Retail Organizations:
The Next Stage of Transformation

Adaptive. Collaborative. Intelligent.

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Connected shoppers — particularly Millennials and Generation Z — dictate how, when, and where they engage with, and purchase from, retailers and brands over the course of their fragmented shopping journeys. Online pure plays, tech startups, and innovative new businesses have responded to new customer demands and challenged incumbents.
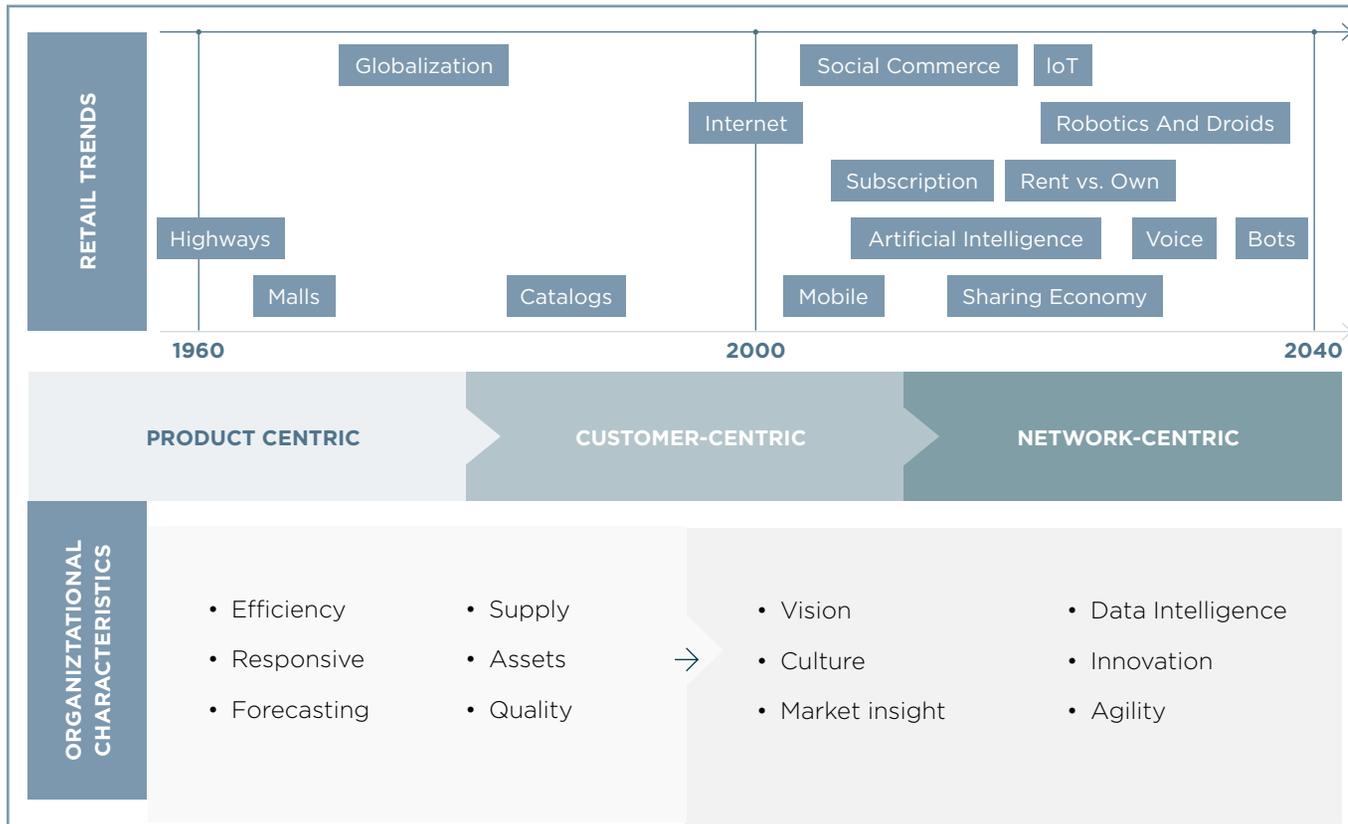
Retailers and brands have invested heavily over the past two decades in the tools they need to become customer-centric, but the unprecedented pace of change in customer demands, competitive pressure, and technology has transformed what it will mean to be an organization. This has caused organizations to rethink their operational and organizational models to compete, differentiate, and grow profitably.

Specifically, it is imperative for retailers and brands to look beyond their own four walls and orchestrate an adaptive network of business partners to offer a personalized blend of products, services, and experiences to customers, wherever and whenever they demand. This next phase in organizational transformation is based upon an open, interconnected, and collaborative ecosystem. These network-centric organizations exist for one purpose — to serve the customer.

Accenture and Salesforce conducted 20 interviews and 200 surveys of executives from non-food retailers with high online penetration, and brand manufacturers with high direct-to-consumer revenue.

Figure 1: Transformation to Network-Centric Organizations

RETAIL TRENDS

Globalization		Social Commerce	IoT
Internet		Robotics And Droids
Subscription	Rent vs. Own
Highways	Artificial Intelligence	Voice	Bots
Malls	Catalogs	Mobile	Sharing Economy

1960   2000   2040

PRODUCT CENTRIC → **CUSTOMER-CENTRIC** → **NETWORK-CENTRIC**

ORGANIZTATIONAL CHARACTERISTICS

- Efficiency
- Responsive
- Forecasting

- Supply
- Assets
- Quality

→

- Vision
- Culture
- Market insight

- Data Intelligence
- Innovation
- Agility

The chart above highlights disruptive industry trends that have forced organizations to navigate the complex transformation to network centric organization. It also highlights six emerging characteristics of organizations undergoing this transformation.

