INNOVATION IN RETAIL AND THE SERVICE-DOMINANT LOGIC:
Case Studies in Brazilian Retail Networks

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ABSTRACT

This paper seeks to develop an empirical validation of the service product formulation developed by Gallouj (2002) and its relationship with the retail sector as a service based on service dominant logic (VARGO; LUSCH, 2004). From the analysis of two case studies of major Brazilian retailers we concluded that innovation pursued by these retailers was produced by internal initiatives designed to generate sales growth and increase interaction with customers. Among the innovations investigated, only two were imitated by others, and even after the models had been replicated the company continued to maintain its competitive advantage generated through innovation.

Keywords: *innovation in retail; innovation in services; retailing; service-dominant logic.*

1. INTRODUCTION

The retail sector is a major actor in the economic scenario on account of its contribution to employment and income generation. Lively discussion of the sector in business and academic environments has helped to enhance knowledge and highlight the need for developing more cohesive analyses in and of the retail area. Brazil has a very large number of retail establishments. According to the 2011 Annual Retail Trade Survey (PAC) (IBGE, 2011), retailing represented the largest part of net operating revenues of the country´s commercial sector from 2010 onwards.

According to IBGE (Brazil Institute of Geography and Statistics, 2011) the commercial sector is composed of vehicle sales, vehicle parts, motorcycles, the wholesale and retail trade. The number of retail outlets in 2010 amounted to 1.2 million commercial firms (78.9% of all commerce), generating a total of R$789.3 billion of net operating revenue (42.5%). The number of people employed in the sector was 6.888 million (73.6%), absorbing R$70.1 billion in salaries and other remuneration, equal to 62.4% of the total payments in the entire commercial sector. The retail sector profit margin was R$206.4 billion, representing 52.3% of the total (IBGE, 2011).

According to the Retail Development Institute (IDV), which represents retailers from all the different sectors, retail chains in Brazil have grown exponentially. Investment of around R$7.8 billion is anticipated in this sector for 2014: 58% for opening new stores and the remainder for refurbishing existing outlets (IDV, 2014).

Given the fierce competition, the quest for innovation associated to a perception of commerce as a service has become a crucial issue in the retail sector. However, the myth remains that retail is not an appropriate setting for far-reaching innovation since it focuses on reselling the manufactured products of industry, widely regarded as the true engine of technological and innovative activity. A further myth is that any innovation in the retail sector can be easily imitated by competitors, given that protective mechanisms such as trade secrets and patents risk being ineffective.

Faced with this paradox, important gaps remain to be investigated if we are to understand the dynamics of innovation in retail. This short paper aims to: (i) identify the sources of innovation; (ii) examine how innovations can lead to competitive advantage; and (iii) see how long innovations can remain sustainable when threatened by imitations.

We conducted innovation case studies (COOPER, and SCHINDLER, 2004; YIN, 2001) in two major Brazilian retail networks - identified here as Network A and Network B. Semi-structured interviews were conducted with

senior management in both. In Network A, the Financial Director and the Investor Relations Director were interviewed, while in Network B we interviewed the Director of Communication and Sustainability. Internal reports, as well as non-confidential documents, made available by the two retailers, provided valuable reference data.

It is hoped that the present paper will contribute to enhancing the discussion on innovation in retail, by considering the specific characteristics of the retail sector and analyzing it from the 'service' angle (GALLOUJ, 2002; VARGO, and LUSCH, 2004). We hope in this way to contribute to academic knowledge about innovation in services and related issues, presenting a set of hypotheses that can hopefully be confirmed by future research. Examination of the sources, procedures and sustainability of innovations in the world of retail suggests important implications for managers interested in formulating more competitive strategies in their sector.

2. RETAIL AS A SERVICE

Based on an analysis of the services sector, Gadrey (2001) highlights the difficulty of classifying retail given that it is a hybrid network encompassing a whole range of "activities related to the basic logic of merchandise, the processing and distribution of encoded data and direct contact with customers (customer feedback, customer care, etc.)"(GADREY, 2001, p. 40), and goes on to suggest that retail should be divided into three main functional areas: (i) merchandise logistics; (ii) data processing; and (iii) customer-related service. These areas or zones function with three types of specific services utilized by retail.

Faïz Gallouj (2007) argues that commercial activities operate on the basis of three levels of service: (i) location, range of goods on offer, opening hours, etc; (ii) services related to the product itself; and (iii) the 'outcome' of the service provided. Adil et al (2006) argues that services can be seen as attributes or multi-attributes. The multi-attributes are present in the type, range and variety of products on offer to customers (e.g. colors and sizes). Meanwhile, the location of the outlet determines the catchment area for the retail business. It also determines the prices appropriate to that area. Other variables are: the 'ambience' of the establishment, temperature, lighting (and even music) – all factors that have little to do with the straightforward way in which goods are presented for sale. Other factors can also enhance customer loyalty and 'satisfaction', such as general comfort of the surroundings and the availability of technical, financial and business services that can add value to the customer experience.

From the above we can deduce that retail is not confined to the simple distribution of the products of industry (ZARIFIAN, 2001). On the contrary, it contains a 'dominant service logic' in the words of Vargo and Lusch (2004), that is capable of generating value, and therefore innovation, in an endogenous manner. The dominant service logic prevails throughout the entire 'consumption' process: it can precede the sale of an item, surpass the moment of sale itself and continue all the way through after-sales service, even to the emergence of some other type of relationship between the retailer and the customer.

Camal and Saïda Gallouj (2009), in their analysis of operations and innovation in the retail sector, proposed a subdivision: services that were considered 'core' services and those that could be seen as 'peripheral'. In their view, core services are the basic *raison d´être* of the organization (i.e. its 'mission') and the reasons for the customer to make a journey to the outlet - both elements that can generate competitive advantage. On the other hand, peripheral services relate to the use of the basic service. This typically appears as an adjunct to the product supplied to the customer. This additional peripheral element is also a potential source of competitive advantage, given that it can add value to the item or product in the eyes of the customer.

Without contradicting the usual assertions (MATTAR,2011; GUIDOLIN, COSTA and NUNES, 2009), Gallouj and Gallouj (2009) argue that the concept of retail can be better understood better by dividing it into different activity areas ('a functional breakdown') just as Faïz Gallouj (2002) previously did for the analysis of services. This breakdown consists of four main elements that describe the current processes related to the delivery of commercial services. Once again the service product is the 'commercial product' that is supplied to the customer as the result of the interaction of these operations.

