Stuart Cross

THE NEW RULES OF RETAILING

Succeeding through the retail revolution

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way."

Retail leaders can be forgiven for thinking that the opening lines of A Tale Of Two Cities describe the recent history of UK retail. Dickens' novel is set in the time of the French revolution and the ongoing retail revolution is generating a stream of issues, challenges, opportunities and options that are life-threatening for weaker competitors but exhilarating for the potential winners.

In recent years you have, of course, faced the fall-out of one of the biggest ever recessions the UK has experienced. The return to growth looks likely to be long, bumpy and unpredictable, and your shoppers have become increasingly value-savvy as customers from all social and economic backgrounds look to manage their budgets effectively. Even so, there are forces of change in retail that will be even more dramatic in their impact on shopper behaviour and longer lasting in their influence on the future shape of the UK retail industry.

These three, inter-connected and technology-based driving forces of the retail revolution are (1) The move from e-commerce to omni-channel retailing; (2) The impact of technology on the speed and nature of communication; and (3) The exponential growth in the volume of data about your customers. Your challenge as a retail leader is to determine how to respond to the new retail landscape brought about by these drivers of change. But how do you make that happen when neither you nor anyone else can be sure how this revolution will end? There are no easy answers, but it is already possible to identify three organisational principles that are likely to increase your chances of success. This paper sets out those organisational principles and how you can develop them, but it's worth starting with a more detailed understanding of the forces for change.

The driving forces of the retail revolution

From e-commerce to omni-channel

Over the past fifteen years the rise of the web has been the single biggest of driver of change in the retail industry. This may seem obvious, but as recently as two years ago the management team at one of our clients, a major specialist retailer with turnover above £500 million, was still deciding whether its on-line channel should be seen as a profit centre or simply as a marketing and brand investment. What's more, Morrisons, one of the UK's biggest grocers, with sales of £12 billion, still does not offer its customers on-line ordering or home delivery. So, while retail's innovators have built up over a decade of experience and capability in this new channel, there are still major opportunities for many UK retailers to catch up with their competitors and also with their customers.

On-line shopping currently accounts for approximately 10% of UK retail sales. It is likely that this figure will rise to 15-20% over the next decade, and possibly higher if grocers improve their on-line convenience. Critically, however, shoppers are not using the different channels as separate ways of buying, but are using different channels within a single shopping trip. For many retailers, 'click and collect' has been the biggest driver of sales growth, where customers order on-line to pick up in-store.

At Argos, for example, it now accounts for 28% of total sales. It is unsurprising that Tesco is currently developing and testing its own 'click and collect' service, complete with a collection drive-through service.

These innovations are just the start of the latest phase of the retail revolution. In the next few years shoppers' desire for multi-channel retailing, fuelled by the ongoing development of technology solutions, will grow into a demand for 'omni-channel' retailing, a seamless shopping experience across and within different channels. Mobile technology will be at the heart of this development, enabling your shoppers to have access to real-time information as they shop. Recent and upcoming innovations include:

- **Personalised in-store offers through your smart phone**. Nectar, the multi-retailer loyalty service, for example, already offers its customers an app to use in Sainsbury's and other stores where shoppers can find, access and opt-in to those offers that appeal to them most, even when they are already in the store. It is likely that this will shift to accessing personalised offers in the relatively near future.

- **Scanning product information in-store to gain instant feedback**. Scanning product codes will lead to product videos and demonstrations, providing your shoppers with a richer understanding of your products, instant feedback from other customers and social media contacts on the quality and suitability of the item, and price comparisons with other retailers, including the potential to buy the product elsewhere more cheaply.

- **Scanning product information in-store for home delivery**. Rather than pay for a product in-store and carry it home, customers will be able to scan, click and pay through their mobile phone and have it shipped to their home or office overnight.

- **Instant 'click and collect'**. Most retailers offer a next-day reserve and collect service, but retailers including Currys and Argos already provide an instant pick-up service. More customers will look to use their mobile devices to reserve items when they are shopping in-town, or just before they set off to the shop, safe in the knowledge that the item will be waiting for them.