"Organizations will look and act a lot differently in the near future. They must transform to open and adaptive networks that orchestrate the experience from myriad partners on behalf of their customers. Retailers and brands will become stewards of customers, and deliver personalized and relevant experiences wherever they choose to engage."

— Mark West
CEO of LLX Global Business Services

Six Characteristics of Network-Centric Organizations

The interviews conclusively proved that current organizational structures are not fit-for-purpose and, at best, are in various stages of maturity. They uncovered a set of common themes that characterize the critical capabilities required for retailers and brands to thrive in the coming decade. The bottom line: having great product is, of course, necessary, but it is not nearly sufficient enough for the requirements of today's demanding digital consumers. To transform their organizations from product-centric to customer-centric, and ultimately to network-centric, leaders have exhibited maturity in the following six characteristics:

VISION: *Everyone understands and applies the vision.* Organizations develop clearly stated visions that are understood and internalized by all employees. Organizations must also codify how offerings fit into customers' lives and differ from other products and services on the market. The vision lays out organizations' requirements of managers and employees — from home-office executives down to store associates.

CULTURE: *Culture is geared toward improving the customer experience and lifetime value.* Three aspects are critical:

1. **Leverage "test and learn" processes to improve customer experience.** Focus on continually improving the customer experience to keep up with their demands — test initiative, measure impact, and apply insight to the next iteration.

2. **Use the overarching metric of lifetime consumer value.** Evaluate all decisions that impact the customer experience through the lens of this measure.

3. **Facilitate enterprise-wide collaboration.** Create incentives and tools that break down silos, and encourage cross-functional cooperation.

The bottom line: having great product is, of course, necessary, but it is not nearly sufficient enough for the requirements of today's demanding digital consumers.

MARKET INSIGHT: *Relevant market facts and trends continuously influence business strategy.* Organizations need a comprehensive understanding of the broad marketplace, consisting of continuous tracking of customer demands, technology innovations, competitors, and disruptors, as well as a defined process to evaluate information, determine whether it is a threat or an opportunity, and quickly take appropriate action. Front-line employees play an active role by gathering and sharing actionable insights.

DATA INTELLIGENCE: *A single view of data is accessible and intelligence is operationalized.* Data are aggregated, rationalized, and made available to all stakeholders to become the lifeblood of the organization. Teams are trained to understand the importance of data and how to apply intelligence to effectively address and validate all decisions. Processes are automated, whenever possible, so actions are executed in real time.

INNOVATION: *New ideas are continually encouraged, nurtured, executed, and measured.* A defined process constantly hunts for product, service, technology, and process innovation. New and different ideas — from inside and outside an organization — are encouraged from all levels. There is an expectation that new innovations are launched iteratively — at least every couple of weeks — and each is meticulously evaluated based on defined processes and metrics. There is an appetite to allow longer-term payback if it improves operational efficiency, establishes a new revenue stream, and/or creates sustainable value.

AGILITY: *Processes and systems facilitate quick response to change.* Flexible processes, systems, and infrastructures help the organization to respond to threats and opportunities with efficiency. Decisions are federated and delegated, with appropriate governance, to empower employees and accelerate execution. Employees need not wait for the monthly board meeting to make decisions. The company structure is adaptable with effective change management procedures, including openness to business relationships or even acquisition to develop a new capability or business model.
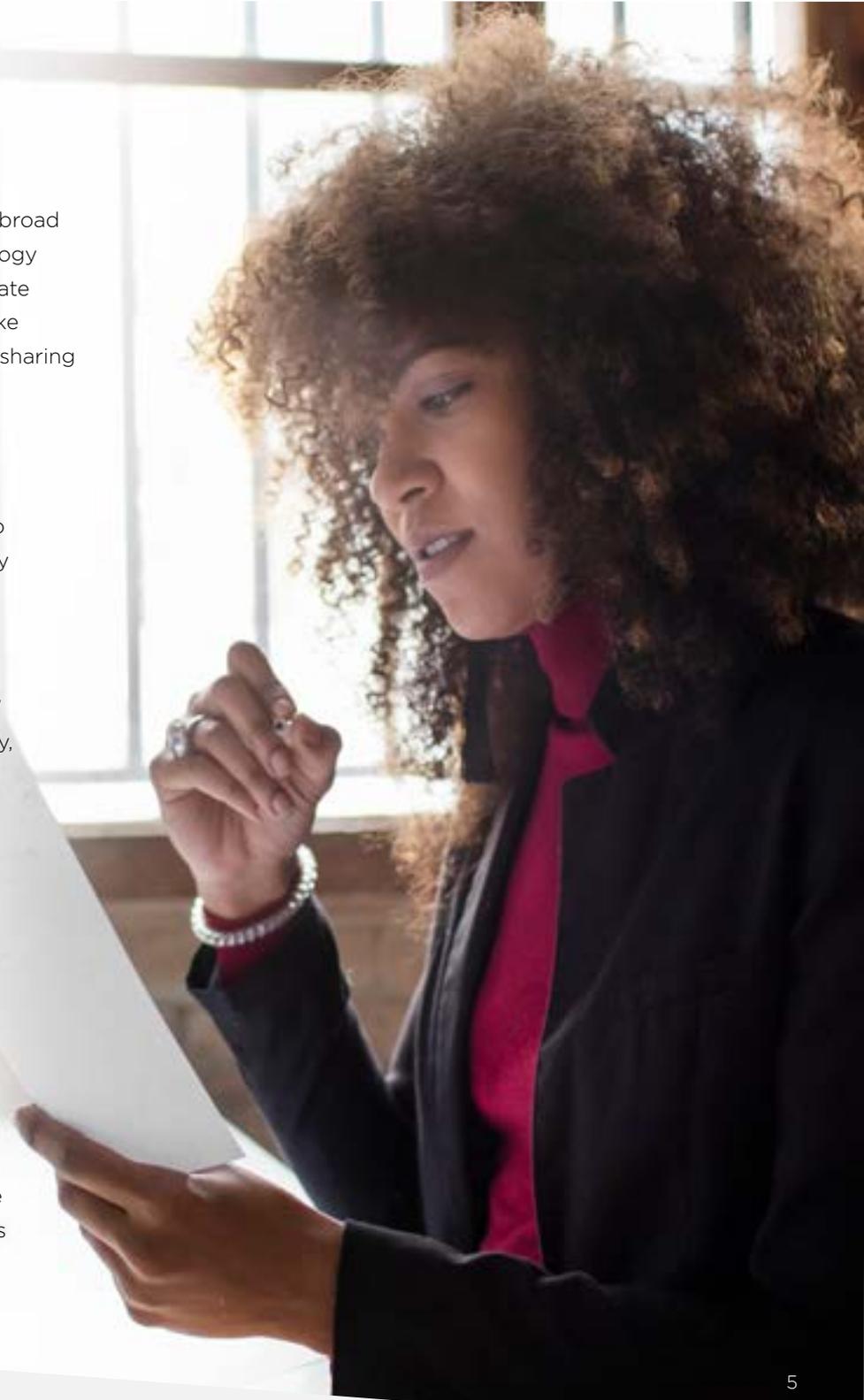
Figure 2: Maturity Levels of Six Characteristics Defined

