



# DIGITAL TRANSFORMATION:

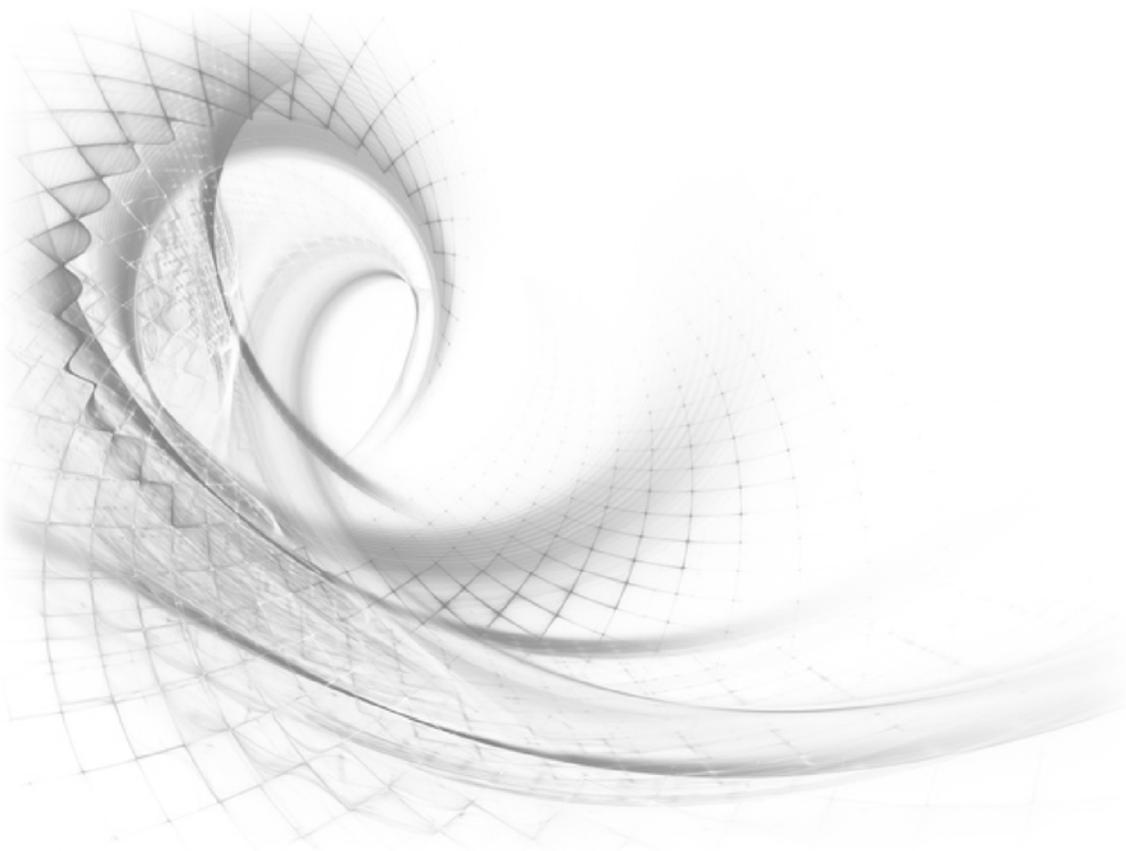
Ushering in a New Era of Retail Relevance

By Theo Rose



“IT IS NOT THE STRONGEST, OF THE SPECIES THAT SURVIVES, NOR THE MOST INTELLIGENT, BUT THE ONE MOST ADAPTIVE TO CHANGE.”

Charles Darwin's observation about the animal kingdom back in 1868 is a pitch-perfect assessment of today's business environment. We must adapt or die.





## **DIGITAL TRANSFORMATION:** USHERING IN A NEW ERA OF RETAIL RELEVANCE

The term “digital transformation” is a bit of a misnomer. We are not going to transform the digital world; it is transforming us — everything from our smartphone-centric activity to the huge influence of social media on almost everything we do. We can complain about the technology tsunami all we want (and we do) but it is NOT going to slow down. If anything, there is every indication that it will continue to accelerate.

The question, particularly for retailers, is how will we adapt? We’ve seen a steady stream of big names get caught by surprise when competitors quickly take advantage of available technology and present a great assortment, low prices, and often free shipping, directly to the customer. Certainly, Amazon and Walmart are the behemoths, but there are now hundreds of websites that sell just about every commodity available.

It’s a tough climate in which to compete, never mind excel. To achieve success, traditional retailers need a strategy to transform into a viable retailer in the digital world.

# DIGITAL TRANSFORMATION 101: WHAT YOU NEED TO KNOW NOW

DIGITAL TRANSFORMATION CAN BE BROKEN INTO ROUGHLY FIVE CATEGORIES TO BE ADDRESSED — BY NO MEANS AN EXHAUSTIVE LIST, BUT IT HIGHLIGHTS THE CRITICAL ASPECTS OF WHAT IS NEEDED.