The inter-connectedness of your customers' experience of your offer and brand means that your 'multi-channel' business can no longer be run separately from your main operations. It can no longer be one of several responsibilities of your marketing director or commercial director, for instance, but needs to be more fully integrated into the day-to-day delivery of your wider retail offer.

Communication at the speed of light

The best retailers have always been effective at communicating what's available in-store. Using a mix of TV, radio and press, as well as shop windows, entrances and in-store displays and signage, they generate awareness and excitement about big events, whether that's a Next sale, a Debenhams blue-cross day, or "back to school" at Tesco. These big broadcast messages will still be required, but, increasingly, your communication will be narrower, more focused and more transient. Shoppers' Drug Mart, a pharmacy chain based in Canada, for example, is experimenting with "happy hour" promotions where a TV programme might show a celebrity using a certain colour lipstick. A promotion for that colour lipstick is then sent via text to customers' mobile phones and that is available for a limited period on-line, often just a few hours.

Texting, emailing and using social media platforms to communicate offers and events creates direct shopper communication with far greater capacity for personalisation. Retailers with access to loyalty card data, in particular, can create personalised offers based on their customers' interests and past shopping behaviour, but there is also the potential to partner with other, non-retail on-line players to gain access to your target shoppers. Boots, for example, has partnered with WebMD, a US-based health information site, to gain access to more shoppers with an interest in health and wellness, and can then target these potential customers with more focused offers.
It is not only you, however, that can now communicate at the speed of light. There are two other sources that are constantly talking about you. The first source is comparison sites. Websites such as Kelkoo or Mysupermarket provide shoppers with direct comparisons on pricing and offers. As a result we are rapidly reaching a situation where the price of main brand products will become equalised across all the major retailers. In the future every grocer and mass retailer will need to effectively carry John Lewis's price promise of "never knowingly undersold" or else risk losing business and customers at the click of a button or swipe of a finger.

But the second source is even more important. Social media is accelerating the growth of customer empowerment as shoppers increasingly use the source they trust most for feedback on retailers – other customers and shoppers. Your customers and non-customers are already sharing instant feedback on their perceptions and experience of your business. Word-of-mouth has always been the most important driver of brand development, but the speed at which messages are now shared and your relative inability to control these communications mean that you must find new ways to get involved. What's more, the speed with which you incorporate your take-outs from these conversations into your daily operations – including your pricing strategy, promotions and deals, depth and breadth of range, customer service, new product introductions, and the level and nature of your direct communications with your customers – will be critical to how your brand is perceived.

Big data, big insight?

90% of all the data ever generated has been created in the last two years. Retailers now have access to an almost endless supply of information about their customers, some of it quantitative – shopping frequency, spend, product preferences – and some of it qualitative – social media comments, emails, YouTube videos. The truth is that we're only at the start of being able to use all this data to benefit shoppers and business performance. In the UK Tesco has led the way in understanding customers and developing offers based on these fact-based insights. The development of Clubcard, and the company's relationship with its loyalty analytics company, Dunhumby, gave the grocery giant a huge step-forward in terms of insight capability and new offer development.

The growth of on-line purchasing enables you to not only understand what your individual customers are buying, but also how they navigate your site, what categories and ranges they considered before buying, the type of offers and promotions that most appeal to them, the points in the shopping experience that lead them to 'walk away' rather than buy, the external sites and messages that persuade them to click into your site, and, if they 'click and collect', which of your stores they like to use. The explosion in data generated from your on-line business gives you the capability to play catch-up with Tesco and other loyalty card businesses as long as you know where to look. Sainsbury's, for example, has recently updated its on-line shopping experience to proactively offer its shoppers other products that would complement the items in already in their on-line trolley.

