



## Three rules for building the modern retail organization

As retailers aggressively pursue digital and omnichannel strategies, the winners are starting to emerge. What separates leaders from laggards? A retailer's ability to change the way it works and build the capabilities needed to deliver on its strategy.

**By Andrew Noble, James Anderson and Sam Thakarar**

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Most retailers recognize the importance of combining the best of digital technologies and physical stores to profitably create a seamless and consistent customer experience across channels (see the Bain Brief “Leading a Digital<sup>®</sup> transformation”). There’s a good reason for this. Their most valuable customers are engaging with them across all channels: store, mobile, social and online. Some retailers find that these omnichannel customers spend two times to five times more than customers who buy in only one channel.

But many retailers tell us it is difficult to build the right organization to deliver on their omnichannel strategy. It’s easy to make mistakes that have disastrous consequences.

Consider the rough path taken by an early leader in omnichannel. The retailer recognized the need for highly aligned assortments and chose to make every merchant an omnichannel merchant, with responsibility across both physical stores and digital channels. While the principle of alignment and shared vision was right, most of the merchants found the small digital business to be a distraction from the physical stores. Many had no experience with digital and ignored the business altogether. Digital growth stalled, even while the online market expanded by 15%.

When the leadership team recognized the error, it moved quickly to reinstate a digital team, this time setting goals to dramatically accelerate digital growth. However, a year later, the company found itself with highly divergent assortments, poor communications around key programs and events, and misaligned incentives around inventory management. Growth stalled for a second year.

Where did this retailer go off course? It had twice tried to use structure to solve a problem without making the corresponding investments and clarifications in capabilities, alignment and decision rights. By the time the retailer addressed these issues the following year—the third reorganization in as many years—it had fallen from first place to third place among its competitors in digital sales.

This is not an unusual experience, and it highlights the dangers that retailers encounter by not making the right

organizational changes required to support an omnichannel strategy. For every company that loses its place in digital sales, we see a rival that moves up the ranks, using the disruption presented by digital retailing to gain market share. Our analysis and work with hundreds of clients across retail sectors to navigate the omnichannel journey has helped us identify the three rules required to build a modern retail organization.

### **Rule #1: Be a silo buster—build cross-channel and cross-functional capabilities**

Many retailers have long been organized in a siloed way, often with infrequent collaboration across channel teams or across functions such as merchandising, stores, IT and supply chain. This model makes it easier to run the business, but it doesn’t make it easier for customers to shop seamlessly across channels. To deliver on new omnichannel strategies and meet the expectations of today’s customers, retailers have no choice but to work more effectively across functions and channels.

Take the example of “buy online, pick up in store”—or “click and collect.” This capability requires coordination and quick decisions across e-commerce, supply chain, brick-and-mortar stores, as well as across planning, merchandising and marketing functions, among others. The online channel needs to know that inventory is available in the local store to offer to a customer. Stores need to successfully receive the order, reserve it for the customer, and provide great service when the customer comes to pick it up. Supply chain and planning need to have appropriate visibility into the movement of inventory, and marketing needs to be involved to effectively showcase the offering to customers.

The first step is having a clear strategy for critical omnichannel capabilities. We’ve identified seven broad capabilities that retailers need to get right to serve omnichannel customers (see the sidebar: “Build must-have capabilities—but pick a few to differentiate”). These are capabilities that typically span multiple functions or channels and require well-defined accountabilities, decision roles and processes to coordinate effectively across channels.

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**Build must-have capabilities—but pick a few to differentiate**

In our view, seven capabilities are essential for any omnichannel strategy:

- Building web and mobile customer experiences with intuitive interfaces, rich content and a great connection to the physical store experience.
- Building the right assortment across channels in a way that makes the most of each channel.
- Marketing effectively across traditional and digital media channels through media allocation, message and promotion coordination, and optimizing each media channel.
- Developing profitable fulfilment and shipping models.
- Integrating management of inventory across the supply chain, and placing SKUs in the right nodes (stores, distribution centers and fulfillment centers) for rapid delivery at minimum cost.
- Incorporating advanced analytics techniques into day-to-day decision making.
- Building an agile technology development function that is connected to the business and is flexible enough to work across functions.

