

## MADE TO ORDER

### *Digital's Leadership Implications for the Restaurant Sector*

*“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.*

Few businesses are so literally dictated by consumer tastes as restaurants. Although product and service will always be paramount in the sector, digital has whetted customer appetites for highly personalized experiences, faster and easier transactions, and better engagement. With unprecedented transparency and access to information through Yelp, Zagat and other review sites, the bar is raised for restaurants to provide high-quality food and experiences — or risk their reputations with real-time feedback that can go viral quickly. While restaurant companies are deploying digital technologies to satisfy customer demands and enhance their experiences, they are also using these advancements to drive innovation, improve operational efficiency and grow revenues. As restaurant companies explore how to bolster their use of big data, customer relationship management (CRM), geofencing, social media and mobile capabilities, many have had to reexamine their priorities, how their organization works, and the types of leaders and skills they need to bring to the table.

## Customer at the center

A service sector in its truest form, restaurant companies succeed or fail upon their relationships with customers. As customers' technological needs and habits evolve, restaurant companies must adapt their offerings. Yet, blanket adoption of every new digital technology is not the solution; restaurant company leaders need to place the customer at the center of their decisions about digital. For example, carryout and fast-food restaurant companies tend to be more active in mobile and social media because their customers value immediacy and convenience. However, upscale, fine dining establishments are often more selective about their digital efforts (e.g., providing online reservation services), striving to strike the right balance between providing a high-touch experience and their customers' increasingly digital lifestyles.

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– Michael Kappitt, senior vice president and CMO of Bloomin' Brands

With the aspiration of providing added value to its customers, Outback Steakhouse recently released its Outback 365 app, which provides targeted offers and content to users based upon their geographic locations and preferences. “As we think about investing in digital outlets, we always start by asking, ‘How does it make the customer experience better?’” said Michael Kappitt, senior vice president and chief marketing officer of Bloomin' Brands, whose portfolio includes Outback Steakhouse. “With all of these developments, they are only as good as they are relevant to the customer, so the push technology and geofencing are interesting for us. Whether they're inside or outside our restaurants, we want to make sure the experience with the brand is great.” Some of the Bloomin' brands are also exploring the use of tablets at the table for easier ordering and gaming options, all with the end goal of an enhanced customer experience. “If they have that technology in front of them, customers feel that they own the experience and if they were seated for 50 minutes, they may feel like it was only 40 minutes,” added Kappitt.

Chili's Grill & Bar recently partnered with Ziosk, a U.S.-based tabletop tablet vendor, as a way to entertain guests, facilitate more efficient transactions and drive higher checks. Through the tablet, diners can instantly order dessert as the mood strikes rather than wait for servers — and reducing the risk of the impulse (and added revenue) passing. “The Ziosk tablets present an opportunity for guests to take control of their experience and, if speed is an issue and they want to leave right now, they don't have to wait for somebody to come take their check. They can just swipe and go,” said Wyman Roberts, CEO and president of Brinker International, which owns and operates Chili's and Maggiano's Little Italy.

Hungry Jack's, the Australian master franchise of Burger King Corporation, introduced a “Shake & Win” app that allows customers to literally shake their smartphones in order to reveal various prizes, including free burgers. “The app has been very popular, which is interesting given our diverse demographic of customers,” said Atul Sharma, CEO of Hungry Jack's. “Especially after school, kids come in and try this quite actively and it brings traffic into the stores. It's been very successful for generating traffic.”

Other restaurant companies have also found that shifting to online and mobile sales is a boon for business. Pablo Juantegui, CEO of Telepizza, a Spain-based chain that operates throughout Europe, noted that online consumers are more loyal than telephone customers and spend an average of 15 percent more per order, with mobile beginning to surpass traditional online ordering in order value. Juantegui anticipates that 80 to 90 percent of orders will come from mobile over the next two to three years, and to capitalize on this shift, the company has made a strong investment in a sophisticated CRM system.