As ever, the key to managing data is to focus on actionable insights. In the past this was more straightforward, but still demanded high levels of retail capability. The positioning of certain bays, the store's overall layout and the positioning of key promotions, for example, were based on a thorough understanding of how your shoppers behave once they've walked through the doors of your stores and years of trials and testing. As the volume of data grows exponentially, and the number and sophistication of tools that are available to analyse the data also increases, you must choose where and how to best focus your resources so that you deliver an improved, more personalised shopping experience that drives greater loyalty and sales in a way that balances your need for a robust, profitable operating model.

The New Capabilities and Organising Principles

How do you respond to these challenges and manage the inevitable tensions between the teams from your new and traditional retail channels? The answer is not to bet the future and jump on a series of new investment opportunities in the hope that you'll magically be the first to market. Instead, the answer is to develop and embed new capabilities and organising principles for your business so that any success you create is sustainable and consistent with your overall strategy. There are three organising principles that will provide you with the capabilities to maximise your chances of success: (1) Organising around the customer experience; (2) Step-changing your speed and agility; and (3) Developing a cadre of technology leaders.

Chart: Retail's new organising principles

Organise around the customer experience	• Customer desire for seamless shopping experience • Cross-functional, cross-channel solutions required • Need for actionable customer insights
Step-change your speed and agility	• Organisational simplicity • A modular approach to IT • Rapid prototyping • Partnerships and strategic alliances
Develop a cadre of digital leaders	• Hands-on multi-channel experience • Turn data into insight • Create compelling customer offers and shopping experiences

Organising around the customer experience

Good retailing has always been customer-centred. In the new world, however, where it is simply not possible to keep prices even a little higher and expect to keep your customers' business, and where your customers are accessing your offer through a variety of channels and devices, not just your physical stores, you will only keep their business if you provide them with a great experience every time, however and wherever they shop with you. This means that you must find ways to organise around the customer experience, and not just around individual, functional roles and accountabilities.

Take the sofa specialist, DFS, for example. Over the past 12 months, the retailer has instigated an organisation-wide system for managing and improving the customer experience. Using the Net Promoter Score (NPS) system as its base, where the company tracks how likely its customers are to recommend the retailer to friends and colleagues *(The NPS is calculated by taking the percentage of customers that are "promoters" and score 9 or 10 out of 10 in their likelihood to recommend, and then subtract the percentage of "detractors", who score 0 to 6 out of 10 to the same question).*

Many retailers are now tracking this type of information, but the DFS leadership team have driven the system into the heart of the retailer's operations. Customers' NPS ratings are tracked at five different stages of the customer journey – pre-sales, post sales, immediate post-delivery, six months post-delivery and following a service call. The company can also directly track instances where customers come into store and then complete their purchase on-line to understand cross-channel shopping behaviours and satisfaction.

At a weekly "Voice of the Customer" meeting, chaired by the CEO and attended by key operational executives, new insights are identified to modify the customer experience in terms of range, service standards, pricing and promotions and delivery timeslots, and it has been completely integrated into the company's reward and recognition schemes.

In some retailers it is the marketing team that is taking the lead in shaping the overall customer experience. The key, however, as with DFS, is to create a truly cross-functional approach to the development of shoppers' experience and the company's operating model. It is no good, for example, if the marketing team is creating a brand focused on service if the retail operations team, under pressure to hit cost targets, is, separately, reducing staff availability in-store. Similarly, if the social media marketing team are creating an on-line campaign around a TV show the in-store marketing and operations teams need to be able to bring the same campaign to life for physical shoppers. The only way this level of 'join-up' will happen if there are processes and forums in place where different functions can work together to proactively create a seamless experience. It can't happen by accident.

The basis for these cross-functional processes and solutions are actionable customer insights and the ability to use customer-generated data to create personalised offers and communication highlights the importance of trust between the retailer and shoppers. Your customers must always genuinely believe that you've got their best interests at heart and that is not only important in the way you serve customers in-store, but also in the number and quality of messages you send them and the way you handle and secure their data on your systems. Similarly, you need to build your offer on genuine and actionable customer insights, and building your capabilities in analysing and exploiting the explosion in customer data is a critical task.