The operations involved in logistics and processing materials (M) include the processing of tangible objects, i.e. the products. These also can extend to transporting such objects. Logistics and dataprocessing transactions (I) involve the collection and processing of data. It is in this segment that, since they emerged over recent years, today´s information and communication technology tools (ICT) have proved invaluable. 'Relational' operations (R) obviously concern the relationship between the company and its customers. The end-user is the focus of this operation, a manifestation of the interacting company/customer activities and of service production. Meanwhile, the intellectual and knowledge approach (K) represents the dynamic of the market and services.

Figure 1 - The 'Wheel of Retailing', Source: adapted from Gallouj, and Gallouj (2009)
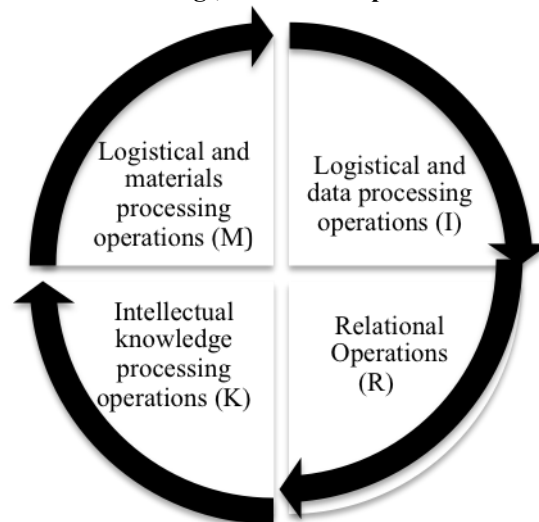
This breakdown is presented in the form of a segmented wheel (Figure 1) which shows that, depending on the evolution of each company, one of the components, or a combination of components, can be of greater or lesser weight than another. Gallouj and Gallouj (2009) describe these variations like a 'turning' of the wheel. A company, for example, could initially be dominant from the point of view of physical components, then subsequently fold ICTs into its operations and, in the third and final stage, focus on the 'relational' customer oriented components. These retail service operations also provide the basis for analyzing the dynamics of innovation in retail when innovation is the outcome of a dominant service logic, as explained below.

3. INNOVATION IN RETAIL

Substantial progress has been made over the past 20 or 30 years in the study of innovation in services (BARS, 1986; GALLOUJ; WEINSTEIN, 1997; SUNDO; GALLOUJ, 1998; GALLOUJ, 2002 MIOZZO; SOETE, 2001 VARGAS; ZAWISLAK, 2006; GALLOUJ; SAVONA, 2009). Apart from revealing the sectoral specificities of retail these authors have succeeded in constructing an coherent theory of innovation in services and industry.

Research on innovation in retail has however been fairly limited and the studies that have been done have rarely employed a service logic, while many have failed to produce empirical tests of the models proposed (GALLOUJ, 2007; DUPUIS, 1998; DAWSON, 2000; den HERTOG; BROUWER, 2000). Reynolds et al (2007) argue that research on innovation in retail has been neglected. " [...] while the largest business database (Business Source Premier, 2006) contains around 31,000 articles related to innovation, only 136 of these relate to innovation in services, and only 12 specifically on innovation in retail" (REYNOLDS et al , 2007, p. 649).

Despite the myth that retail fails to innovate, plus the dearth of more frequent and robust research studies, it is nevertheless possible to obtain evidence of innovation in retail. Indeed, a number of different approaches have been developed in an effort to pinpoint concrete cases: for example, the environmental approach (JEFFERYS 1954; THOMAS, 1970; KAYNAK, 1979); the cyclical approach (McNAIR 1958; McNAIR; MAY 1976, 1978; KIRBY, 1976; FILSER; DES GARETS; PACHÉ, 2001); the conflict approach (STERN, EL-ANSARY, 1972 JORGENSEN, 2004); and the multicriteria approach (NILSEN 1966; GOLDMAN, 1975).

The theories considered to be part of the environmental approach include studies devoted to examining the impact of the socio-economic environment on corporate structures. Such theories take a Darwinian approach, sustaining that commercial formats emerge and thrive in direct response to environmental conditions.

Meanwhile, the cyclical approach tries to explain retail as a never-ending cycle of repetitive movements, based on the creation of structured models.

The conflict approach lays stress on the competitive clash between retailers and new entrants to the sector business. The latter may be more innovative and dynamic than the established players. The competition 'arena' is believed to be responsible for boosting conflicts, as a result of which retailers forego their inertia and start

seeking new forms of interaction, adjusting their performance to reflect the new conditions, basically to avoid losing their markets. Some might even aim to open up new markets. Finally, the multicriteria approach seeks to incorporate more substantial sets of variables that can go some way to elucidating the changes and adaptations taking place in the retail sector. Consumer preferences and retail strategies are some of the variables that have been investigated in the light of this approach. Strategic issues involving a more complex approach by some organizations might also play a major role.

The abovementioned approaches however only seek to explain the emergence, maturing and decline of new formats. They neglect to mention other types of innovations in the sector, or key subjects such as how a retailer should respond when the innovation that he has implemented begins to lose its value.

This study understands innovation in retail as being any change or modification in the service product (or the commercial product) according to Gallouj´s (2002) proposition that service needs to be viewed from the standpoint of its competences and characteristics. If 'service' consists of a composite set of knowledge, skills and characteristics, it can be deduced that 'service'contains the types of skills that reflect that view and, in this case, must therefore apply also to retail, given that retail possesses the characteristics typical of the service sector, embracing a range of services that extend beyond the actual sale of a product. For Gallouj (2002), the final characteristics offered by the service product (Y) are the outcome of service provider skills and expertise (C), customer competences (C'), and tangible and intangible technical specifications (T).