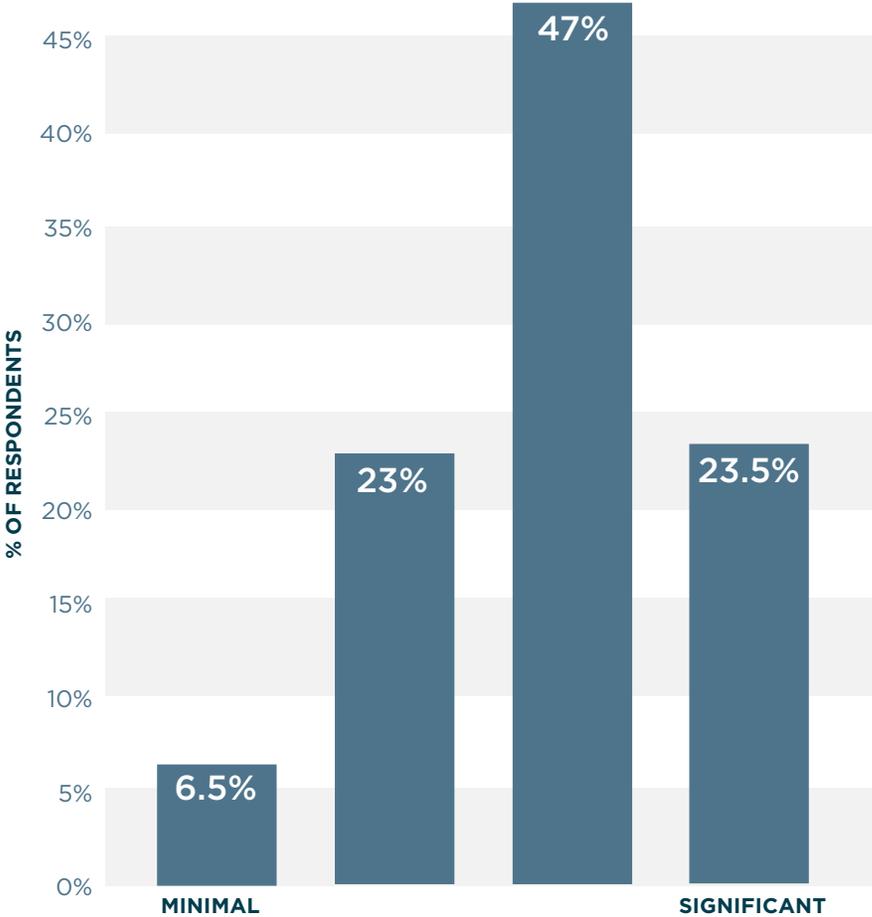|	NO PLANS	PLANNING	INITIATING	OPERATING	OPTIMIZING
VISION	No clear vision for business, or expectations of management are not broadly shared.	→	Vision exists for business and expectations of management and is broadly shared, but not embedded.	→	Clear vision for business and management is deeply embedded in all company processes.
CULTURE	Weak or nonexistent test-and-learn process, traditional metrics utilized, and organization is siloed.	→	Test-and-learn process embedded but not using Customer Lifetime Value and some cross-functional collaboration.	→	Test-and-learn process focused on Customer lifetime Value and highly collaborative across functions.
MARKET INSIGHT	No tracking or process to evaluate customer, technology, competitor, and disruptor. Response is slow.	→	Limited tracking or process to evaluate customer, technology, competitor, and disruptor. Response is slow.	→	Formal tracking of customer, technology, competitor and disruptor. Rapid evaluation and response.
DATA INTELLIGENCE	Multiple data silos and difficult to access, intelligence not operationalized, and decisions are not automated.	→	Data are integrated but not accessible in real-time, intelligence not fully operationalized, and decisions are not automated.	→	Single view of data is accessible in real-time, and intelligence is operationalized. Decisions automated whenever possible.
INNOVATION	Sporadic innovations derived from few individuals with weak implementation and evaluation process.	→	Defined innovation process in place, but limited adoption and throughput. Loosely defined evaluation exists, but short timeframe for payback.	→	Defined and prolific innovation process with high number of launches, meticulously evaluated over appropriate time period.
AGILITY	Legacy processes, systems, and infrastructure inhibit change and partnership opportunities. Slow decision-making.	→	Processes, systems, and infrastructure being adapted to begin efficient change and partnering capabilities. Multi-speed decision-making.	→	Flexible processes, systems, and infrastructure for efficient change and partnering capabilities. Fast decision-making.

