

KORN FERRY
Institute

In the eye of the retail storm.

How chief human resource officers are helping shape the industry.



Introduction

Change is ever present within the retail industry. In the 1960s and 1970s, many downtown department stores in the United States were displaced by suburban shopping malls. Later, the rise of big-box retailers around the world forced a number of regional and middle-market stores out of business. Now, the rise of online-only retailers has challenged traditional brick-and-mortar stores, altered consumer buying habits considerably, and ignited a storm of change that continues to reshape the retail landscape.

No one knows for certain what retail will look like a few years from now. Questions abound. What will be the relationship between brick-and-mortar and online? How will brick-and-mortar stores change to provide a differentiated experience to consumers? Will the industry become more bifurcated between general retailers on one side (such as Walmart and Amazon) and specialty retailers on the other? And, perhaps most importantly, will technological disruptions reshape the industry yet again and will new business models emerge?

For most retailers, strategy revolves around the consumer. With more options than ever before, consumers can choose a shopping and buying experience that best meets their needs and preferences at any given moment. Accordingly, retailers are constantly evaluating where consumers are headed, how to create a captivating consumer experience, and how to get customers to return again and again.

The enormity of change facing the retail industry makes investment decisions difficult. For example, does a traditional brick-and-mortar retailer invest in an all-encompassing online store, or does it create a new in-store experience and build a more modest website that is strongly connected with physical stores? More broadly, does a retailer invest in a particular vision of the future or

Key Points:

- To support organizational change, CHROs are working more closely than ever with CEOs and increasingly have an important voice in executing the strategic goals of their organizations.
- CHROs are helping to define and promulgate culture change across their organizations.
- CHROs are focused on recruiting new skill sets and making sure existing employees stay on the cutting edge of technology and its impact on retail.

does it hedge its bets and try to position itself to win regardless of how the retail landscape changes?

The challenge of change places a large burden on chief human resource officers. Attracting, retaining, and developing top talent is essential. But CHROs must also help to build an environment that welcomes new skills and perspectives, facilitates learning, fosters rich discussions around strategy, and encourages and rewards innovation and execution.

To explore these issues, Korn Ferry interviewed a number of chief human resource officers at major retailers around the world. As retailers strive to meet the challenges of change and transform themselves to attract and retain customers, many retail-industry CHROs have evolved into trusted advisors and thought partners to their CEOs and senior leadership teams.

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—Francisca Prieto, manager of corporate development for Chile-based Falabella

The changing retail landscape.

In the United States, online sales are projected to grow 8 to 12 percent in 2017, compared with around 4 percent for the retail industry as a whole, according to the National Retail Federation, a development that will put continued revenue pressure on retail organizations that are highly reliant on in-store business. In 2016, total retail sales across the globe will reach \$22 trillion, up 6 percent from the previous year. eMarketer estimates sales will top \$27 trillion in 2020, even as annual growth rates slow over the next few years.

The past few years have witnessed a number of bankruptcies of traditional brick-and-mortar retailers and the closure of a large number of stores among national retail chains. Many of the remaining chains are investing heavily in e-commerce capabilities and, in effect, are in a race between declining in-store sales and rising e-commerce sales. For instance, French retail conglomerate LVMH is launching a multi-brand e-commerce website inspired by its exclusive Parisian department store Le Bon Marche, as the world's biggest luxury goods group steps up the digital side of its business.

“It’s hard to find a retailer who doesn’t see the world as going through tremendous change,” said Brynn Evanson, executive vice president of human resources at JCPenney. “The integration of digital into the whole shopping experience has gained traction especially in the last year—and that has huge implications for every retailer.”

The forces driving change in the retail marketplace include:

The growth of e-commerce: Worldwide e-commerce sales reached \$1.9 trillion in 2016 and are expected to double to over \$4 trillion in 2020, according to the online research firm, eMarketer.

Mobile technology: Consumers increasingly are using their mobile phones to assist in every stage of shopping, from researching products to conducting price comparisons to checking out at stores without waiting in line.

New retail business models: Technology is enabling a variety of new models, including manufacturers dispensing with retailers and selling directly to consumers; websites such as eBay and Etsy providing retail vehicles for individual entrepreneurs; and online retailers selling to consumers worldwide.