Figure 2 - Formulation of the service product as a set of vetors, Source: Gallouj (2002)
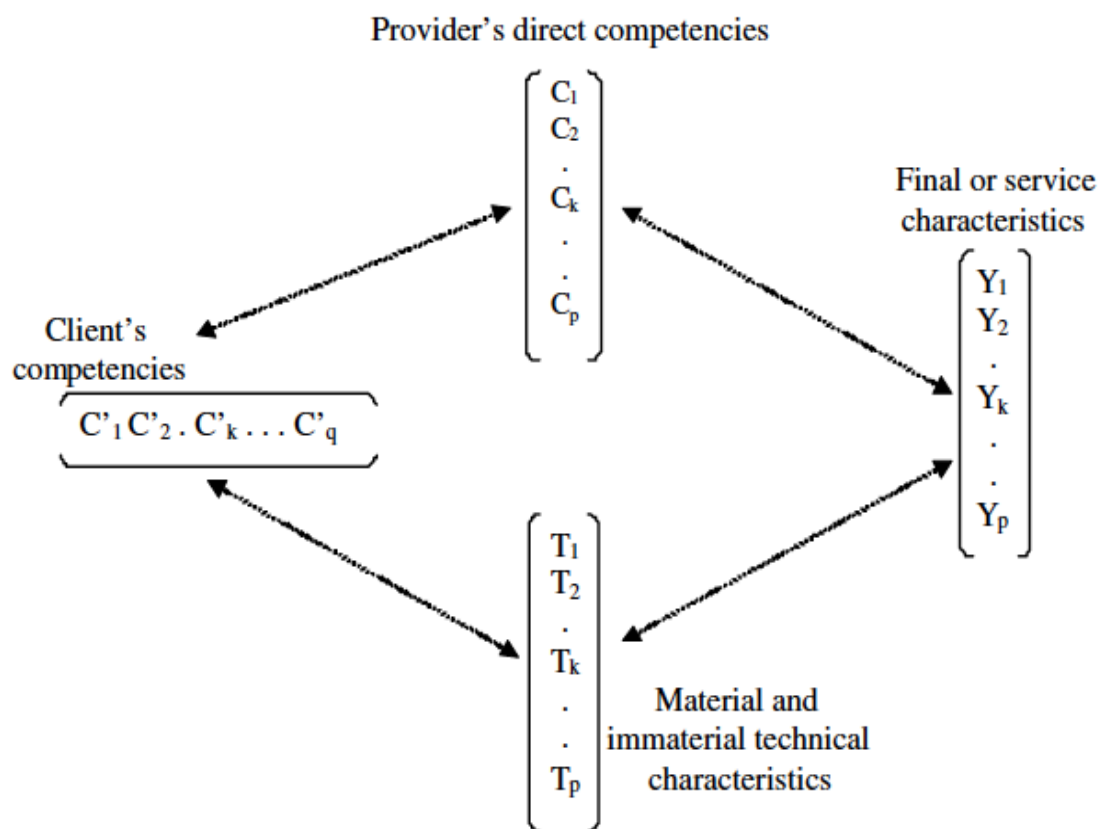
This approach to retail is consistent with the idea of a service dominant logic (VARGO; LUSCH, 2004) and with the concept of retail as an activity involving the sale (C) of products (Y1) or services (Y2) to end-users known as customers or consumers (C') that want or need these products or services with certain characteristics or features (T) for personal, family or home consumption (MATTAR, 2011).

It is necessary to break down the various components that make up the service product in order to represent empirically the vectors in retail chains or networks. The following three elements were considered as features of the types of end-services rendered or type of product purchased: (i) guarantees or warranties; (ii) form of payment; and (iii) means of delivery of the product or service to the consumer [Y]. The tangible and intangible

[T] characteristics that are normally presented en bloc are disaggregated here to aid understanding. Back-office or front-office IT systems (GALLOUJ, 2002) will be examined, plus retail outlet location, 'ambience', product variety, pricing policies and the store magazine format (GALLOUJ, 2007). Gallouj (2002) asserts that all retail stakeholders need two different types of approach to skills development: the first is an individual, self-motivated approach generated through initial training; and the second, skills that can be promoted by an academic or other type of institution. Cognitive competences, both scientific and technical, can also be fostered; relational skills (internal within the team, or external when clients, customers or other 'outside' stakeholders are involved); combined or creative skills (combination of technical characteristics), and operational (or manual) skills (GALLOUJ, 2002). Therefore, the analysis of service products [Y] will take into account the links and combinations existing between these elements based on the Gallouj (2002) approach to retail networks.

4. PRESENTATION AND DISCUSSION OF CASES

4.1 Network A

Network A is a department store selling clothing and footwear, founded in 1922 in the city of Porto Alegre (Brazil). It was not until 1940 that the company decided on the "department store" format, and in 1965 the store became an independent concern. After restructuring in the early 1990s, it focused primarily on fashion.

In 1991 the operation became a retail network expanding into various Brazilian states, and by 2014 there were 297 shops. In 2005 the company was launched on the São Paulo Stock Market (BOVESPA), the first Brazilian corporation to have 100% of its shares on the local market. Firmly based on corporate principles, the mission of this company is "to be the biggest and best department store in the Americas for the medium / high consumer segment, offering different styles, always in fashion and with good quality, competitive prices and excellent, charming and innovative service to match ".

The first innovation that was identified was its charm offensive, for which it adopted the slogan "Our aim is to delight you".

In reality this innovation consists even today of an electronic panel known as the "Encantrômetro" which is located in the 297 stores throughout the country, with the aim of monitoring customers´ perceptions about the attitudes of sales service staff (clerks) and other employees, the quality of the products on sale and of the overall 'shopping' experience. The company's website also has a reference section containing all the customer comments stretching back to the time the equipment was installed in 1996.

According to the Network A´s Director of Investor Relations, when a customer is unable to find an item or feels that he/she has not been well served, or has been particularly well served, an opportunity exists for the customer to leave a message (complaint, suggestion etc.) at the store exit, by pressing the appropriate ("satisfied", "not satisfied" etc.) button on the panel. When this happens, the employee exclusively detailed to the panel invites the customer to write his complaints or suggestions on an electronic page. The company subsequently detects the problems, if any, experienced by the customer and can make appropriate adjustments to improve performance. If the customer is prepared to leave behind a contact number (telephone or e-mail address), Network A makes contact with the customer and in due course provides a response to the complaint.

This innovation was generated by an internal initiative of the company aimed at building a better channel of communication with customers – a channel that had little in common with the conventional means of 'customer care' using simple telephone contact or website access.

In 2013, 24.4 million customers of Network A throughout Brazil used this method for expressing their opinions about the company. 62.7% said that they were "very satisfied", 34.2% were "satisfied" and only 3.1% were dissatisfied with the in-store experience.