Significant Organizational Change is Anticipated

While most companies have addressed these six characteristics via isolated tactics, the challenge is to systematically attack them and change the fabric of the organization. Seventy percent of respondents said that material or significant organizational change is required to effectively satisfy customer demands across increasingly complex and expansive touchpoints. More granularly, twice as many brands than retailers believe that their organization requires minimal to moderate change. The data suggest that these organizations, with a heritage in manufacturing and only recently selling directly to consumers, underestimate the level of change.

The highest proportion of respondents who anticipate significant organizational change are those in the soft-line segment, due to the most intense level of disruption:

- ONLINE: 25% of apparel is bought online in the UK[1]

- PURE PLAYS: Zalando and Asos have grown at 37% and 23% Compound Annual Growth Rate (CAGR), respectively, over the last three years, more than twice the industry average[2]

- AMAZON: Forecast to become the largest fashion retailer in the U.S. in 2017[3]

- SUBSCRIPTION SERVICES: The Chapar, Enclothed, and StitchFix have created stickiness with customers, a model that is replicated in apparel and non-apparel segments

- STARTUPS: Bonobos and Warby Parker have moved into physical stores via boutique showrooms[4]

Figure 3: Degree of Organizational Change

A bar chart with y-axis "% OF RESPONDENTS" ranging from 0% to 45%. Bars: MINIMAL 6.5%, 23%, 47%, SIGNIFICANT 23.5%.

Although change is often stymied by organizational barriers, some incumbents are responding. Cole Haan has effectively partnered with Uber, Pinterest, and ApplePay to control distribution, simplify transactions, and own the relationship with customers. Department stores have long used concessions to extend their offerings, but now bring in unexpected partners to reinvent their stores. Examples include a Tesla car showroom in Nordstrom, Kuoni travel operation in John Lewis, and Rent the Runway shops in Neiman Marcus.[5, 6, 7]

"Partnering with Rent the Runway's innovative model, combined with their affinity among Millennials, provides an exciting opportunity for us," says Karen Katz, CEO of Neiman Marcus Group. "Together we're helping the next generation of luxury consumers discover and fall in love with designer fashion."[8]

Strategic relationships, even between companies that are considered competitors, are expected to expand much more widely across retailers, brands, and players from other industries to mix products, services, and experiences that conveniently solve customer problems.

Market Insight and Innovation are the Most Important Characteristics

As companies attempt to keep pace with disruption and change, they prioritize the characteristics that are expected to be most impactful. Fifty-nine percent of retailers and 52% of brands cited market insight or innovation as the most important characteristics necessary to become a network-centric organization. A senior executive from an apparel retailer echoed these priorities. "It is everyone's responsibility to be aware of trends," he says. "There is no central think tank to come up with ideas and research."

Market insight keeps an organization's finger on the pulse of the wider marketplace and helps understand which disruptions are gaining momentum from customers, competitors, technology, and startups. Taking a narrow view of the competition and being "just a bit better" is no longer good enough. New business models tend not to originate from incumbents but rather tech disruptors, startups, or outside the industry, as they do not play by conventional rules. These organizations tend to have light assets, fewer employees, open platforms, and a seeming disregard for profits.

Frontline associates are more likely to spot disruptions. Leadership should regularly communicate with them and evaluate every new insight at pace to determine whether it is a threat or opportunity. Some examples of ways to identify changes include:

- Suitsupply leverages its stylists within each store to learn about customers, and create a "product center" that containers a variety of items based on their local tastes and preferences.[9]

- LL Bean relies on its call center agents to share insights that influence merchandising quality and assortment.[10]

- A large U.S.-based apparel retailer draws from its digital team to analyze site search terms and social media, which inform merchandise planning and buying decisions.