## 1 CUSTOMER EXPERIENCE

Let's face it, the customer experience at most retailers is below poor. Retailers have cut deeply into sales help and tend to hire the least costly options, not the best. When business gets tough, store operations teams are further pressured into cutting associate payroll to fit into a budget parameter. Additionally, retail sales associates have little product knowledge and little to no training in the selling process. At best, a good experience in a retail store amounts to not having to wait in a long line, and being able to complete a sales transaction quickly. It's a pretty low bar.

It's evident that delighting the customer is not the priority of most retailers. To successfully achieve digital transformation, that must change. It's a simple decision by leadership to make customer experience a priority that trumps all other priorities.

Apple Stores have mastered the art of delighting the customer. There are two aspects to Apple's outstanding store experience that are noteworthy. First, they don't necessarily hire tech-savvy associates who know the product line. Instead, they cultivate new hires who are easygoing and relate well to people. It's easier to provide extensive product training than "teach" someone to be personable.

Second, Apple sales associates are instructed to never leave a customer once they've engaged with them. This creates a relationship of trust. If a sales associate needs a product or has a question, they make the request via headset, and products or answers are brought to them. The sale is consummated without having to take the customer to a line at the register. The result? Productivity per square foot is typically five to 10 times that of Apple's closest rival. It's also noteworthy that Apple's employee retention is five times greater than anyone in retail, which perpetuates a consistent customer experience and significantly reduces recruiting, hiring and onboarding expenses.

## 2 CULTURE & LEADERSHIP

Retailing is steeped in a tradition focused on stores and store operations. Highly structured organizations of the past consisted of three main functional areas — merchandising, store operations and logistics, which focused on receiving and flowing goods to store locations. Technology or IT was relegated to keeping the lights on, executing specific projects when asked, and saving money wherever possible.

That may have worked for the last 50 years, but not today. Silos create contention, not collaboration. And with no single group focused on the customer, sticking with the traditional approach has proven lethal to retailers that attempt a digital transformation and fail.



Leadership must recognize and react to a fundamental shift in retailing: the customer is setting the new rules of engagement. They must commit to adapting to a changing world, or perish as we've seen occurring at record rates.

A siloed organization is an uncompetitive organization. Everyone in the sustainable retail organization must work together, not just pay lip service to it. Goals and incentives for senior leaders must be revamped to reflect this new thinking, because organizational goals (delighted customers) must trump divisional results.



## 3 OPERATIONAL AGILITY

Consider the core metrics of the typical retail organizations. Year-over-year comparisons. Annual planning and budgeting (seasonal, if you were really lucky) that mirrored the designer and wholesale brands. Now, it's all about consumer preferences, which changes the cadence of how retailers must plan.

Customers want to buy from the runway? Designers are accommodating. Jerry Lorenzo, designer for breakthrough streetwear brand Fear of God, produces products influenced by social change and contemporary issues. When he originally approached Barneys with his line, he was told they were bought up for the season. Thankfully, Barneys saw the value and made an exception — a great example of the ability to spot and adapt to marketplace trends: operational agility.

Operational agility isn't simply about merchandise. It's about rethinking our expectations regarding how fundamental processes get done. For example, many retailers don't have a readily accessible 360-degree view of the customer. Half their customer data might be in their POS database, 25% in a loyalty application, and the remainder in an online purchasing system. But they hesitate to implement changes that would consolidate all data and facilitate accurate analysis, because their CIO estimates the project would take two years. Though this is indeed a complex undertaking, a two-year window is not acceptable. In agile organizations, the response is, "How quickly do you need it?"

## 4 WORKFORCE ENABLEMENT

For retailers, typically the largest group of employees is frontline sales associates (this also includes customer service reps in call centers). As a result, ongoing training and education is an expensive proposition — meaning that employees tasked with the majority of customer interaction are typically unprepared and unsupported.

One of the most commonly cited factors in the death of the department stores is simply the amount of engaging sales people. There are not enough, and those present are nothing more than checkout clerks.

Jewelry retailer Kendra Scott knows that empowerment is a critical aspect of connecting with and delighting their customers. All store associates are empowered to "Delight the customer in the moment". Store associates are instructed to never let a customer leave the store disappointed. Yes, there are guidelines as to what can be done to delight that customer, but the powerful customer-centric focus comes from Kendra Scott herself. Not incidentally, Kendra Scott also enjoys a very high retention rate for store employees.

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## 5 DIGITAL TECHNOLOGY INTEGRATION

Legacy retail organizations have legacy information systems, typically function-specific — core merchandising, POS, finance, loyalty, webstore, warehouse management — and connected by structured, highly controlled, interfaces.

