

## DIGITAL AND THE NEW RULES OF RETAIL

### *What's in store for the sector and its leaders*

*“Digital” has come a long way since its origins as 1s and 0s and has quickly evolved into a strategic priority for nearly every company. As organizations wrestle with the talent and leadership implications of digital, a major obstacle to making critical decisions is often a lack of agreement about what the term even means. **We classify digital as the broad range of technology-enabled advancements — including e-commerce, social media, big data and mobile computing — that are transforming how consumers live their lives and how consumer companies operate.** Digital enables growing price and performance transparency, simultaneously raising customer expectations and the stakes of a competitive landscape. As channels expand and new disruptors emerge, consumer companies will need to rethink their talent strategies in a digital world where desire for seamless, personalized experiences and rich, engaging content will only continue to grow. In this series of articles, we explore how digital is impacting the consumer industry today and how companies in the consumer products, restaurant, retail and travel sectors are evolving their leadership and organizational decisions in response.*

Digital's apparent time-bending qualities have changed how customers consume both information and products — research, engagement and purchase can occur in silos or in parallel anytime, anywhere. No other sector in the consumer industry has been as dramatically, disruptively and rapidly impacted by the real-time connectivity of digital as retail. Many retailers are now focused on creating truly seamless experiences for customers across all digital channels and brick-and-mortar locations, but “omnichannel” means different things to different retail companies. Some think of it as just a fulfillment strategy, allowing the customer to order products online and pick them up in store. At the other end of the spectrum, some retailers have installed a chief customer officer who is dedicated to ensuring that all customer touch points deliver on the brand promise.

Regardless of where retail companies are on the digital journey, the growing demand for holistic experiences and diverse digital offerings reaches well beyond the technology that enables them, significantly impacting talent and leadership. Yesterday's skill-sets and organizational structures will not be enough to succeed in a very different, digitally driven world. We spoke with executives at a variety of retailers who shared which digital priorities are at the forefront for their organizations, what lessons they have learned on their own digital journeys, and how they foresee leadership profiles and organizational structures changing going forward.

## Technology skills alone are not enough for retailers to succeed in a digital world

Digital presents a multifaceted opportunity for retailers — i.e., previously unimaginable amounts of data providing customer insights as well as a growing number of ways to connect with customers — and requires leaders throughout the organization who have both the perspective and the capabilities to fully reap the benefits. With such immense power, it is no surprise that digital is transforming how decisions are made about leadership and the organization.

While historically, retail leaders have tended to view the consumer through the narrow lenses of their functional responsibilities, such as merchandising or store operations, digital demands a shift in every leader's mindset to one that focuses on the customer holistically. After determining if a candidate possesses a customer-first perspective, the question for retailers building their teams today becomes: Is industry or digital expertise more important? For some retailers, it is not an either-or proposition. For instance, luxury goods and fashion retailer Saks Fifth Avenue has had success hiring from the merchant side of the business and teaching that talent about e-commerce, and yet, other roles at the retailer, such as CRM or big data analysis, demand pure technology or marketing analytics backgrounds. In addition, intelligence and willingness to learn can take primacy over a list of qualifications that look good on paper. “I believe that smart, driven people who want to be successful will be able to thrive and move industries and it's not necessary for them to have that domain experience,” said Michael Burgess, who worked at FTD and Teleflora before becoming president of Saks Direct and was recently promoted to president of HBC Digital at Hudson's Bay Company.

Although many retailers have typically brought in contract analysts to help comb through data, Faisal Masud, executive vice president of global e-commerce at office supply giant Staples, is finding that retailers are now seeking in-house marketing talent who have the analytical muscles that typified his earlier experiences at technology companies, including Groupon and eBay-PayPal.

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– Michael Burgess, president of HBC Digital at Hudson’s Bay Company

“There’s this new component of advanced analytics and database mining that is taking our capabilities to the next level, which I think is very important when you think about how retailers are going to compete two, three, five years from now,” added Denise Incandela, president of global digital and global e-commerce for Ralph Lauren and former CMO of Saks Fifth Avenue and previous president of Saks Direct. She noted that digital requires leaders to have more rigor and accountability around data, with an ability to use it to test hypotheses, such as whether to use digital search to drive sales to stores or build new propensity models. “It’s a very different skill-set and a very different approach to marketing.”

Leaders then need to be able to take myriad insights gleaned from analytics and testing to develop a plan of action in real time. “We need senior business leaders increasingly able to understand digital technology and e-commerce in the retail sector, and they need to be more conversant with rapid consumer and competitive change,” said Burgess. “I think they also need to be able to dig into data and get to its implications quickly, often synthesizing across multiple information sources that they have received over various times and really create a strategic roadmap and direction to the business. That comfort level with synthesizing and strategic direction based on data is something I’ve seen become much more important.”