> " It is everyone's responsibility to be aware of trends," he says. There is no central think tank to come up with ideas and research."
>
> — Senior Retail Executive from an Apparel Retailer

Figure 4: Importance and Difficulty for Retailers and Brands

MOST IMPORTANT CHARACTERISTIC

BRANDS / RETAILERS — VISION, CULTURE, MARKET INSIGHT, DATA INTELLIGENCE, INNOVATION, AGILITY — 0% 5% 10% 15% 20% 25% 30%

MOST DIFFICULT CHARACTERISTIC

BRANDS / RETAILERS — VISION, CULTURE, MARKET INSIGHT, DATA INTELLIGENCE, INNOVATION, AGILITY — 0% 5% 10% 15% 20% 25% 30%

Innovation encompasses new products, services, customer experiences, business models, and partnerships. But a culture of innovation is required. Jeff Bezos, CEO of Amazon, noted: "You need to organize so that you can do as many experiments per unit of time as possible. If you can organize in small, lightweight teams that have certain tools so they can do a lot of experiments per week or per month or whatever the right unit of time is, then you'll get a lot more invention from that."[11]

Large yet nimble companies, such as Under Armour, innovate at the pace of startups. The apparel and footwear brand has created a platform that brings together fitness, health, and products for its community of 165 million potential retail customers, formed from its acquisitions of MapMyFitness, Endomondo, and MyFitnessPal. Sid Jatia, VP of Digital, Direct-to-Consumer for the organization says that the digital communities are big drivers for Under Armour's expansion plans: "We're basically taking a 100% concierge approach toward fitness, and apparel and shoes become part of the conversation. Digital channels are not about pure commerce and selling, but activation of customers and personalizing content."[12]

# Organizational Maturity and Performance are Linked

Amidst massive disruption and change, the research identified a set of leaders (25% of respondents) that indexed high in all important performance metrics that were evaluated — revenue growth, margin improvement, market share growth, and employee retention. There is a direct link between organizational maturity and performance. Leaders have embraced an adaptive and interconnected ecosystem that helps and encourages collaboration among business partners to deliver a unified and seamless experience, resulting in higher financial performance than those who lag behind.

While market insight is one of the two most important characteristics among all retailers and brands surveyed, it represents the largest maturity gap between leaders and laggards. The second largest maturity gap between leaders and laggards is data intelligence.

Traditional stalwarts that match the maturity of online pure plays and startups have a big data and analytics mindset from the outset, and are not encumbered by legacy and disparate systems. An important differentiatior is to become a master and steward of data intelligence. Organizations that adopt machine learning and artificial intelligence are able to create relevant and personalized experiences both on and off their property. It is essential to hire and embed data analysts, aggregate information into a single view, and operationalize insights.

True Religion Brand Jeans is one such example. The company leverages data intelligence throughout the virtual and physical shopping experiences. It integrates hardware (mobile devices), software (predictive intelligence), and services (geo-location) from a myriad of business partners. Store associates are armed with Apple Watches containing customer profiles, preferences, and shopping histories for a more personalized and engaging experience.[14]

Figure 5: Characteristic Maturity for Leaders and Laggards
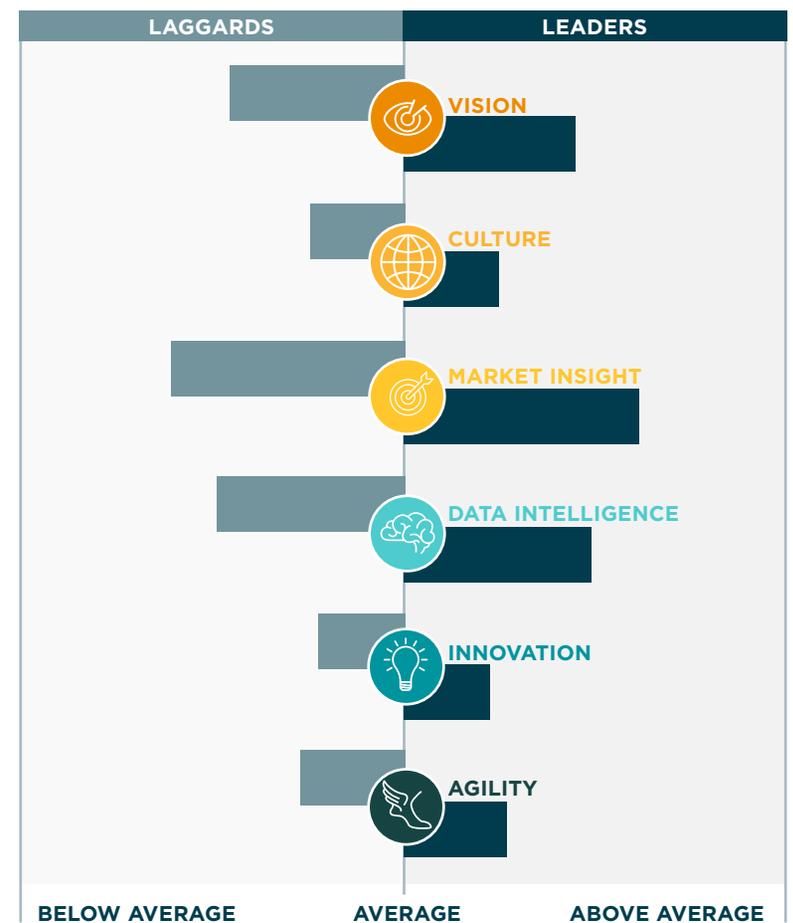
Bars indicate average maturity across all leaders and laggards

# Leaders View Future Change Requirements More Realistically Than Laggards

To navigate a path well requires a sense of how far one has come, as well as how much farther there is to go, particularly when the destination is constantly changing. Leaders in the survey displayed a well-balanced view of this — the most mature organizations expected the least future change, and vice versa.

Laggards generally were uncertain about what is required to leverage an open and fluid ecosystem to engage customers in new ways. Laggards displayed a very different trend than leaders. **That is, less mature organizations were much more likely to underestimate the magnitude of future change required.** Even the most mature laggards included a significant proportion that expected significant change on the horizon. If organizations do not understand the magnitude of change, they are unlikely to take the appropriate actions to improve their businesses.