Regarding the competences of the company [C] that were needed to implement this innovation, no elaborate approach was needed either by the company or the customers. The company needed however to create the electronic panel and the data system that it was going to use [C1] and to train employees to assist and advise customers how to use it [C2], encouraging them to participate in the satisfaction survey [C'1]. No changes were made to the tangible or intangible characteristics of the service product

**Figure 3 - Formulation of service product innovation 1**
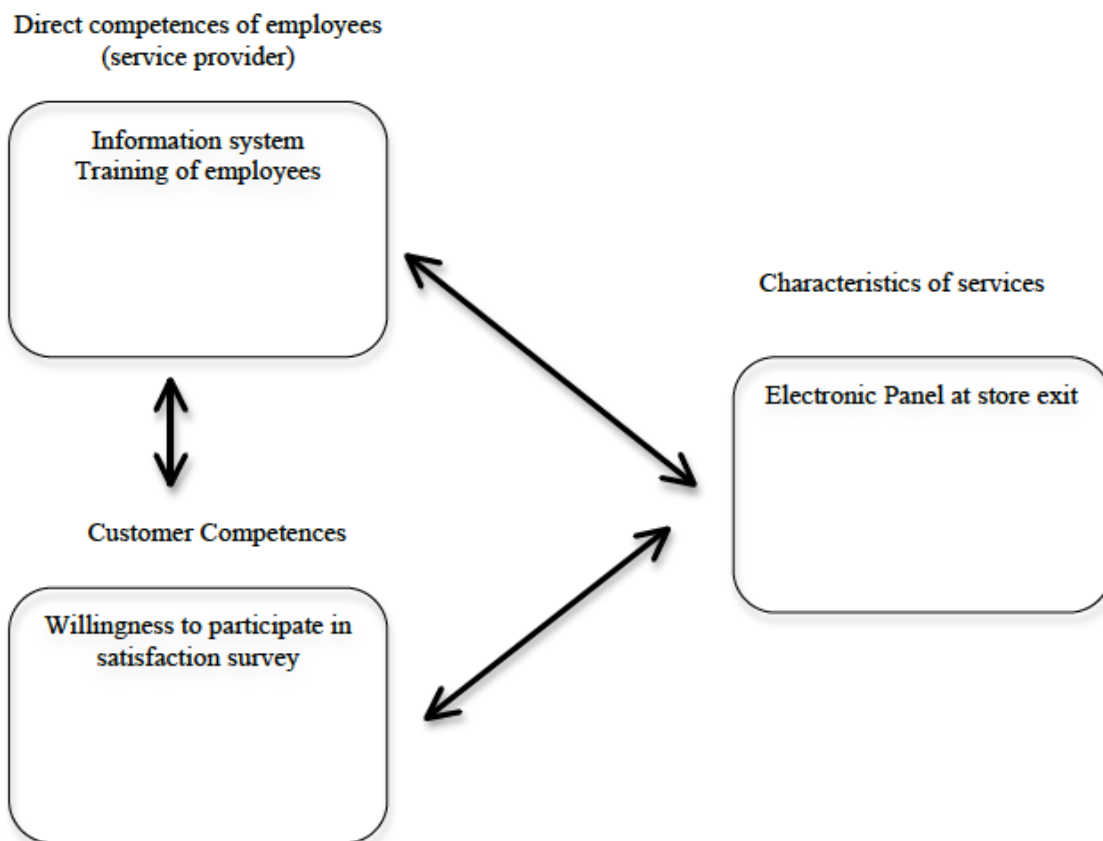
The creation of this new channel of communication between the customers and the company generates a new form of interaction in which the customer can choose whether or not to request a response from the store. For the company, value creation arises from taking action on the complaints or suggestions by customers as to how the product or service can be improved. This leads to organizational scaling-up on the basis of the comments received. As for the question of whether the innovation can be sustained, the Investor Relations Manager said that other companies have not imitated this particular innovation; on the contrary they continued to use the traditional communication channels even after seeing the device, installed 18 years ago, in successful use.

The second innovation introduced by this company is known as the lifestyle concept. From 2002 onwards the layout of the shops was reorganized to reflect what the company calls customer 'lifestyle'. Three years were needed to implement this new idea. In fact the decision to introduce the lifestyle concept originated from a visit by the company chairman to the United States some years ago. This was a model already used by large American department stores. As for the company's competences [C] needed for implementing this innovation, it was possible to see that the main competences used during the process were basically cognitive. A specialist international lifestyle consultancy firm [C1] was hired to carry out a survey and analysis tailored specifically to the Brazilian market. Moreover, the entire team that was to have direct contact with customers needed to be trained [C2]. Training was provided by the same consulting firm, aimed at constructing and implementing a clearly defined profile of the target public, all the way from branding, product development, procurement planning through to visual merchandising and marketing strategies.

The training also led to a breakthrough in terms of external [C3] and operational [C4] relational skills, since interaction with customers began to take on a special role. Lifestyle protocols were prepared for the employees: these were required to adapt to the new philosophy, give sound advice and information to customers, and ensure that goods were exhibited in an attractive manner.

The substantive characteristics [T] of this new layout called for strict coordination between the development, purchasing, logistics and operational divisions of the stores [T1], to ensure that tasks were properly synchronized by means of data system operations [T2]. Certain sales sectors were discontinued as the result of the reorganization [T3].