The starting point, however, of a compelling customer experience is a clear understanding of your brand and your points of differentiation. You can no longer be in the right 'ball park' on price, convenience and range and expect to attract customers. In recent years it is the retailers with a clear competitive position that have been winning, at the expense of the all-rounders, and that trend will continue. In grocery, for example, discounters such as Aldi and Lidl have succeeded at the value end of the market, but Waitrose has still been able to strengthen its position at the more premium end of the market. It has been all-rounders, such as the Co-Operative, that have struggled the most.

The technological drivers of the retail revolution will continue to raise the bar on what constitutes success. You have five broad options in the way you seek to lead in your market and while you must be 'good enough' on each dimension you will need to choose where to focus your resources and your efforts if you are to achieve a true leadership position. The five types of leadership are:

- **Product leadership**. Over and above any of the main brands you offer, you develop and offer unique brands and products that you just can't get elsewhere, and build ranges with such authority that customers always come to you first. Examples: Boots, M&S, Apple.

- **Price leadership**. This form of leadership will only be available to those retailers with the simplest, lowest-cost operating model – for any other retailer pursuing this strategy you will lose. Examples: Aldi, Poundland, eBay.

- **Convenience leadership**. You are likely to be at the forefront of the new technology and focus on leading on speed, ease and convenience for your customers and providing a hassle-free shopping experience. Examples: Tesco, Amazon.

- **Service leadership**. Friendly, expert advice is at the core of your brand and offer, and this is carried through every channel. Examples: John Lewis, Topps Tiles.

- **Experience leadership**. A unique shopping experience that includes significant levels of personalization and a highly emotional shopper reaction. Examples: Harrods, Selfridges

What mechanisms do you have in place to ensure that you are creating a compelling, cross-channel customer shopping experience? Which of the five types of leadership will form the core of that experience?

Step-changing your speed and agility

One of the traditional strengths of retailers has been the ability to rapidly change the offer and jump on new opportunities as they arise. The pace of technology, growing competition, more rapid and transient customer opportunities, as well as more demanding investment cycles, has only highlighted the importance of this capability. There are four key areas to focus on:

- **Organisational simplicity**. Complexity is the enemy of pace and, although the external world and the pace of technological innovation is creating greater retail sophistication and complexity, you must, at an organisational level, err on the side of simplicity in order to speed up delivery in your business. Your management and decision-making processes should enable you to move at speed and respond quickly to new events and opportunities. Boots, for example, has recently reduced its number of management layers by nearly half and the number of 'senior managers' has been also been reduced from 100 to 25. According to Alex Gourlay, the CEO of Boots, this has clarified accountabilities, strengthened cross-functional relationships and helped create a leadership team that is truly customer-focused.

- **Testing, trialing and prototyping capabilities**. It is almost impossible to know which technologies of the retail revolution will become the new standard and which will fall by the wayside. That doesn't mean that you must simply sit back and wait for the solution to appear. If you fail to get involved you will fail to build the organisational experience and capability necessary to apply and roll out the successful tools ahead of your competitors. Sainsbury's, for example, have established a mobile technology team that is focused on developing and testing different mobile shopping solutions, such as their 'scan and go' mobile app. Investment in this work enables the business to actively learn and be in a strong position to implement once a commercial solution has been identified and developed. Similarly, many retailers are looking at same-day delivery of goods, through a series of tests and trials. You can't, of course, test and trial all possible solutions, but you can develop your capabilities by selecting critical areas of development that are focused on delivering your brand priorities and your key customer insights.

- **A modular approach to IT investment**. In 2011 it took Sainsbury's just six months to move from an idea to match the price of brands in Tesco and Asda to full implementation of a technology-based solution across the chain. The grocer's "brand match" campaign enables the price of branded goods being scanned at the checkout to be matched against the on-line prices at the other two supermarket giants. Where the Sainsbury's product is priced at a higher level, the system automatically generates a credit, and the sum of these credits is turned immediately into a coupon at the till, giving money off to the shopper at their next store visit. This solution, which is a prime example of omni-channel retailing in practice, would have taken years if the company had relied on creating systems from scratch. Instead, the IT strategy has focused on investing in modular, high potential 'no regrets' investments, such as in-store connectivity and coupon production, to create the building blocks, and then working hard to integrate these systems with specific applications to create customer-focused solutions.