Data suggests that there is a general disconnect between CEOs' and Chief Lieutenants' views on organizational maturity and change. This was supported by two instances where more than one respondent from the same company completed the survey. The discrepancy between the responses was striking. The CEOs were much more bullish about how they rated the company's organizational maturity, and more complacent than their colleagues about the level of change still required. This demonstrates the importance of communicating the entire organizational journey at the board of directors level. Leadership needs to discuss not only what has been accomplished but also make realistic preparations for the future.

One executive from a global brand believes organizations need to change not out of fear but to pursue opportunities. Traditionally this has meant hiring someone from outside the company. In tomorrow's reality this means collaborating for specialized skills, technology, and/or services. This shift requires clear alignment of vision and expectations of the journey ahead.

Figure 6: Maturity and Degree of Organizational Change for Leaders and Laggards
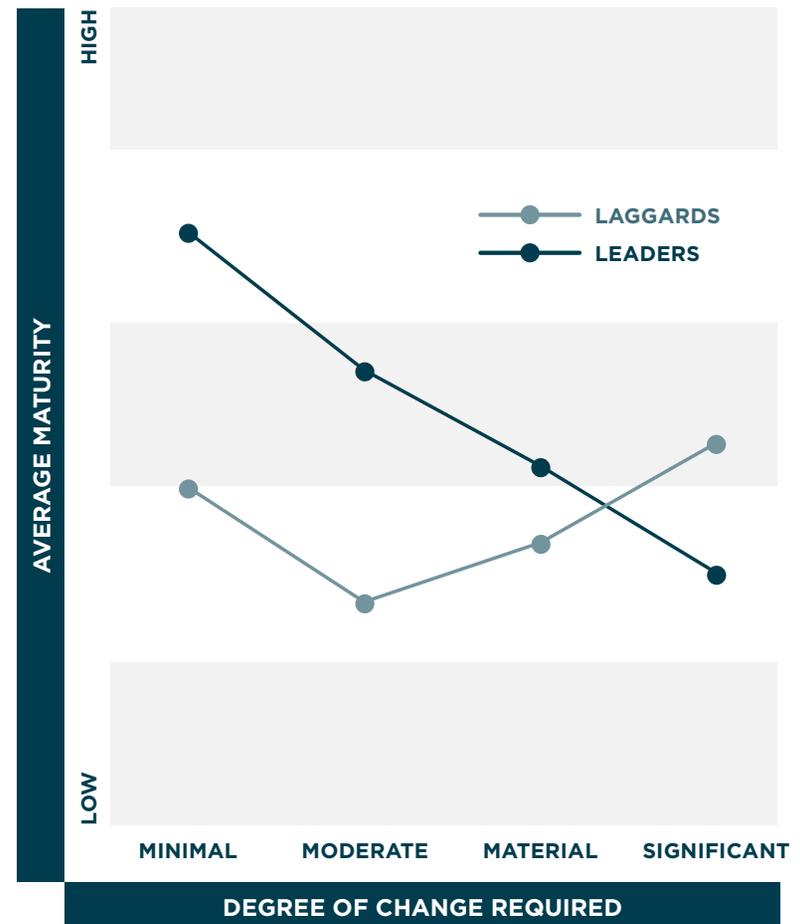
Culture Remains a Major Roadblock

Brands and retailers typically have different cultural challenges to overcome. While retailers struggle to shift from a selling model to a service model, brands have only recently begun selling directly to consumers. Despite different heritages, leaders and laggards in both groups recognize culture as one of the most difficult factors to change. Retailers were more emphatic, with a 30% greater proportion citing culture as the most difficult. This is likely due to their relative maturity operating across channels, and their experiences aligning processes and incentives throughout the whole enterprise — all the way down to the store.

An executive from a global retailer has steered its culture toward optimizing the customer experience throughout the enterprise: "Our organization is customer-obsessed. Everyone has to focus on the customer. We have a culture and willingness to trade off profit margin to do what is best for the customer." A set of clearly articulated leadership principles sets the cultural tone for this organization, and employee empowerment is a key aspect.

Very few respondents from either camp considered agility the most important characteristic. However, in the transition to adequately serve connected customers, it is imperative to harness flexible processes, systems, infrastructure, and decisions to manage a connected ecosystem that engages and serves customers.

At one end of the spectrum we see companies with complementary capabilities delivering a new service, for example, Whole Foods partnering with Instacart to facilitate home delivery.[15] At the other end of the spectrum, retailers sell via competitive platforms. Carter's has teamed up with Amazon to extend its distribution and assortment. After discovering that Carter's is the number-one-selling newborn clothing brand on Amazon, Carter's CEO Michael Casey said: "We've been working with Amazon to develop a product offering that provides a better experience for their customers. We … expect this new relationship to build to a more meaningful level in the years to come."[16]