Figure 4 - Formulation of service product innovation 2
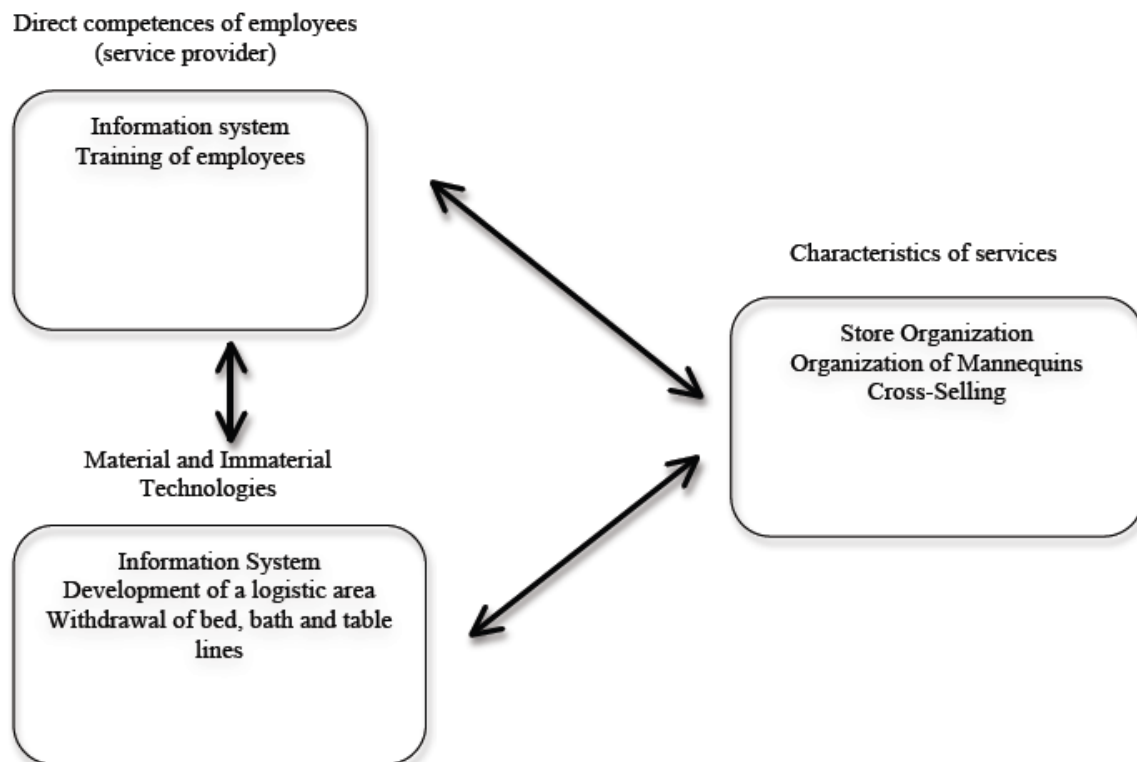
In terms of value creation, the Investor Relations Manager said the company was aware, from customer feedback, of the benefits of focusing more on purchasing activities (by the group), particularly since the lifestyle concept had been rolled out in all the stores. This meant that each store became a sort of one-stop shop, with clothes, footwear and accessories tailored to suit the lifestyle of every member of a family. The returns from this innovation were considerable. The company´s Management Reports from 2007 to 2012 showed an increase in operational efficiency, enhanced cross-selling opportunities, a higher inventory turnover, less need for discounts and markdowns and further prospects for increasing margins.

No other companies in this sector have imitated Network A. According to the Finance and Investor Relations Directors, imitation has been more difficult because of the very high financial investments required and, depending on the number of shops, the fact that reorganizing the layout of premises is a long and costly process, not feasible for many others to follow.

The third innovation was the introduction in 2010 of the co-branded store card, in partnership with a well-known credit card company. This was the first retail chain to link its own in-store card with those of a traditional credit card company and was the only one to do it without the involvement of a bank. Clients can use this card for purchases in Network A and also as a credit card anywhere in Brazil or abroad subject to the usual rules established by the credit card companies. The holders of the in-store card also have access to the loyalty programs of other organizations. This last initiative originated from the management´s observation that customers holding the store card were beginning to migrate to traditional credit cards that offered advantages such as air miles or points that could be exchanged for products. By 2013 the company had issued one and a half million in-store cards known as Meu Cartão (My Card).

Again, the competences [C] involved were confined to the service provider. These included cognitive skills in the shape of a hired consulting firm [C1] and the IT division of the company itself [C2], which assisted in a technical capacity. The clerks, counter staff, etc, had to be trained [C3] in order to meet a fundamental dual requirement: how to operate the card to benefit both the customer and the company.

The tangible characteristics [T] consisted of the logistics [T1] of customer care involving the new information systems and the partnership with the credit card companies. This meant restructuring the organization [T2], creating new divisions and jobs in the company´s financial area. For example, a new Financial Services Division

was established to handle all the banking and credit activities internally. Furthermore, as a intangible characteristic, new customer service 'protocols' [T3] were introduced to improve sales procedures and to help staff deal with customer applications for the store card.

Figure 5 - Formulation of service product innovation 3
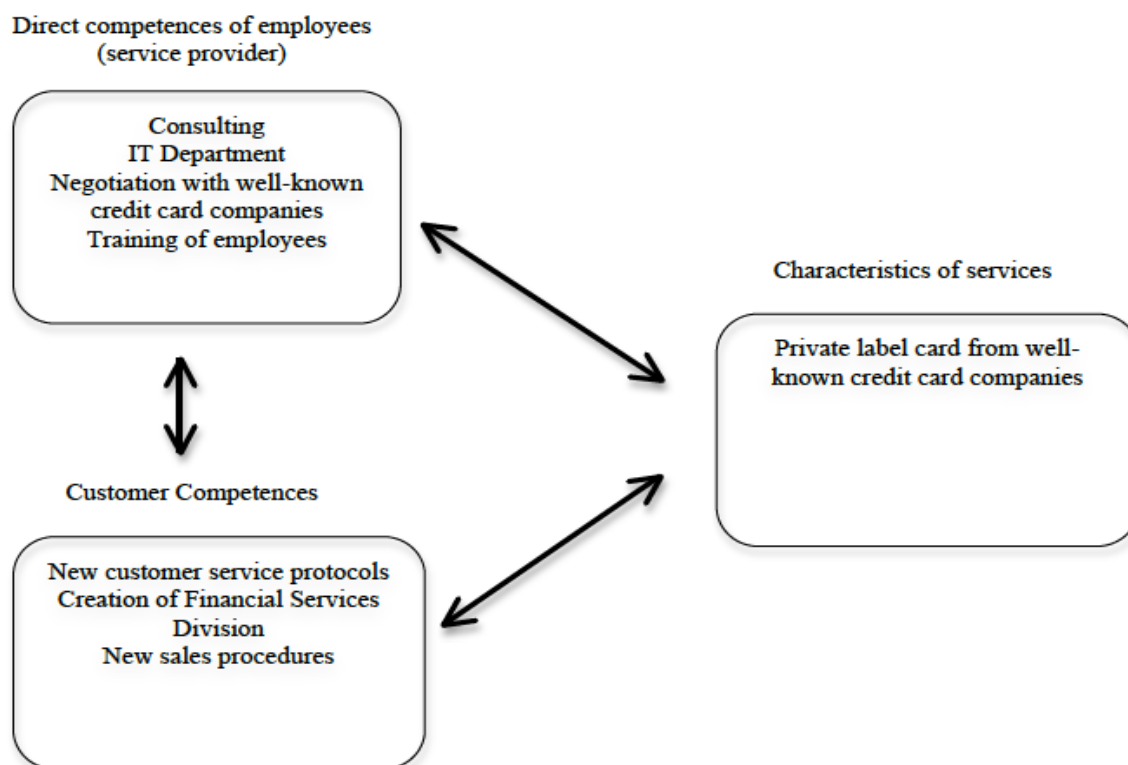
Network A´s 2014 Report reveals an improvement in operational performance due to increased issuance of store cards - from 18.4 million in 2011 to 20.2 million in 2012, and to 22 million in 2013, representing a growth of 10% and 8.7% respectively. The average spend on the Cartão Rede (Network Card) increased from R$136.34 in 2011 to R$147.61 in 2012 and to R$156.96 in 2013, an increase of 8.3% and 6.3%. Results for 2013 shows the following types of payment: 25.4% of purchases paid for in cash and 74.6% by credit card, of which 51.4% were with the Private-Label card and 23. 2% on other (external) credit cards. Meanwhile, purchases on the Renner Card declined: 2.9% from 2008 to 2009 and 3.6% from 2009 to 2010. After Meu Cartão was introduced in 2010 the decline was stemmed (from 2.6% in 2010 to 1.9% in 2011- the smallest decline registered to date). Between 2012 and 2013 the decline was a mere 0.7%, clearly displaying the benefits of investing in innovation.