However, every retailer must identify where it needs to make the biggest investments and how to design these capabilities to enhance brand positioning and customer value. We counsel retailers to clearly define the capabilities that will be most important to win. A retailer that chooses to win on the basis of a highly personalized experience may invest in different data and analytics capabilities than one that's focused on the lowest-cost supply chain. Both capabilities will be important for most retailers, but deciding where to differentiate is critical to place the right bets on hiring the best talent and structuring the organization. In fact, the success or failure of an omnichannel strategy can rest on deciding which capabilities will differentiate the company and which will be on par with competitors.

Macy's has built an omnichannel organizational model to support such new capabilities. Omnichannel has long been a core part of the retailer's M.O.M. strategy (My Macy's localization, Omnichannel integration and Magic Selling customer engagement), and Macy's continues to push the envelope on critical capabilities, such as ship from store. Earlier this year the department store reorganized its merchant, planning and marketing organizations to make them faster, more nimble and better connected between the store and digital worlds. Macy's unified its merchant organization and refined accountabilities and processes, with omni merchants and digital merchants collaborating to execute a single assortment strategy for

both store and digital growth. Its integrated planning organization is able to analyze trade-area demand and rely on a single view of inventory to better allocate merchandise by location. In marketing, Macy's brought together its market presence and strategy across all channels—including brand, promotional, store, digital, and events marketing and customer analytics—to speak to its customers with one voice.

In contrast to the retailer described above that reorganized three times in three years, Macy's waited to make these moves to more integration until it had built strong digital capabilities and had grown the digital business to a

meaningful portion of overall sales. Macy's is now a leader in the digital space, with online sales accounting for nearly one-fifth of total revenue in 2014, according to estimates by Internet Retailer.

## **Rule #2: Go beyond structure—devise new ways of working**

Changing organizational structure alone won't give a company the muscle to develop omnichannel capabilities. All elements of a retailer's operating model need to align with its strategy. This includes structure, accountabilities, governance and essential behaviors, as well as the way people, processes and technology are deployed.

Some of the omnichannel leaders have focused on designing effective processes with clear decision roles on how functions should work together. Others have found that co-location of people from different functions and channels helps establish learning and trust-based relationships. Some are redesigning metrics and incentives to encourage the right behaviors from their team. Singapore retailer Courts integrated online sales into store budgets and made store managers into "trade area managers," measuring them on sales across all channels for everyone who lives in the store's trade area. The move has contributed to strong growth in digital of 35% in its latest quarterly results.

Retailers are also defining new career paths that build cross-channel capabilities and develop the next generation of omnichannel leaders. For example, a company may require potential buyers to have both store and digital experience before getting promoted to more senior positions in merchandising. In some retailers, this rotation of people reaches the highest levels. Nordstrom, another omnichannel innovator, in May 2014 swapped the roles of then-President of Stores Erik Nordstrom with then-President of Nordstrom Direct Jamie Nordstrom. This move likely accomplished more than just a structural change; it brought Erik's store expertise to Nordstrom's digital operations and Jaime's digital expertise to the physical stores.

A caution: When companies evaluate possible operating model changes, they can't make their choices by simply trying to replicate competitors. There's a danger in relying on benchmarks. Operating models need to be tied to a

retailer's unique strategy. A company aiming to differentiate on shipping speed and reliability will have different answers than one aiming to excel on in-store experiences.

## **Rule #3: Have bold ambitions—and be deliberate about how you get there**

Finally, there's the challenge of implementing these changes at the right pace. For omnichannel retailers, the end goal will likely be more integration between digital and store merchants, planners, or marketers, but moving too quickly or slowly can wreak havoc on results. Integrating too swiftly can stifle digital growth by not enabling enough separation to focus on the unique aspects of digital channels—the different talent requirements, metrics and technologies that are needed to create a great digital customer experience. Moving too slowly to more integration can leave a retailer stuck with disparate customer experiences across channels while competitors build stronger connections across stores, mobile and online.