Figure 7: Importance and Difficulty for Leaders and Laggards
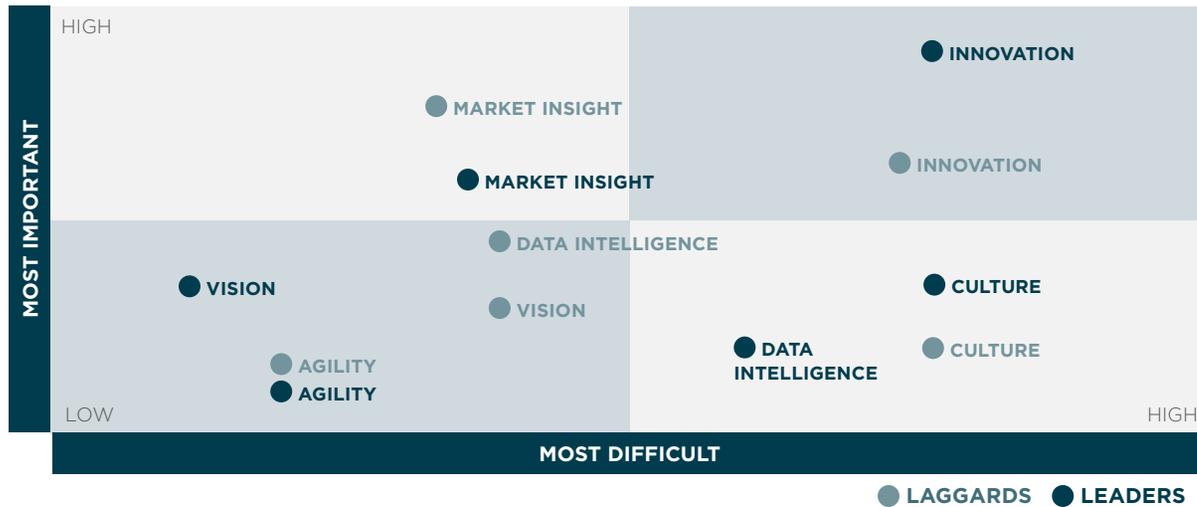
HIGH

MOST IMPORTANT

LOW

● INNOVATION

● MARKET INSIGHT

● MARKET INSIGHT

● INNOVATION

● DATA INTELLIGENCE

● VISION

● CULTURE

● VISION

● AGILITY

● DATA INTELLIGENCE

● CULTURE

● AGILITY

MOST DIFFICULT

HIGH

● LAGGARDS ● LEADERS

> " There are too many layers and reporting lines that do not make decisions easy. New people, new mindsets, new processes, and new structures are essential to make decisions more quickly."
>
> — Retail Executive from Mass Merchant

Two important components of agility are adaptiveness and the speed at which decisions can be made.

- ADAPTIVENESS: A senior executive at an apparel brand stated: "The ability to manage change is absolutely essential. eCommerce tends to be more flexible naturally, but everyone will have to adapt that way. There is an increasing need for organizations to invest in adaptable systems and infrastructure to keep pace with change."

- DECISION-MAKING SPEED: A retail executive from a mass merchant said: "It is the decision-making that often holds organizations back. There are too many layers and reporting lines that do not make decisions easy. New people, new mindsets, new processes, and new structures are essential to make decisions more quickly."

At another organization, encouraged by an autonomous and democratized environment, employees are able, without seeking approval, to make decisions for customers within defined parameters. For example, store associates are empowered to give concessions to a predefined amount.

Network-Centric: Take the Journey to Become Adaptive, Collaborative, and Intelligent