This innovation is still being finetuned. There are no signs of it being imitated. Other companies in the sector run store cards but these are not managed autonomously/ internally, being firmly linked to banks.

4.2 Network B

Network B is a department store that mainly sells furniture, electronics and white goods (fridges, ovens etc). It was founded in 1957 in the city of Franca, São Paulo state. In the 1990s the management of this chain became more professionalized with the creation of a Holding Company and the departure of several family members from senior management. In 1999, the company created its e-commerce website. From 2000 onwards the company boomed after acquiring a number of other retail chains in the states of Paraná, Santa Catarina and Rio Grande do Sul. In 2011 it went public, with its shares traded on the BMF/ BOVESPA. By 2013 the network covered 15 Brazilian states with 732 shops, classed as the country´s sixth largest retailer.

The first innovation was the Lojas Virtuais (Virtual Stores), introduced in 1992. These adhere to a different concept from the usual 'online' outlets. They consist of small premises located in towns and cities of up to 50,000 inhabitants. Initially the service was offered together with a salesman who demonstrated the products with a television set, a video cassette player and a DVD! However the workstations were gradually modernized and replaced by computers. 106 virtual shops had been established by 2012. The average floor area occupied was 150 m² per shop, with a computer terminal for each salesperson (approximately 10 salespersons per shop)

containing an electronic catalog. In 2013, the first virtual shop was opened in São Paulo (Heliópolis). Products sold in the Virtual Stores are restricted to those that are available for delivery in the company's Distribution Centers within 48 hours. The amount of investment needed to open these shops is low - around 15% of what is needed to open a megastore. The innovation was sourced internally, an initiative proposed by senior management to reduce costs and increase the size of the target market.

Service provider competences included the need to teach staff the practical and theoretical skills required for operating the 'virtual' facilities. These were developed in the form of training sessions for company employees [C1]. According to the Director of Marketing for the Harvard Business School case, the employees needed to learn how to display the photos and specifications of the product to potential customers and help them to choose the best value (i.e. cost-benefit ratio) products. Since these stores operated with limited staff, the few employees working there had to be trained in credit analysis, credit approval procedures, etc, as well as knowing how to close a sale! Partnerships were also forged with other companies to deliver 'social insertion' services. Thus, external relational skills [C2] needed to be developed with organizations that were not normal retailers´ suppliers. According to the Manager of Communication and Sustainability, space exists in each Virtual Store called "Centro de Promoções" which can be used by a community and contains English, gymnastics and cooking lessons and anything else that community members feel is needed .

As for tangible and intangible characteristics, it was necessary to create a new layout [T1] to suit the client, teach staff a range of skills adapted to a more personalized approach, and introduce a totally new logistics operation [T2] to meet the requirements of the towns where the virtual stores were located - managed jointly with other parts of Network B - and the development of a new multimedia information system. The latter has been developing for some time and is still being fine-tuned by the company [T3].

The customers benefit from greater operational efficiency, with the larger number of sales outlets and a shop layout that enhances customer experience - enabling him/her to be given all the details of a particular product on screen, with professional help at hand if needed. For the company, operational efficiency was crucial, with reduced costs of store installation, stockage and staff. The virtual stores have produced a satisfactory return on investment. There has been no imitation of the innovation despite its having been introduced 22 years ago, with reasonable financial return and market prospects.

Figure 6- Formulation of service product innovation 1
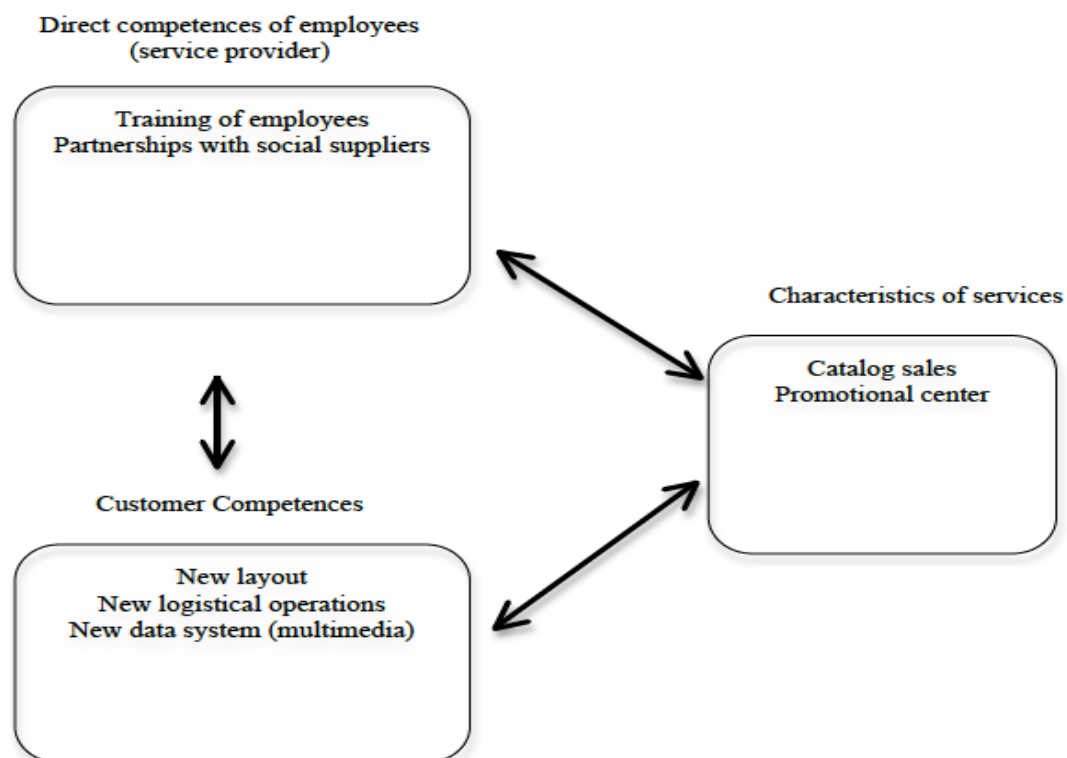
The second innovation implemented by the company was focused on the marketing area. The "Fantastic Clearance Sale" concept was introduced in 1993, basically a mega-sale which takes place on the first Saturday of January every year (only once a year) in which all the merchandise normally sold by the company is offered