In addition, social media presents a significant opportunity and challenge for restaurant companies to engage directly with customers in new ways. In the pre-digital era, customers had to send formal letters of praise or complaints. Now, a quick Tweet or Facebook post can help immediately elevate the brand or spread negative perceptions about it. “I see a world in the coming years where the interaction between customers and brand is going to go very, very fast and we will have to get prepared to provide feedback to our customers and answer to their requirements,” said Juantegui. “On the one hand, it is fantastic because we know firsthand how they feel about the service we provided, allowing us to change our products or improve our services. On the other hand, we have to be able to adopt that one-on-one interaction across our six million customers in Spain — not an easy feat.”

Digital not only enables creativity in customer engagement, but also in product innovation. “From an innovation standpoint, what I love about digital is that when you're trying to come up with new products and, at some point, you run out of the easy ones — we've got all the different pizza crusts and types you want — you can still make people think your brand is progressive,” said Russell Weiner, chief marketing officer and executive vice president of Domino's Pizza and former vice president of marketing and colas at Pepsi-Cola North America. The company's online pizza tracker, which allows the customer to monitor the progress of an order from preparation to delivery, is a prime example of this digital-focused innovation.

These developments hold great promise for the sector, but also require new skill-sets and types of leaders. As restaurant companies modernize old infrastructure to deploy new technologies, they need experts who can assess and establish the best system for the future. For example, Yum! Brands is seeking a senior e-commerce executive who can leverage the sophistication of the company's pizza business unit across others with older point-of-sale systems. The increased demand for interaction through apps and social media also requires that restaurant companies possess an array of talent, from IT leaders to oversee the technical deployment to content creators and communicators to produce engaging information for those channels.

## The right talent mix

While there is an abundance of digital talent for lower-level roles, it is scarce at senior leadership levels. To help address this shortage, some restaurant companies have taken a hybrid approach to staffing for digital, partnering with digital agencies to help fill the gaps as they simultaneously build their digital talent bench. The specific type of role typically informs whether a company will go the agency route or rely on in-house capabilities. Outback uses a creative agency to help develop daily programming and content for its app, but is building an internal team to handle its CRM and loyalty programs.

### Sector vs. digital expertise

Throughout the broader consumer industry, senior executives debate whether sector or digital expertise is more vital in a technology-driven world. For organizations looking to boost technical capabilities, such as CRM or e-commerce, digital know-how is the priority. Many restaurant executives are willing to go outside the industry for this digital talent and simply teach them the ins and outs of the sector.

“The majority of the folks that we’ve brought in recently are from outside the restaurant industry,” said Kappitt. “I don’t think we have a recruiting formula for that; it just has worked out that way in terms of the people we think can make a difference and get us to where we ultimately want to go. Within the last year, we’ve brought on somebody to lead our CRM and database management activity who came from the banking industry.” He anticipates that, as leaders in the restaurant sector become more savvy in highly technical areas, companies will look more at their counterparts and competitors as sources of talent.

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– Russell Weiner, CMO and executive vice president of Domino’s Pizza

Because he considers Domino’s a “digital company that sells pizza,” Weiner prefers digital expertise when filling certain types of leadership roles. “I’m not looking at sectors with regard to digital talent, I’m looking at their digital experience,” he said. “I don’t care where they come from. Part of the reason it was so great working at Pepsi was that they develop you really well as a marketer, with different jobs every two years. But digital is a very different animal. You could be a marketer who knows digital and that’s probably what I am. But to do true e-commerce, you need an e-commerce person who knows a little about marketing versus a marketer who does e-commerce, because the technology moves so quickly and you need to speak ‘IT speak’ to get the respect and manage the projects. I’ve tried it the other way with rotation programs and it just doesn’t work, so we rotate people at lower levels to get digital experience, but our senior leaders have to already be digital experts.” Additionally, digital talent is often very specialized, rendering rotation as a career development tool — or a means of talent attraction and retention — ineffective.

Yum! Brands also brings in digital expertise rather than grooming existing talent for digital responsibilities, and given that digital talent can skew younger than traditional functional executives, is “age-agnostic” when filling those roles, according to Siddharth Varma, former managing director of Yum! Restaurants International Asia Franchise Business Unit and CEO of Cyrus Project.