Customer-centricity has been the dominant mantra for the past two decades, but the retail industry is in the midst of massive disruption by online pure plays, tech startups, and innovative new business models. This has forced incumbents to explore ways of undertaking the next stage of the organizational journey to effectively offer a personalized blend of products, services, and experiences to customers on their terms.
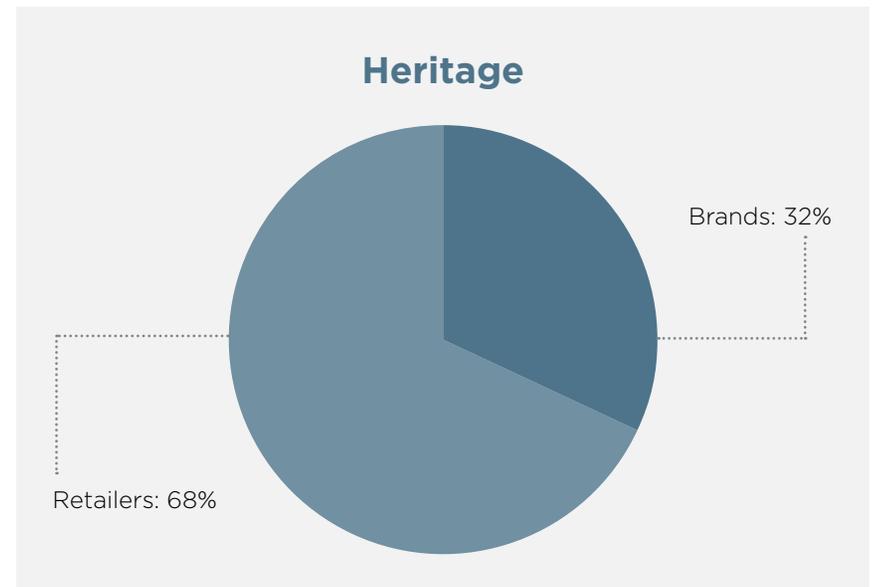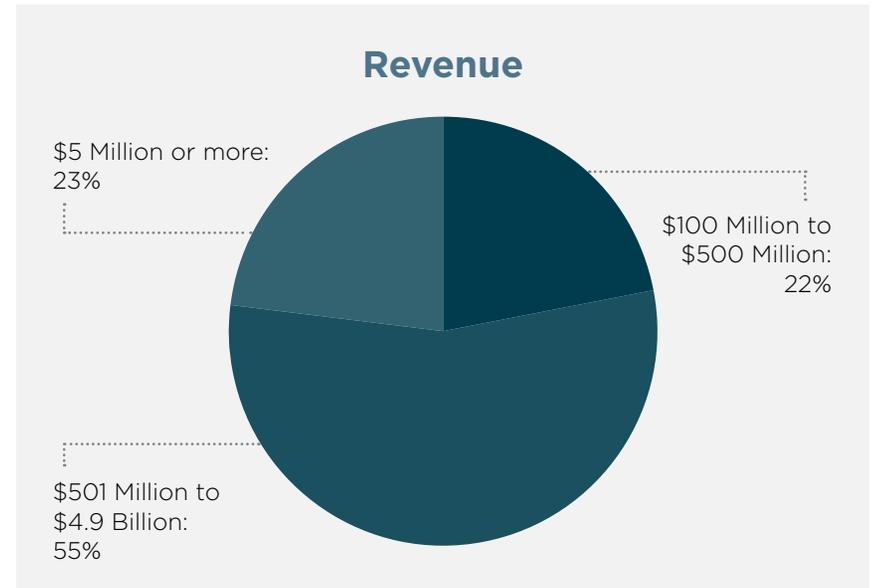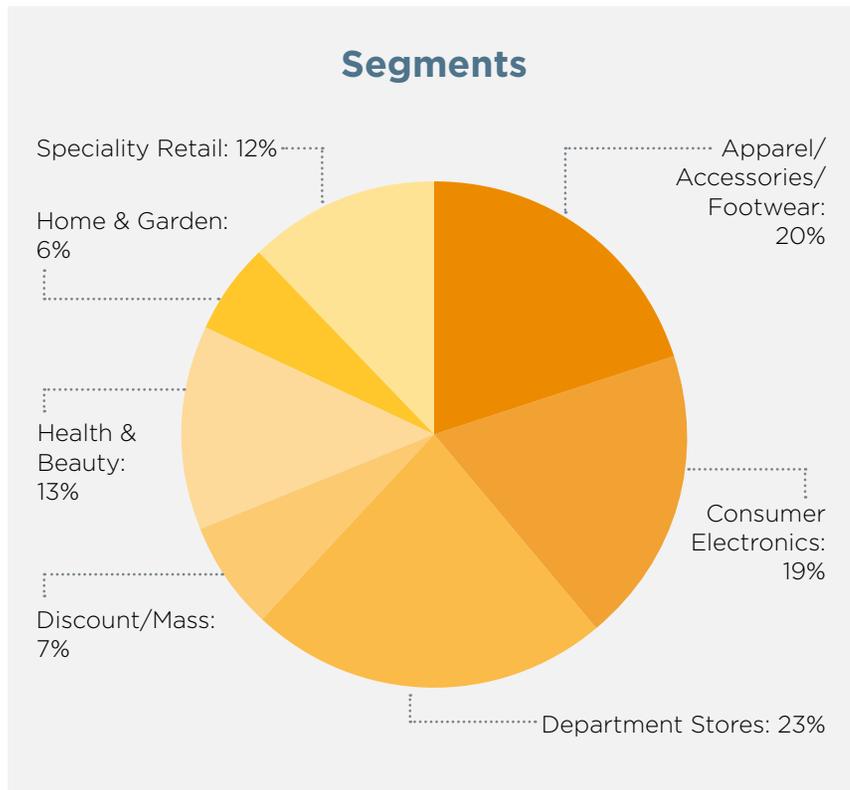
The research has identified six characteristics that define the organization of the future. Once adopted, these result in an adaptive, collaborative, and intelligent operation that is completely focused on the customer.

1. ADAPTIVE: Organizational maturity and change is a journey — not a destination. Leaders have a clear understanding of the journey and an organization's place on it.

2. COLLABORATIVE: It is unlikely that all capabilities exist within one organization. Do not be insulated or isolated. Collaborate and partner. Systems and processes are increasingly open and agile to extend beyond one's own enterprise and industry.

3. INTELLIGENT: Become a master and steward of data. Test. Learn. Move. Leverage customer and market insights to innovate at pace and personalize each shopping experience.

Research Demographics

Accenture and Salesforce conducted 20 interviews and 200 surveys of executives from non-food retailers with high online penetration and brand manufacturers with high direct-to-consumer revenue across North America, Europe, and Asia. Eighty-four percent of survey respondents were C-Level; the remaining 16% comprised their Chief Lieutenants.

Segments

- Speciality Retail: 12%
- Home & Garden: 6%
- Health & Beauty: 13%
- Discount/Mass: 7%
- Department Stores: 23%
- Consumer Electronics: 19%
- Apparel/Accessories/Footwear: 20%

Revenue

- $5 Million or more: 23%
- $100 Million to $500 Million: 22%
- $501 Million to $4.9 Billion: 55%

Heritage

- Brands: 32%
- Retailers: 68%

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About the Salesforce Commerce Cloud

The Salesforce Commerce Cloud empowers retailers to unify customer experiences across all points of commerce, including web, social, mobile and store. From shopping to fulfillment to customer service, the Commerce Cloud delivers 1-to-1 shopping experiences that consistently delight customers, driving increased engagement, loyalty and conversion. With embedded predictive intelligence and a robust partner ecosystem, the Commerce Cloud delivers customer satisfaction and growth from planning to launch and beyond.

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