at a 70% discount. In addition to the discounts, the company also invests in entertainment, supplies, chemical toilets, etc. to encourage customers to spend.

The post-Christmas period is historically a slow time for sales in the retail sector and this 'mega-sale' was conceived to boost higher turnover. According to the Communication and Sustainability Manager, this innovation revolutionized the entire retail sales scenario in the month of January, and others began to imitate it in due course. "Our idea was successful in the first year, we had a good return in the second year and then our competitors start to copy it. It was such a success that the Brazilian retail calendar changed substantially. The month of January is without a doubt sales month. It was our idea. And Network B certainly started the ball rolling".

The basic competences are related to the service provider and his tactical and internal and external relations skills. A new style of negotiation has to be established between the company and its suppliers. This demands a higher level of negotiating skills by the Purchasing Division [C1]. Similarly, the employees from the Management (Administration) Division allocated to the stores on Clearance Sale day obviously need to be familiar with handling direct sales to customers [C2]. Because they have been shifted from their usual jobs, a new kind of interaction has to be encouraged among the staff [C3] to deal the unprecedented numbers of customers on the day. As for external relational competences, the company also has to establish good communication with the press in order to advertise the big sale. Specific press campaigns are prepared, as well as opportunities sought for press coverage during the event itself [C4].

The tangible characteristics also change at the time of the mega-sale. Distribution logistics are altered because customers are obliged to take the product away with them after purchase given that no delivery service is provided by the company [T1]. While this 'sales model' is focused more on self-service than on personalized service, a staff member is nevertheless specifically detailed to assist the customer [T2].

Figure 7 - Formulation of service product innovation 2
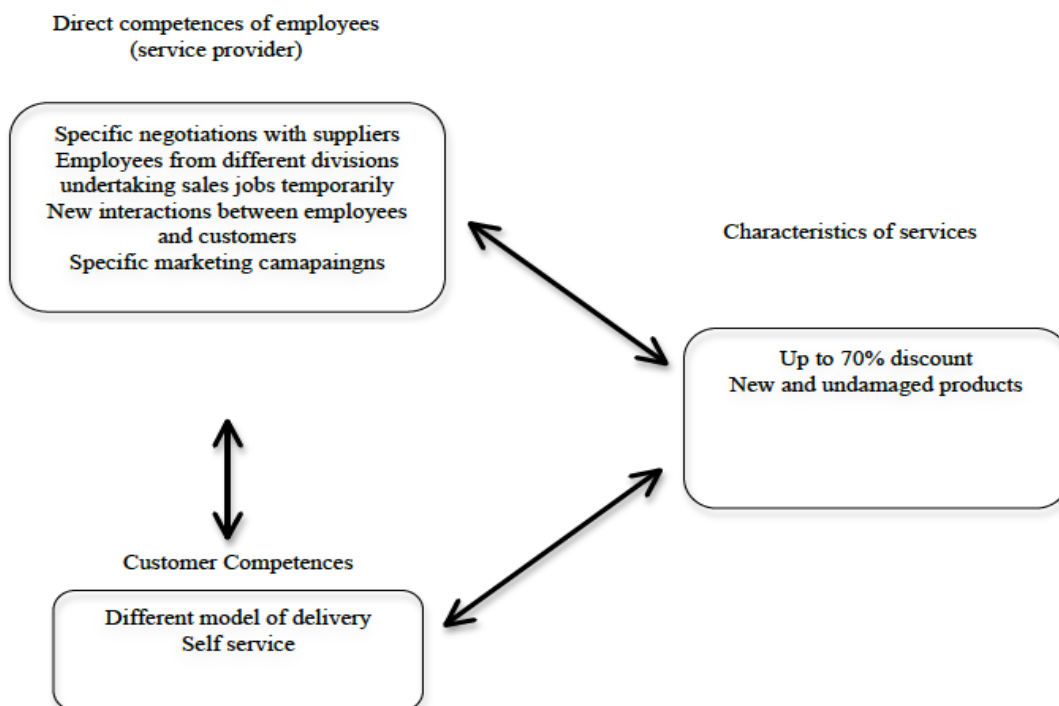
It is interesting to note that although the massive clearance sale concept was copied by competitors, this company experienced no loss of impact with regards to its own annual clearance sale. According to the Manager of Communication and Sustainability, the stores in Network B throughout the country are normally located in areas with many other retail outlets in the vicinity, and often with competitors often sharing the same space. Some competitors even keep their shops open until the early hours to try and retain customers who appear to be delaying their purchases until the Network B sale opens. Investment in building customer loyalty becomes clear at this point: "The line of customers goes on, but nobody leaves the line to buy in the competitor´s store. You can see that our sale is a success. The whole retail sector has changed in Brazil, but our January sale continues to be a unique event".

The third identified breakthrough came in 2001 with the association between Network B and Bank X. A joint venture was formed called the BCred Network. Through this new company, Network B became the first Brazilian retailer to partner with a bank. The goal was to provide financing activities to customers through a instalment system involving a Payment Booklet (Carné de pagamento). Subsequently customers were also offered personal loans called "Grana Extra" (Extra Cash). In 2007, the company also began offering credit cards to customers that could be used both in the stores and elsewhere. By 2014, the list of products offered to customers, in addition to those mentioned above were: Seguro Rede B Cartão [Network B Insurance Card], Seguros Rede B Residencial (Network B Home Insurance), Network B Life Insurance, and loans for retirees and pensioners of the National Social Security Institute (INSS), deductible from their pensions or benefits.