For others, the issue is not making a trade-off between sector and digital expertise, but selecting for leadership ability above all else. “Our approach right now is to get a better leader than a strong technology person,” said Roberts. “Because of the need to interface with the leadership team and to understand the strategy and be a cultural fit, we try to find the leader who has all of that.”

## Experimental leaders needed who can tie results to the brick-and-mortar level

Although delivery of results is important, restaurant companies can benefit greatly from leaders who have shown they are comfortable with taking risks and failing sometimes. “Leaders need to understand that the digital landscape is a rapidly evolving space and give their teams permission to try different things and make mistakes to learn and iterate, which is the Silicon Valley mentality,” said Clara Shih, CEO and founder of tech company Hearsay Social and board director at Starbucks.

“Digital is a marketer’s best friend because marketers are paid to always think, ‘What if?’” said Weiner. “There’s never a right answer and your job is to always be creative and think of a backup. The great thing about digital is you don’t have to ask, ‘What if?’ You just test it. I may know, for example, that a customer usually orders on Tuesday and he didn’t order on Tuesday this week. So he’s now going to see a Tuesday ad, and even throughout the day, I can change the value of that banner to convince him to order. There’s just so much you can do, and the exciting thing is you take the results of these tests and then feed them into the brick-and-mortar store level.”

The Starbucks mobile app incorporates the company’s loyalty program and represents 14 percent of its transactions today. It is also evidence of its leadership’s commitment to experimentation, as well as tangible proof of digital’s results at the store level. Shih says Starbucks CEO Howard Schultz is “very entrepreneurial” and fosters a culture of creativity — a spirit that is valuable for leaders in an era when change is the new normal. “We live in highly disruptive times,” said Shih. “Leaders must adapt and seek out innovation in order to stay competitive and relevant to customers.”

How restaurant company leaders view their organizations and communicate that view can inspire their teams to take chances. “We’re not a pizza company that sells online, we’re an online company that sells pizza,” said Weiner. “If you think about things that way, you hire differently, you swing for the fences and it’s OK to miss. It’s a different kind of thought process and it’s changed the spirit of the team. The IT guys are jazzed coming to work every day because they’re not just pumping out code for some marketing idea. They’re brainstorming trying to figure out how to put the other guys in the rearview mirror.”

## Culture fit

In a landscape where competition for talent — especially for digital experts — is fierce, it can be tempting to place less emphasis on intangible qualities like cultural fit. However, one of the main reasons that even the best and brightest fail is a lack of alignment with the organization’s culture. Outback considers cultural fit so important that it will pass up on otherwise ideal candidates who do not mesh well.

“Regardless of whom we interview for a particular position, by the time they get to me, having the skill-set for the job in question is the ante,” said Kappitt. “At that point, it becomes about the culture fit and we’re maniacal about people fitting our culture. We’ll pass on really talented people who we don’t think fit our culture. We are a very team-oriented culture. This is a founder-inspired company and it’s very collegial, so we look for people who can play really well with others and that are about the team winning and not about just them winning.” Additionally, hiring with the aim of preserving the culture also pays dividends later, as a strong culture can attract the very talent needed to replenish it.

## Organizational culture and digital

With the challenges of updating old infrastructure to enable the entire organization to meet the growing demand for digital, the stakes are higher for IT leaders throughout the sector. “IT is at the table now,” said Roberts. “They can’t be a support function. You need to get the right people in the IT function from a leadership standpoint. It’s not good enough if they’re just technically sound and strategically strong, you have to have someone who can interface with the executive team.”

Historically, this collaboration has been most visible between the CMO and CIO; Weiner worked with the CIO of Domino’s on the company’s three-year strategic plan, and the two meet weekly to ensure marketing and technology are aligned. However, IT’s evolution into a more strategic function has required that organizations change the way they work, demanding collaboration across all functions and previously disparate groups. Functions such as CRM, supply chain and product development also need to be integrated into plans for digital. The CEO plays an integral role in driving a culture of cross-functional collaboration.

“The CEO needs to make clear that this is a partnership,” said Weiner. “As an analogy, too many times, marketing people think that we’re the ones who design the bathroom and pick out what everything looks like and IT puts the plumbing in. And the IT people could say the bathroom relies on mechanical pieces of equipment and plumbing, and marketing just comes in and paints at the end. It can be a very territorial place and the CEO needs to convey how we need to be a place of partnership.”