Low-cost and “off-price” stores: Several major retailers are expanding their off-price outlets while shutting down their full-price stores. In addition, low-cost retailers such as Aldi and Primark are expanding globally.

The impact of the change on individual retailers varies, depending on the countries they serve, their position in the marketplace, and their customer segments. In some countries, for example, the digital transformation of retail is far less advanced than it is in Europe or North America, although retailers in every part of the world are well aware that it is coming.

“At this point, we don’t have the level of digital competition here that is present in North America,” noted Francisca Prieto, manager of corporate development for Falabella, a Chilean-based retailer. “But Amazon announced it is coming to Chile. That represents an entirely new level of competition for us.”

In North America, the pace of change is faster than ever before, which is making strategic planning far more difficult and far more important, retailers say. “The giants of e-commerce have changed the game and are driving the need for change,” said Anita Graham, chief human resource officer for VF Corp. “I think a number of traditional retailers feel like they’re constantly behind, particularly as new players continue to disrupt the marketplace. Everyone’s aware that a winning formula today might not work next year.”

A final element of change is the geopolitical uncertainty revolving around international trade. If new trade barriers are imposed, it could significantly increase costs for retailers that source a large amount of products outside their domestic market.

The digitally powered consumer.

Online stores, mobile devices, and easy access to product information and reviews have transformed the consumer shopping experience. Consumers have more shopping possibilities than ever before. They can choose a process that works best for them and they can vary the process depending on the product, store, or their priorities of the moment.

One consumer might prefer to examine products online and then visit a store to make a final decision and purchase. Conversely, a shopper for golf clubs, for example, might try a particular brand of clubs at a sporting goods store and then purchase the clubs online at a lower price than offered at the store. Another consumer might enjoy shopping at a mall and simultaneously accessing product information on a smartphone to compare prices and features.

“The options are almost endless,” said Maria Martinez, chief human resource officer at HSN, Inc., which owns Home Shopping Network. “Retailers have to transform and adjust to the customer’s changing behavior. When people have so many choices, you have to constantly ask yourself, why would they come here as opposed to another store?”

The ability of consumers to access product information online and compare and contrast different models means they often enter stores with a great deal of knowledge. As a result, retailers need to ensure that their store staff have the requisite training and skills to engage these more knowledgeable customers in productive conversations.

“At the store level, we need employees who are digitally fluent and understand what the customer is saying about a digital shopping comparison, then

respond to those comments in a way that is going to advance the decision process of the customer,” said Jennifer Weber, chief human resource officer for Lowe’s. “We want to create an online-to-store experience that is as seamless as possible.”

In part because of the convenience afforded by online shopping, consumers are demanding a more time-efficient shopping experience in other channels. Many retailers, for example, are creating self-checkout lines to get customers out of the store more quickly. In some markets, the desire to save time is spurring the creation of smaller stores in residential areas.

Convenience has become tremendously important in Asia, said Tong-wen Zhao, group human resources director of The Dairy Farm Group, a \$17 billion enterprise serving 11 countries in Asia. “Disruption is coming from the growth of a mini-mart type of retailer that appeals to customer’s demand for convenience,” she said. “People don’t want to spend time driving to a larger store and finding a parking space when they can walk to the corner for what they need right now.”

The digitization of the shopping experience has created enormous amounts of customer data for retailers to analyze and help them understand consumer behavior, and to craft an approach that capitalizes on the pathways consumers follow to purchase products.

For example, a customer shopping for a computer may first investigate the latest models, then product information and reviews, and finally the best way to buy the computer, whether online or in a physical store. A retailer who understands the decision-making process can tailor different messages to different steps

in the process. Early on, the retailer might message the customer about computer features and reviews. Later, the retailer might send the customer price promotions.

Online retailers clearly have an advantage in collecting data because they can track a visitor's page impressions and product interests. Physical retailers, on the other hand, have the advantage of offering in-person assistance and allowing consumers to touch and feel the product. The computer shopper may very well place a premium on how a keyboard feels and thus may feel compelled to visit a physical store before finalizing a decision.