Today, customers demand the ability to look up product information, make a purchase, track an order/delivery or pick up at the local store, make a return, and see the credit — all from their

smartphone. Legacy retailers have been slow to respond, mostly because of their clunky, unintegrated application infrastructure. Many retailers are now on their second or third webstore application deployment, driven by ever-greater online shopping expectations. The same forward thinking must be applied to legacy in-store systems as retailers re-orient their core applications to support the new customer centric world we live in.

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## DIGITAL TRANSFORMATION 201: ALL PATHS INTERSECT

EACH OF THESE DIGITAL TRANSFORMATION COMPONENTS IS COMPLEX UNTO ITSELF. WHAT FURTHER COMPLICATES THE ISSUE IS THAT THEY'RE ALL INTERRELATED. AS AN EXAMPLE, SIMPLY HAVING A 360-DEGREE VIEW OF THE CUSTOMER, NECESSITATES TACKLING THESE ISSUES:

- ✓ Accessing all customer data from a single location (technology integration)
- ✓ Having leadership that understands the urgency of the project (leadership & culture)
- ✓ Identifying a customer-focused champion to facilitate the project (customer experience)
- ✓ Allowing the customer data to be used by associates to enhance customer interaction (workforce empowerment)

Many challenges have multiple dimensions. What is needed here is a strategy to consider them all together, and the tactical plan to execute. There is no magic wand that will miraculously make addressing these challenges fall together perfectly. If tackling these issues are challenging with a current management team, leadership should consider outside assistance to act as a Sherpa on the transformation journey.

# ACCELERANTS DRIVING THE NEED FOR DIGITAL TRANSFORMATION

LEGACY RETAILERS HAVE BEEN SLOW TO ADAPT TO THE CHANGING RETAIL LANDSCAPE. BUT NOW THEY MUST ACKNOWLEDGE A NEW COMPETITIVE REALITY — NOT THEIR FELLOW LEGACY ORGANIZATIONS, BUT RATHER COMPANIES BORN INTO THE DIGITAL WORLD. NEW ENTRANTS INTO THE WORLD OF RETAILING HAVE THREE FACTORS PROVIDING A COMPETITIVE ADVANTAGE:

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## AVAILABILITY OF CAPITAL

After the success of niche businesses like Zappos, Dollar Shave Club, and Bonobos, investors are on the hunt for the next disruptive idea, and the money to invest is easy and plentiful.

## A CLEAN SLATE

New entrants don't have any constraints. No legacy systems or dated business processes. They've found that simply focusing on what will excite the customer and make them want to buy is their single most important priority. Case in point: Warby Parker. Great products, plus they've addressed the obstacle of having to get an eye exam with an online process that will assist in determining an optical prescription. Only time will tell if this actually works, but it demonstrates how legacy challenges are being dissolved with fresh thinking.

## TIME

Brick & mortar retailers have been caught by surprise. Their historically slowly evolving industry has been turned upside down in less than three years. And a bevy of new entrants are working at breakneck speed to be the next idea that Amazon or Walmart acquires for hundreds of millions.





# THE LIGHT AT THE END OF THE TUNNEL

RETAIL TRADE PUBLICATIONS HAVE PAINTED A PICTURE OF DOOM AND GLOOM, DWELLING ON THE NUMBER OF STORE CLOSINGS AND THE SEISMIC SHIFTS ACROSS THE WHOLESALE, BRAND AND RETAIL INDUSTRIES. THE TRUTH? WE'VE BEEN SOMEWHAT COMPLACENT, WILLING TO WAIT OUT A BAD YEAR OR TWO FOR A NEW LOWER BASE TO BE IMPROVED UPON.

With the industry heading into its third year of comparative store decreases, there's no time like the present to start the groundwork for a digital transformation.

1

## CONSOLIDATE YOUR CUSTOMER DATA INTO A SINGLE DATABASE

This is simply table stakes. You can't compete in this customer-centric world if you don't know who your customer is.

2

## GET A HANDLE ON SOCIAL MEDIA

Social is the gateway to rounding out your customer profile — what interests them, what they're passionate about, what's on their minds. And most importantly, what (if anything) they're saying about you. Retailers, Wholesalers/Brands cannot fight the trends in the marketplace (customer preferences), they simply must figure out to proactively participate in the new world. Yes, this requires to truly understanding who your customer is.

3

## DEVELOP A TIME-PHASED TECHNOLOGY ROADMAP ACROSS YOUR ENTIRE ORGANIZATION

Digital transformation is about integrated technology. Leaders must up their game, break down silos and take collective responsibility for effecting change.

4

## BE PREPARED TO INVEST

Over the past 20+ years, retailers, wholesalers and brands have habitually under-invested in technology. It's hard to pivot on a technology footprint that is woefully out of date. The startups forcing all this change began with a clean slate and are operating with current technology.

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