others, manage clipped eCoupons, and access their *Advantage Card* digitally through the mobile app in order to simplify the consumer experience at the point of sale. And, with their *Scan Pay & Go* capability on their mobile app, tech-savvy consumers can nearly eliminate time spent at the cashier. Given that Americans spend nearly 37 billion hours waiting in line, efficiencies like this are poised to engender even greater consumer loyalty.

By embracing mobile technology, broadening and digitizing its loyalty program, and integrating it with a broader consumer digital and mobile strategy, Giant Eagle is positioning itself to win with consumers and enhance its relevance in its markets.

3. ACCELERATE INNOVATION FROM THE OUTSIDE-IN

In recent years we have observed the rapid rise of on-demand business models, with fresh delivery (e.g., Instacart), prepared food delivery (e.g., UberEats), the rise of meal kits (e.g., Blue Apron, HelloFresh) and other models. But what few have observed is **the common thread that unites models like these: the redefinition of convenience around accessibility.** Today, convenience is about access: providing what consumers



want, when and how they want it, and increasingly on-demand. But solving for access is challenging for established incumbents in the food and retail sector.



Recognizing the need to expand their capabilities to meet these new consumer demands, in summer 2018, Giant Eagle's CEO, Laura Karet, decided to acquire a significant portion of the employees and intellectual property of Munchery, a Silicon Valley-based fresh food company. Munchery, like many in the space, was struggling with its business model, but Giant Eagle recognized that the startup had certain capabilities that would significantly bolster the Pittsburgh-based retailer: fresh food capability, digital marketing and software development expertise, consumer insight and last-mile delivery experience. It also had the culture of a Silicon Valley startup.

Giant Eagle saw an opportunity to acquire these capabilities rather than build them and recognized the importance of bringing an "outside-in" innovation approach to the core business. Incumbents in most industries tend to preserve the status quo, running their businesses based on conventional thinking and assumptions. Munchery's remaining business has since halted its meal delivery business and filed for bankruptcy, but Giant Eagle has the critical capabilities needed to innovate and grow in new ways.

Spreading the 'start-up' mentality to the core business has equally been important. Giant Eagle has found a way to **insulate the new team without isolating them** from the core, while also providing the organizational support and power to drive change into Giant Eagle. They have been given enough space and freedom to operate – keeping the culture, capabilities and resilience of a Silicon Valley startup – but integrating them into the design and innovation process.

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4. DEFINE YOUR "CONCEPT CAR" AND INJECT HORIZON-THINKING INTO YOUR INNOVATION AGENDA

Having successfully led the Castrol 2020 ("Beyond Lubricants") effort while at Castrol and later British Petroleum, an idea she has championed within Giant Eagle is identifying and defining the **next "concept car."** The idea behind this is simple, yet profound: as innovators we too often project our current businesses outward; but "concept car thinking" means defining the future business 10 years from today and working backward. The former leads to incremental thinking; the latter leads to more transformative concepts and innovations. It requires vision, exploration of plausible futures, and thinking about possibilities rather than just probabilities.

However, just as importantly, Polly also realizes that operators within the business often have a hard time translating big visions for the future into today's priorities. She believes in and instills **horizon thinking** into the innovation agenda and language of the enterprise, aligning around core, adjacent and new business opportunities, and organizing and resourcing differently for the core vs. new business opportunities.

5. BUILD VENTURE CAPABILITIES WITHIN THE ORGANIZATION

Both food and retail are in the midst of massive change and disruption, and the playbook of most incumbents has been to rely on internal development, and then when under threat, to acquire emerging businesses—"paying up" for them, only before poorly integrating them and killing them. Many see these two approaches of internal development vs. investment and/or M&A as mutually-exclusive options. We don't believe they are.

We believe the new innovation mandate is to build **venture capabilities** within the enterprise – organizing differently for new business vs. existing business, creating repeatable methods to bring the outside-in, optimizing processes for speed, and building a culture of learning and agility. We call this approach FastPath, and are helping companies reinvent their approach to organizing and driving innovation from

within, and from the outside-in, and powering up their approach with software-enabled solutions.

Giant Eagle believes in the importance of instilling this mindset and approach into the enterprise and is leveraging the Munchery team to help infuse new thinking, mindsets and approaches across the business. Polly recognizes this is a journey, but one worth taking.

CAUTIONARY NOTE: BEWARE OF CREATING THE “ISLAND OF MISFIT TOYS”

Exploring new horizons and building bold new innovations is of course vital for any business, but it must be done with strong executive sponsorship and clear strategic alignment. All too often, we see innovation teams at large companies isolated from the corporate parent, a culture of their own, creating new concepts that lack support and sometimes even interest by the corporate parent, and fail to achieve traction because of the “not invented here” syndrome that so often plagues big companies. They do really interesting work but end up creating “the island of misfit toys.” When this happens, innovation develops a negative reputation, a culture of risk tolerance emerges (or grows) and businesses’ longer-term prospects suffer. Strategic alignment and strong executive sponsorship are vital to success for innovators.

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As our friend Daru Darukhanavala, former Chief Technology Officer of BP and a renown innovator, once said: “Build bridges before you need them.” This is relevant both inside and outside the company. Building bridges inside helps ensure strong alignment and executive sponsorship; building bridges outside (especially in the venture & startup space) can help challenge conventional thinking and assumptions and open up new possibilities.



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We help leaders adapt their businesses and create new ways to grow in rapidly changing markets. Together, we build the plans and capabilities that deliver results. We assist clients in improving strategy execution, finding radical improvements, developing entrepreneurial capabilities, rapidly taking new ideas to market, exploring plausible futures, and enhancing their competitive innovation capabilities.

Our clients choose Clareo when they want bold new ideas that get to market faster. Working alongside our clients, we create compelling strategies that lead to action.

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Contact the Author

Scott Bowman - sbowman@clareo.com