But brick-and-mortar retailers can also use big data to their advantage. They can track customer traffic patterns in stores to determine optimal distribution routes, inventory levels, and product allocations to both improve the customer experience and to display product to generate more sales.

How traditional retailers are responding.

The majority of traditional retailers have established omni-channel capabilities in which products are offered both through stores and online. A prime example of this is Walmart, which made a substantial investment in upgrading its online sales capabilities with its \$3.3 billion purchase of Jet.com in 2016.

A study by Rice University marketing professor Utpal Dholakia and published in *Harvard Business Review* in 2017 concluded that omni-channel retailing is effective, with omni-channel shoppers spending an average of 4 percent more in store and 10 percent more online than single-channel customers.

Clearly, retailers can no longer survive by functioning as pass-through sellers of national brands at full prices. They need to differentiate themselves from their competitors. For most retailers, that means focusing obsessively on customer behavior and engineering experiences or offering unique products to appeal to their target markets.

“We try to anticipate where the customer is going,” said JCPenney’s Evanson. “We’re striving to be more innovative both in our stores and product mix. For example, we’re looking at embedding technology in clothing and creating a more casual shopping environment in our stores.”

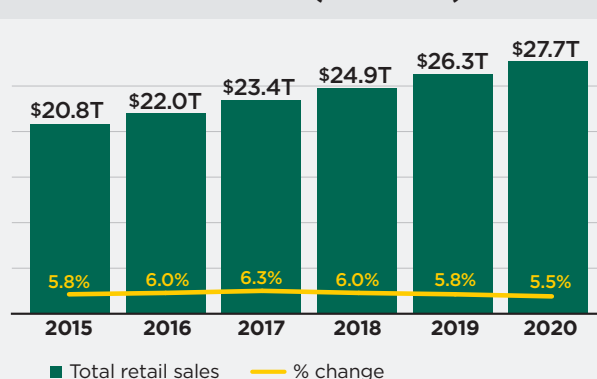
At HSN, the focus tends to be on unusual products that appeal to its core customer, which it defines as a woman between the ages of 40 to 60. “We work closely with innovators outside of our company who have amazing ideas,” said Martinez. “They look for us to help incubate those ideas, bring them to life, and ultimately provide a platform for those products to be introduced to the world. One example, is a gift bag that

is all inclusive. You don’t have to purchase the bag, the tissue, and ribbon separately. It’s an extremely simple idea that appealed to our customers.”

HSN also works to develop unique products through partnerships and brands. For example, it developed jewelry and beauty products derived from Disney’s movie *Cinderella*. “We’re constantly looking for ideas that will become a product, and products that will become a brand,” Martinez added.

Retailers of all kinds are grappling with the function and design of brick-and-mortar stores in order to provide customers with a different experience than they get in an online environment. For example, some home-improvement retailers are showcasing products to give customers a better idea of how a product will look in their homes. Some athletic-shoe retailers recommend running shoes based on an in-store computer analysis of the customer’s running stride and impact stresses.

Worldwide retail sales (in trillions)



Note: excludes travel and event tickets
Source: eMarketer, Aug. 2016

The CHRO's role promoting change.

The challenges facing the retail industry directly hit the responsibilities of the CHRO:

- Identifying, recruiting, and developing leaders who can drive strategic change
- Building new organizational skill sets, particularly in technology
- Anticipating future talent needs
- Creating more agile and customer-driven cultures

"We wanted to create a consumer-centric culture," said Zhao of The Dairy Farm. "So we replaced a large number of senior executives and brought in many people with a consumer background, but not necessarily a retail background. We now feel we have the critical mass to drive change throughout the organization."

At the C-suite level, retailers need multi-faceted leaders who can set a vision, create a plan for execution, make necessary internal changes, and remain flexible enough to adapt the vision as the external environment changes.

Top leaders do not necessarily need a deep technology background; however, it's critical that they have the ability to analyze the reams of data that are now produced at most retail organizations in order to interpret consumer behavior, sales trends, promotions, and other activities, CHROs said.

At traditional brick-and-mortar retailers, CHROs are playing a key role in recruiting people with a wide variety of technological, digital, and social media skills. In many cases, they find themselves competing against firms like Google, Apple, and Amazon.