The initiative for this innovation came from the company itself after realizing that many customers had no access to credit because they had no bank accounts. According to the Head of Corporate Communications and Sustainability, many Network B customers obtain their very first credit card through the company. According to information published in the 2004 Harvard Business School case study, Network B adopted a totally different system of credit analysis and customer rating.

> To assess the credit worthiness of Network B´s target market, income levels are seen as less important than income stability. This means that the credit rating for somebody working in the seasonally-fluctuating construction industry is different from the credit evaluation for a public servant. Credit assessment examines income from both formal and informal sources, or even from both. Job informality does not necessarily increase credit risk, but simply makes it more difficult to evaluate risk if the traditional methods continue to be employed (Frei, 2006).

The competences [C] involved were restricted to the service provider. The skills focused on external relational factors since new forms of interaction were needed, given that Network B was involved with a new practitioner - Bank X [C1]. Due to this partnership, a new company was established and a range of other competences were required: the hiring and training of new employees, considered to be a cognitive competence [C2], and applying the knowledge gained to the new procedures, are considered operational competences [C3]. As for tangible characteristics, the BCred Network was established as a joint venture [T1]. This changed the structure of the credit operations of the organization, with the implementation of data systems [T2], a new organizational structure [T3], and brand new services. The company is now owned 50% by Bank X and 50% by Network B.

Figure 8 - Formulation of service product innovation 3
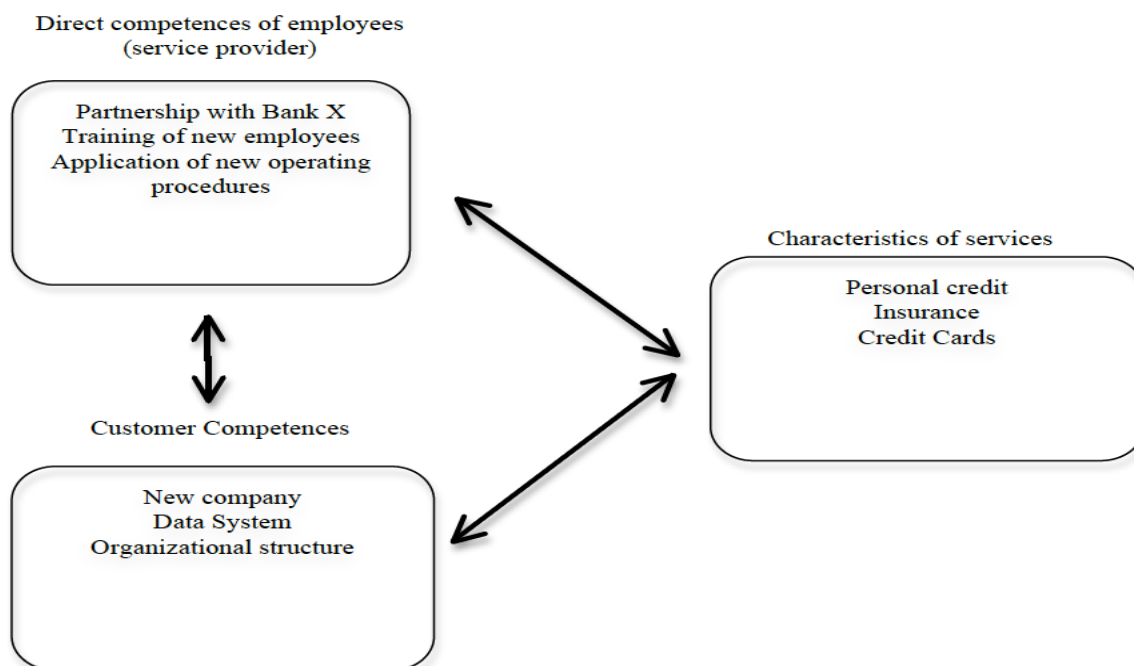
The sales record of the Network BCred, even after other retailers had adopted the same system, has continued encouraging over the years, and currently represents a significant part of the company's overall sales. According to the Management Report for 2013, "net revenues in 2013 of the consumer finance segment (Network BCred) increased by 9.1% to R$1,426.2 million, reflecting an improvement resulting from the CDC/Network B Card arrangement, and the revenues from services. "

5. CONCLUSION

This article presents the application of an analytical model of innovation in retail from a service perspective, resulting from the 'production and innovation in services concept' proposed by Gallouj (2002), further expanded by Kamal Gallouj (2007) with the service dominant logic approach developed by Vargo and Lusch (2004).

Analysis of the data reveals that there is indeed innovation in retail, that this innovation is endogenous, and that ways exist to create value even when retail firms are faced by imitation.

Two large retail chains active in Brazil were investigated. In the case of Network A, we saw that the priority innovations were in the areas of store organization, customer relations and forms of payment. The sources of information were generated internally, undertaken by the companies themselves to modify or improve a particular situation. Network A´s third innovation, the "Mais Você" card was perceived as a response to falling sales. All the innovations produced competitive advantages which have been maintained, and there has been no imitation by competitors.

As for Network B, the innovations were in the realm of payment mechanisms (settlement and credit lines) and the emergence of a new store format. The sources of innovation were also internal, aimed at boosting sales. Unlike Network A, two innovations were imitated, but the company has nevertheless continued to experience good returns, with a substantial increase in the sales brought about by innovations, even when faced by imitation.

Analyzing innovations based upon competences and characteristics was clearly appropriate for the retail sector, mainly in terms of the 'wheel of retailing' proposed by Gallouj and Gallouj (2009), reproduced above. All the planned operations were mobilized in the innovations that were researched: Logistics (M), showed the utilization of a new logistical structure, new customer service protocols and sales procedures; data processing (I), including innovations requiring either new data systems or modifications to be made to existing ones; relational operations (R), probably one of the elements most frequently used for implementing new services, with new relationships forged with supply chain partners as in the case of the 'social suppliers', in addition to new communication channels established with customers (an innovation in itself); and intellectual knowledge (K), with internal development through training and the appropriation of knowledge through the hiring of consulting firms.

The survey shows that the retail sector innovates regardless of its lack of protection mechanisms such as patents and registration. It is also worth noting that in spite of innovation being open to imitation, it is not always possible to replicate a model created by a particular organization in other situations (either internally or by the competition), and when this does occur, a company´s value creation generated by innovation does not necessarily suffer a decline. These conclusions are however limited to the cases studied above, and should be seen as a prelude to other, new studies, on retail networks and other commercial formats. These would enable us to expand and deepen our knowledge about retail innovation from a service perspective.

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