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Yet, many retailers are struggling to find leaders who are strategic, analytical, able to manage a team and influence change in a compelling way. As a result, retailers may need to challenge their own perceptions about what digital talent looks like, as well as the expectation that one single guru can carry the digital agenda alone in the long term. Companies that are just setting out on the digital journey are sometimes concerned that digital talent tends to be younger and may not have the functional or industry expertise of a traditional retail executive, and overlook the importance of fresh perspectives.

“I hired a younger executive with experience in search engine marketing from one of the biggest global airlines and global hotel chains,” said Guenther Trieb, CEO of luggage company Delsey. “He’s not the classic marketer, but he is good, not only in building up a very analytical framework early on, but also great in understanding how to use creativity in areas where traditional marketing skills quickly become obsolete.”

According to Carrie Fisher, vice president of global marketing services at Fossil, the wholesaler/retailer thinks about the full continuum of skills, with sector expertise on one end and digital experience on the other, to help strike the right talent mix. For roles focused on brand-building activities, the company typically draws talent with fashion expertise, but if the role demands infrastructure building, the net is cast for executives with the relevant technical and tactical experience.

Innovative thinking is also prized as retailers seek new ways to entice customers through digital and traditional channels. “Joe [Magnacca, RadioShack CEO] is looking for a wide range of talent that comes from different experiences where we all complement each other, but bring new fresh thinking to the table,” said Jennifer Warren, CMO of electronics retailer RadioShack. “He said, ‘I don’t need someone who can come and develop a circular plan, I need someone who can help us reposition the brand and think differently.’”

Leaders who can blend the fundamental right- and left-brained aspects of digital are especially hard to find for many retailers, including a strategic and operational perspective, a P&L mindset without actually owning the P&L, the ability to leverage data, and flexibility.

## Finding, attracting and keeping digital talent

Some retailers seek internal talent who know the sector and have a layman’s understanding of digital in order to build that talent pipeline. “We’ve had great success in taking people who have only worked on the store side and teaching them the e-commerce side, and I think that really positions them to become the omnichannel merchant leaders that we need in the future,” said Incandela. Others like RadioShack are looking to fellow retailers to build their digital bench; Warren hired a creative director who led another retailer’s web experience.

With such a short supply of digital talent to meet mounting demand, retailers must be prepared to ramp up their attraction and retention efforts.

Drugstore and pharmacy CVS has learned that talent attracts talent — seeding the organization with proven digital leaders acts as a magnet for similar candidates and also demonstrates an organization’s level of commitment to digital. The organization has also presented digital as an opportunity for ambitious internal talent to rise to the occasion. “It’s really a question of our maintaining avenues of opportunity for people who have proven themselves, even if it means they don’t have the perfect resumé for it and must learn to get there,” said Lisa Bisaccia, senior vice president and chief human resources officer at CVS Caremark Corporation. “We did that when we first started out the digital effort. We took a really smart leader who wasn’t necessarily a digital expert, but he became pretty close to one very quickly. He decided to stay with digital, but he could have very easily run our whole healthcare reform strategy without missing a beat. I think we have to make sure that we’re able to deliver on that promise of career growth with other new hires that we’re bringing in who are much more versatile.”

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– Jennifer Warren, CMO of RadioShack

Compensation plays a key role in attracting digital talent; Masud found that Staples needed to create a separate talent fund to build its digital team. While retailers should definitely prepare to pay more for in-demand digital talent, visible opportunities for advancement are also big attractors. Additionally, some digital leaders are drawn to certain situations, specifically those where they feel they can make a tangible difference. Trieb says digital candidates with an entrepreneurial spirit are attracted to Delsey's digital group, which he describes as "a startup within a global company." Situations that might deter more risk-averse individuals can also be a unique pull for talent who want to make an impact right away.

"I'm finding there are certain types of people who are going to be attracted to a turnaround situation and that's part of what I screen for when I'm talking to talent," said Warren. "I'm looking for people who see a fire and actually run toward it versus away from it, people who like a challenge and want to roll up their sleeves and fix things and move them forward. I would say talent is either attracted to us or not because of our situation and they want to jump in and have some autonomy. It's a very entrepreneurial spirit here right now. From a digital perspective, a lot of people who have chosen to get into the interactive field are those people who are on the cutting edge or they're curious and interested in learning what's next."