"Sure, it's difficult to attract these people because we're fishing in the same pond as everyone else that needs digital talent," Martinez said. "We rely heavily on our leaders on the digital side to be very connected to the marketplace and to talk to people about how they can have great careers at HSN."

An area of particular concern to retailers is cybersecurity. Given the consequences of a hack of consumer credit-card information, retailers are willing to pay relatively high salaries to attract top professionals in this area. At the same time, most are trying to develop broader organizational expertise. "Buying talent is absolutely necessary," said Graham. "But it's not enough to have a few experts running around. We need to build these capabilities internally."

To develop well-rounded leaders, it's important that young people with a technology foundation are exposed to other aspects of the business, such as the physical stores, merchandising, logistics, and purchasing. "A lot of the best and brightest kids want to go into pure play digital," Evanson noted. "But some students are very interested in retail. We show them a career path in digital, but tell them they'll learn about the broader business. That appeals to some."

Culture change

For many traditional retailers, culture change is viewed as an integral part of organizational transformation. The CHRO role is instrumental, both as a communicator of the change throughout the organization and in embedding the change in competency models, performance metrics, and leadership development programs. “I see a big part of my job as helping to lead the culture change through direction of the HR processes,” said Zhao. “Basically, we want to leverage the HR processes to hot-wire changes in culture.”

As traditional retailers embrace digital technology and new ways of engaging customers, they are trying to grow their overall capacity for learning, innovation, and collaboration. “We need to be more agile in our ability to test new ideas, learn, and adapt,” said Weber. “The cycles are shorter. We need to move forward with solutions that are not 100 percent perfect. And then adjust, if necessary.”

At JCPenney, a key component of the new culture is promoting an ownership mentality. “It’s human nature to do the same thing over and over again, particularly if it worked in the past,” said Evanson. “When you act like an owner, you have a different mindset and are more likely to make needed changes.”

While culture is vital in driving organizational change, it’s also an important factor in attracting and retaining talent, particularly in the technology-related positions that are in high demand throughout the economy, CHROs say. The culture should be flexible enough to acclimate and encourage new hires who bring new skills into the organization or they may leave at the next best offer. “We just hired a new chief customer officer who will aggressively push the envelope to drive us forward,” said Weber. “We need to be ready for that and help her thrive.”

In long-standing, traditional brick-and-mortar retailers, culture change must be accomplished in a way that preserves what is valuable from the past and encourages the values and behaviors that are key to succeeding in the future. At Lowe’s, for example, the company uncovered a purpose—“To help people love where they live”—that previously existed and revived it as a platform to transform the culture. “This is our rallying cry for employees,” said Weber. “We feel it’s relatable and inspiring.”

A new relationship with the CEO.

For most retailers, a close relationship between the CEO and the CHRO is instrumental in creating the strategic and cultural change necessary to survive and prosper in today's tumultuous retail environment.

The CHROs with whom we spoke function as strategic partners to senior leaders and the CEO. While the human resources department might still be viewed largely as a transactional service in other industries and organizations, the "people" issues in the retail industry are so critical that the CHRO role is of enormous strategic importance.

"I personally have a great relationship with our CEO," Martinez said. "We think alike when it comes to talent and leadership. The CHRO and CEO must be aligned. If they have different views on talent and development, it could lead to different messaging about what's important to the organization, and that could lead to organizational dysfunction."

Most retail CHROs meet with their CEO on a regular basis. The conversations typically focus on talent issues involving individual positions, teams, and the organization as a whole. Often the conversations include a discussion of how business strategy and organizational structure intersect with talent needs and talent development.

"The dialogue is grounded in how we're transforming the organization," said Weber. "We've gotten to a point where the investment in talent is viewed with the same rigor and clarity and discipline as investment in other assets, perhaps even more so."

CHROs said that it is critical to openly discuss problems with the CEO. "In an environment of change and transformation, it's particularly important to have a transparent and honest relationship with your CEO," said Evanson. "There will be things that the CEO may not like to hear. Sometimes, you have to be the person that tells the CEO because, if you don't, no one else will."

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