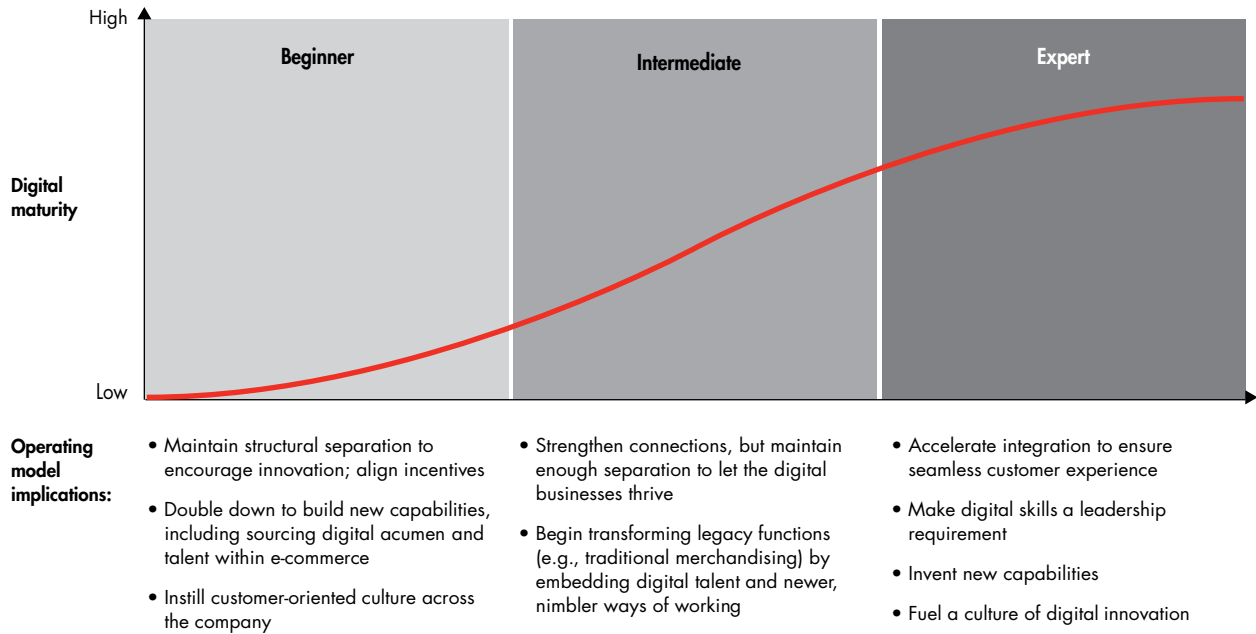
The right choices will vary by retailer and depend not only on the company's strategy but also on its level of systems integration and digital maturity. The right operating model for Macy's or Nordstrom or Courts will not be the right model for retailers that are investing differently in capabilities or that are in a different phase in their omnichannel journey.

In our experience, retailers at the early stages of building digital capabilities should have greater functional and channel separation to foster innovation, yet phased evolution toward a more integrated operating model is essential to becoming an omnichannel retailer (*see Figure 1*). Beginner-level retailers typically have distinct cultures and metrics within channels, heavy investments in older technology and one- to two-year investment horizons. In contrast, expert-level retailers have more unified cultures, integrated systems and tools, and five-year-plus investment ambitions.

As retailers determine how to evolve from beginner to expert, it's critical to consider the state of information systems when making operating model decisions. For example, decisions about when to merge specific functions such as digital and store inventory-planning teams

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*Figure 1:* An operating model should evolve over time as digital channels mature



Source: Bain & Company

largely depend on whether information systems such as inventory-planning systems and item management systems are integrated across channels.

UK retailer John Lewis has taken a deliberate, systematic approach to its omnichannel journey. It has developed a leading online platform, built a modern and flexible automated distribution center and re-platformed its legacy IT onto omnichannel back-end systems. These well-planned moves ultimately allowed the retailer to deliver leading innovations—for example, offering customers the ability to “click and collect” in John Lewis Department stores as well as Waitrose Grocery stores.

So, where to begin? Building a modern retail organization means starting with a clear omnichannel strategy to profitably offer a seamless customer experience. It means busting traditional silos and devising new ways of working, in terms of roles, processes and systems. And it means paying careful attention to the timing of your moves. The radical change sweeping across the retailing world brings with it tremendous opportunities for growth and profits—but only for companies that are willing to reimagine organizations that are fit for the future. 

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