### Digital orientation, not fluency, needed at senior executive and board levels

Restaurant companies understand that the ultimate aim is not finding one digital guru, but instilling a commitment to digital throughout the culture. “The leadership team has learned that we all need to be much more knowledgeable about the overall strategy and the role that the digital world is going to play in our business going forward, not to the point where everyone is the expert on how to program, but more so in how to prioritize initiatives,” said Roberts. “At the end of the day, these things take time and money and, often, they shift resources or revenues from one bucket to another, so it’s very important that the leadership team understands the overall vision for technology and what the business implications are, what timeframes are realistic and what investments are needed.”

“Becoming digital has to be part of the company culture,” said Juantegui. “It is not about bringing in someone who is a digital expert and he or she will do everything. We have been training everyone to become more digital, but the chief transformation officer has to be the CEO. Senior leaders are not expecting every single leader in the organization to be an expert or to be an early adopter, but it’s extremely important for them to understand that if we are not able to adapt to these changes, we will fail.”

Companies such as Starbucks have brought in board directors with digital expertise to help their organizations navigate opportunities and their potential risks. “At the board level, a lot of focus right now is on personal media governance and compliance, risk mitigation and crisis management,” said Shih. “There’s also a question of the benefits of social media, what’s the opportunity cost of not doing more, how are various existing social media initiatives driving the business, how are we reorienting our customer-facing and recruiting initiatives, and how are we reorienting around today’s social and mobile consumer.” To keep the management team at the pulse of current and emerging digital advances, Shih hosted various executives in Silicon Valley for a “startup tour” to expose them to the area’s innovation.

## Empowerment

Especially in restaurant companies with a portfolio of brands, leaders need to be empowered to determine the right digital pursuits for their individual organizations rather than simply deploying a blanket plan handed down from corporate. This empowerment is also effective at the franchise level, especially when franchise leaders can see the benefits of tailored digital tactics in their local markets.

“We’re trying to get our stores to spend the money that they used to spend on other things on local digital instead,” said Weiner. “They may be doing direct mail and we show them how paid search on a local level is quite easy and very efficient, almost as if you’re buying it nationally. It becomes a better way for them to spend money and we can report back to them what their cost per order was.”

## QUESTIONS FOR FURTHER THOUGHT

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



How is the dining decision process changing as a result of digital, especially given the unprecedented access customers now have to reviews, ratings and real-time promotional offers targeting them based on location?



In what ways can digital/mobile drive growth for our brand? In what ways could it help us cut costs?



How is the growing use of mobile (e.g., payments, promotions, ordering, etc.) an opportunity or threat to us?



Do we have the digital and mobile talent with the leadership and vision to get us where we need to go?



What investments do we need to make to accommodate customers’ increasingly digital lifestyles, such as Wi-Fi access in our restaurants, order placement via tablets, mobile apps, gaming offerings and mobile payment options? How do we balance these technologies with providing a personalized customer experience?



How are we preparing from both a leadership and organizational perspective for emerging digital advancements, such as mobile payments and Internet of Things (the ability of objects to communicate with each other for an enhanced user experience)?

## Conclusion

It is important that as restaurant companies explore ways of using digital to engage customers and create operational efficiencies that they not lose sight of the actual product. As Juantegui aptly noted: “We make pizza and pizza cannot be digital. I want the stores to master making pizza.” Digital will eventually allow businesses such as Telepizza to focus more on the food itself rather than order placement. While social and mobile have already made a tangible impact on the ways restaurant companies interact with customers, Shih believes these technologies are only in their early stages and technology overall will become more pervasive and invisible, with big data, 3-D printing, wearable and home technologies, and further integration of personal and professional lives eventually transforming a range of industries, including the restaurant sector. Roberts foresees customers becoming even more reliant on their smartphones for everyday living, presenting further mobile payment and engagement opportunities. Restaurant companies need leaders who can look ahead at which emerging technologies can advance their strategies in the future and what best serves their digital efforts today.

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