Other intangibles, like a culture of empowerment and a demonstrated commitment to development, are powerful tools in retaining digital talent. "The best way to retain people is to build a great culture in the organization where people feel supported, motivated, empowered and able to take ownership and have accountability for what they're doing and then we deliver great results. That combination really seems to work," said Burgess. "You can compensate people in a way that's comparable to other companies so then it really comes down to, 'Well, why would you want to leave? What is so much better about those options than what you have right here?' And then we're coaching and grooming and continuing to build that talent up to the next level in their careers internally."

## QUESTIONS FOR FURTHER THOUGHT

Leaders of retail companies must determine which digital specific pursuits enhance the customer experience and advance their strategies — and how they impact their talent needs and broader organization. Here are some questions retail leaders can ask themselves as they continue their digital journeys:

-  How do our goals for digital advancement align with our overall strategy?
-  How is the shopping decision process changing as a result of digital, especially given the unprecedented access customers now have to pricing and product information, reviews and ratings?
-  What has been our talent strategy to build digital expertise and is it working?
-  How have we leveraged digital technology to collect consumer insight, spot trends or simply track marketplace initiatives?
-  What changes in profile, experience and/or attitude would we strive to make on our next key hire?
-  How is our digital strategy enabling a holistic, engaging experience for our customers? what does a successful holistic customer experience look like?
-  How are we preparing from both a leadership and organizational perspective for emerging digital advancements, such as mobile payments and facial recognition?

## Your organizational structure: Boon or barrier to the customer experience?

In the past, customer loyalty was primarily driven by the right location, the right merchandise, the perception of good value and fair prices, and good customer service. Now, unprecedented transparency around prices, product features and user reviews have created more sophisticated shoppers with rising expectations for quality and service, creating a fiercely competitive environment. When a customer can purchase a comparable type of product from any number of stores, retailers must find other ways to differentiate themselves. The relationship with the customer has emerged as one of the biggest value propositions retailers can offer today and digital can help the transition from a transaction-focused exchange to a much more complex one of loyal engagement. For instance, social media allows customers to be part of the retailer's community, such as gaining access to an in-store celebrity appearance or becoming part of a conversation around Fashion Week.

While placing the focus on the customer may seem obvious, there have been long-standing philosophical and organizational barriers to doing so at many retail companies. In its earlier days, digital was an add-on to existing operations, and channels such as e-commerce and brick-and-mortar stores often operated in different silos. Legacy — and often outdated — information and reporting systems further inhibited the sharing of information across different groups. With separate P&Ls, there was little motivation to take a more holistic approach to the customer. Some retailers have started to align compensation across channels, literally making it pay to have a customer-focused, omnichannel mindset across the organization. Retailers have admitted that the only way to change employee behavior and help drive sales across all channels was to change the incentive structure; anything sold in a store's trade area, whether online, in-store or through its catalog, was credited to the store. Many retailers are now weighing the benefits of combining P&Ls to ensure organizational alignment.

Customers are not paying attention to “the man behind the curtain” of digital — they are not concerned with which group within the retail organization manages the mobile site or how disparate teams have to collaborate to ensure in-store inventory availability is accurately reflected. Retailers who have shifted from a “How do we sell more to our customers?” orientation to one that places the customer's needs and wants at the center of their business engender a stronger overall customer experience. “It's a whole different world compared to where it was previously, where it was more about our agnostic approach to customers, whether they are coming via device, their computer or they're walking into the store,” said Masud. “For someone like myself, the focus now is really how to tie all of those three together and enable all of it through automation, technology and scalability of our platform.”

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Paradoxically, retailers are employing digital to provide the more personalized, high-touch customer experiences that were once the sole domain of physical stores. Underpinned by customer shopping, browsing and social data, Saks Fifth Avenue blends the human and the digital to deliver site experiences and content tailored for the individual customer. This online personalization mirrors the in-store experience, where associates build strong relationships with clients and serve as style advisers and curators.

Enriching the customer experience is not only a priority for purveyors of luxury goods. Specialty retailers to multi-brand conglomerates have renewed their focus on the customer as part of digital efforts. “We are really starting with our consumers in mind and thinking about how to design the experiences that they have with CVS Caremark to help them stay on their paths to better health, which is the mission of the company,” said Helena Foulkes, executive vice president of CVS Caremark Corporation and president of CVS/pharmacy. “A few years ago, digital was a bit of an afterthought, but given where consumers are today, digital is very much a part of how they live their lives, so in the pharmacy space, we’re looking at how they interact with us and how digital can make those interactions even better. As our fellow retailers think about themselves from an omnichannel perspective, we’re also thinking about those consumers who have been shopping online and walk into our stores and expect an experience with us that’s very different than they expected five or 10 years ago. At the most simple level, while digital says technology for us, digital is really about our customers and how we design the experience for them.”