- **Partnerships and strategic alliances**. You cannot possibly deliver all these solutions and create the perfect customer shopping experience on your own. It would take too long, cost too much and would, in all likelihood, be less than ideal. Instead, you must continue to develop your skills and capabilities in developing and managing effective partnerships. Tesco and Dunhumby and Sainsbury's and Nectar have developed such relationships in terms of their loyalty management approaches. These arrangements have been built over a number of years and are based on the mutual trust that can only come out of a deep experience of working together to create a true win-win for both parties. In the past, partnerships have been primarily focused on back-office solutions, but the pace of change and the need to manage risk and returns has led to the growth in customer-facing alliances. Waitrose, for example, was, until last year, an active partner of Ocado and the retailer has also tested sharing store space with Boots as a way of accelerating the expansion of its physical offer.

How are you accelerating your company's ability to improve its speed and agility? Specifically, how will your retail business be a simpler organisation, be better able to test and trial new innovations, be able to move faster to implement new IT solutions and be better able to develop and manage high-value partnerships in the future?

Developing a cadre of digital retail leaders

The third organising principle for success through the retail revolution is to ensure that you are appointing, developing and promoting a group of digital retail leaders. By this I don't mean traditional IT experts, but, instead, retail leaders with experience of creating technology-led customer and shopping solutions, who are able to creatively and commercially understand where and how to look at the data to generate meaningful and actionable customer insights, and who can integrate the shopping experience across different media and channels.

Promoting digital retail leaders does not, perhaps, come naturally to traditional retailers. I still know of one retail CEO whose PA prints out his emails for him and onto which he scribbles his replies, and many retail organisations can remember, still only too clearly, the wasted investments from the original dot.com boom. The retail revolution, however, is creating new rules of engagement and you need leaders with new skills and capabilities to understand, interpret and exploit them.

In the past, for example, finding the ideal 'prime pitch' for your stores was the key footfall driver and awareness builder for your business, maximising the number of shoppers who pass by your doors and windows. It is still, of course, critically important, but the web and social media has exponentially grown the number of 'windows' and 'doors' you can show your shoppers. As a result it is easy to see that your Digital Marketing Director is now just as important to the success of your business as your Property Director.

Yet most retail leadership teams are still made up of managers and executives with more traditional buying and operational backgrounds. This is beginning to change and the headhunting company, Whitehead Mann, recently reported that over half of retail board appointments are for those leaders with multi-channel experience who can help the business respond to the omni-channel challenge.

You must consciously accelerate this process if your business is to stay ahead of your competitors and provide your customers with the shopping experience both you and they expect. B&Q, for instance, has recently created a new position of Customer Director, with a remit covering customer insight, multi-channel, store formats and pricing and promotions so that, in the words of the business, B&Q can become a true omni-chanel retailer. The role of Customer Director has been given to Steve Robinson, a former boss of Tesco.com, underlining the importance of integrated, omni-channel solutions to the retailer's future growth.

Which of your leaders have deep and direct experience of building and managing multi-channel and digital retail solutions, and what are you doing to develop the next stream of digital leaders for your business?

Summary

The principles of retail will not change in the coming years despite the ongoing retail revolution driven by the shift to omni-channel retailing, the impact of technology on the speed and nature of communication and the exponential growth in the volume of data about your customers. Whatever the technology, social and economic environment success will go to those retailers that provide the mix of range, service and value that best meets the needs of their target shoppers. But, while the principles remain the same, the specific solutions for success are changing and will continue to change. This means that you must organise around your customer experience, step-change the speed and agility of your organisation and develop a cadre of digital retail leaders. Only then will you ensure that the next five years becomes, in the words of Dickens, *"the spring of hope"* rather than *"the winter of despair"*.