Organizational structure was one of the first issues Warren tackled when she began her role as CMO at RadioShack, establishing a consumer insights and strategy group to drive the activity of the marketing and merchant groups. At CVS, digital was initially immersed in individual business groups, which resulted in disparate experiences for the customer. To fulfill its commitment to an omnichannel philosophy, the organization recently united all digital talent under one enterprise digital team.

## Organizing for digital in complex structures

In global retailers that are especially complex, such as Fossil, which began as a wholesaler focused on price-value positioning and has since added direct-to-consumer sales of its 14 brands, it is vitally important to clearly identify the owner of digital for the organizations. “You’ve got to get the leadership right and the structure right,” said Greg McKelvey, senior vice president and chief strategy and marketing officer at Fossil. “There are people in the company who could deliver on the vision and lead this thing all the way through, but it requires more dedication than I think we can offer currently in-house. I could go develop a strategy, the vision, work across the regions, work across the brands, figure out what sits in the brands, what sits as a best practice globally and what’s in play for customers, how we’re going to detect them and bring them through the customer decision journey. I can do all that, but that’s a full-time job and I run strategy and marketing as well. So do I do that, but then have a number two who really owns it underneath? Do we have someone else in one of the brands do that? Ultimately, we need to answer those questions and get the leadership model right first.”

Grupo Gigante’s solution is to empower its subsidiaries to determine their own digital strategies versus implementing one broad plan. For example, Office Depot Mexico, a regional subsidiary of the leading office supply retailer, has been active in e-commerce since the late ’90s and, according to CEO Angel Alverde Losada, platforms such as Facebook and Twitter have become the focus from an engagement perspective rather than a sheer sales driver. “In terms of Facebook and Twitter, we are very active,” he said. “While our penetration in Facebook is still low compared with other retailers in Mexico, we’re not trying to gain more customers, but to have a better relationship with the ones we already have and enroll them more in the Office Depot concept.” Geography also plays a key role in informing the digital agenda. The Mexican market is not yet saturated with the enablers of digital shopping — access to mobile devices and computers, Internet and credit cards is still growing — presenting opportunities for retailers there to build their customer base and its engagement.

## Overcoming cultural resistance

Sometimes even more challenging than the organizational structure and broader infrastructure realities of the country is cultural resistance to digital and its role in the customer experience — and the significant financial commitment it requires. McKelvey noted that leaders need to understand that the investment in digital is

a cost center before it is a profit center, and that the investment must be made from the top all the way down to the store level. Results that exceed expectations can go a long way in changing minds about the worth of digital investments.

“I was what I would call the red-headed stepchild and I was fighting against the stream and I would be banging the table in 2002 and 2004 and 2005 and 2006, saying, ‘e-commerce is important, people are fundamentally changing the way they shop,’ said Incandela. “When the website became the second-biggest store, then everyone opened their eyes. We as the e-commerce team always made the case that if you give us \$1, this is what we’ll give you back and we always over-delivered.”

Resistance can also stem from a lack of information and its frequent companion: fear. Change, especially digital-driven change, can seem threatening to employees whose roles are not rooted in technology. Bringing people along on the journey and communicating what their role will be as part of that broader organizational journey helps combat cultural resistance. “We put a lot of energy in bringing people with us,” said Bisaccia. “Helena [Foulkes] spent a lot of time bringing people with her and charting a course so that by the time we were able to hire a digital leader and enter a new phase, people had gotten their heads around not only where we were going, but how we were going to get there and what their role was, which pays a lot of dividends in the long run in terms of not having a mutiny further down or not having the business support for a newly defined enterprise function.”

## Planning for the next season of digital

Just as retailers must prepare for the impact of new trends and merchandise, they must also plan for the continued evolution of digital and its role in their relationship with customers. Retail leaders believe mobile, big data, social media and e-commerce will remain vital digital forces, but other technologies are emerging. Masud anticipates that mobile payments will further transform retail, citing the success of limousine company Uber’s payment platform as a sign of things to come, with the mobile wallet dictating the shopping experience. Many retailers have already started exploring the potential of mobile payments: With its recent acquisition of GoPago, Amazon appears to be poised to expand its mobile payments services and Apple is reportedly entering the payments space with its own service. With digital changing as rapidly as consumer buying behavior, retailers need leaders who not only possess analytical acumen and strategic orientation, but the agility to adapt to a new style of working and relating to customers.



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