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Digital Retail in the Pandemic

Lessons learned on the journey from COVID-19 to Digital First

Retail and consumer organisations have been forced to adapt rapidly over the pandemic. Lockdowns, furlough schemes, remote-working, health and safety, cost-cutting, government-backed financing, supply chain changes, rent-deferrals and customer engagement have all been in the mix, typically underpinned by hurriedly devised and launched digital initiatives. As we slowly emerge from COVID-19's shadow, Ralph Fernando (Agile Change & Transformation Leader at FTI Consulting) considers what we can learn from retail's recent digital initiatives.

“Like most retailers, we don't know exactly where we will land at the end of it but our curiosity and willingness to create will be a guide for us¹.”

Jesper Brodin, CEO, IKEA
Speaking at the World Economic Forum 2018

Jesper Brodin's celebration of retailers' curiosity expressed in 2018, embodies both prescience and optimism – two qualities in short supply over the past year. For some, the forces unleashed by the pandemic have proved too powerful, with weak propositions, poor customer experience, misaligned channel strategies, fragile supply chains and threadbare balance sheets providing insufficient defence. However, this is not true for all - alongside the well-documented fables of failure, there are also many inspiring stories of success.

The pandemic has been an accelerant of digital transformation, forcing retail and consumer businesses to commit and experiment faster. Borne of operational necessity, it is also the result of the most fundamental of retail considerations – meeting the needs of customers, who have themselves been forced to adapt and accelerate digital adoption. For example:

- Approximately 0.5bn new users joined social media in 2020 – an annual increase of more than 13%, taking the global total to 4.2bn in early 2021²
- In 2020, for the first time, the world's users spent more time on their phones than watching tv³.

¹ <https://www.cnn.com/2018/01/26/ikea-sees-massive-opportunities-with-artificial-intelligence-and-virtual-reality.html>

² Data Reportal: <https://datareportal.com/reports/digital-2021-global-overview-report>

³ Data Reportal: <https://datareportal.com/reports/digital-2021-global-overview-report>

How larger international retailers respond to changing consumer behaviours is further complicated by the significant geographic variation in speed and depth of digital transformation⁴. Against this backdrop, what are the stories of digital transformation success for retail and consumer companies during the pandemic, and what can we learn from them?

FOUR LENSES THROUGH TO A NEW WORLD

To answer this question, we need to determine what “digital transformation” means. There is no shortage of attempts to do so – a recent review listed over 130 published peer-reviewed definitions by academics alone⁵. Furthermore, it is emblematic of the pace of change that even the term “digital transformation” is starting to sound twee – for many, it is simply “transformation”.

From a retailers’ standpoint, a more accessible and practical approach is to focus on where transformation has an impact on the organisation and the customers it serves. This can be understood by looking at this through four lenses: outcomes; organisation, stakeholders; and value proposition.

LENS 1: OUTCOMES



Historically, transformation outcomes have been firmly focused on lifting the “4Es”: efficiency (e.g. large “cost-out” programmes), effectiveness (e.g. customer experience) and, more recently, environmental impact and ethics (think automotive electric vehicles, or clean energy). However, as a string of global supply chain issues

have proven – from national lockdowns to canal-blocking container ships – something was missing. After decades of relentlessly pursuing lean supply chains, retailers are now recognising that they must adopt a more nuanced approach that designs agility into the organisation – optimising the known, and optionalising the rest. Agility has become a key “enabling” outcome of transformations – setting a cat-like “A” amongst the “E” pigeons.

Moreover, this agility is not just about managing supply chain risk. The importance of responding and adapting to changing customer needs and trends – exemplified prior to the pandemic by Zara getting items from the designer’s page onto the shop floor in as little as 4 weeks – has grown massively as traditional channels have been forced shut and newer ones have grown. At a more fundamental level, it also increases organisational resilience at a time when that is desperately needed⁶.

Lululemon’s recent story, outlined below, offers an illustration of this new, broader outcome focus.

Case: lululemon – strategy, serendipity and sweat⁷

On the face of it, 2020 should have been crushing for lululemon: the broader global apparel market declined by c.25% and stores, a cornerstone of the brand, were forced to close for long periods (prior to COVID-19, it hosted weekly in-store yoga and other fitness classes for its customers).

Yet consider its performance against the five outcomes:

- **Effectiveness:** total revenue grew by 11% to \$4.4 bn – with 23% revenue growth in the second half of the year. It even expanded its total store estate by 30 net new stores, to 521 in total.
- **Efficiency:** gross margin increased 10 basis points to 56.0%. Although net income as a percentage of net revenue dropped from 16.2% to 13.4%, this reflected the additional costs incurred from adapting operations to be COVID-safe and from investing for growth.
- **Ethics:** the business ranked eighth on Glassdoor’s *Best Places To Work* List, published in January 2021, backed by actions such as the \$5m investment in Inclusion, Diversity, Equity and Action (“IDEA”) activities and the establishment of a hardship fund for its staff.

4 In 2020, the greatest digitisation momentum (i.e. maturation of digital practices) at a country level was in China, South East Asia, Russia, and the Caucasus (source: Digital Intelligence Index published by The Fletcher School at Tufts University). From a digital perspective, the UK market is, in comparison, relatively mature (it is the 3rd largest ecommerce market in the eShopping Global eCommerce Market Ranking, behind the US and China), yet it too accelerated significantly in 2020 and still has a huge amount of growing up and out to do.

5 Gong, C. and Ribiere, V. (2021) *Developing a unified definition of digital transformation*, Technovation, Volume 102. The authors ultimately conclude on the definition of Digital Transformation as: “A fundamental change process, enabled by the innovative use of digital technologies accompanied by the strategic leverage of key resources and capabilities, aiming to radically improve an entity and redefine its value proposition for its stakeholders” where an “entity” could be “an organization, a business network, an industry, or society”.

6 For more on resilience, and FTI Consulting’s research and data on the topic, please visit <https://ftiresiliencebarometer.com/>

7 Investor.lululemon.com: <https://investor.lululemon.com/news-releases/news-release-details/lululemon-athletica-inc-announces-fourth-quarter-and-full-20>

- **Environmental Impact:** the business also launched its first “Impact Agenda”, committing to making 100% of its products with sustainable materials and end-of-use solutions by 2030, using 100% renewable electricity to power its operations by 2021, and achieving a 60% intensity reduction in carbon emissions across our global supply chain by 2030.
- **Agility:** direct to Consumer (“DTC”) revenues grew from 29% of total revenues in 2019 to 52% in 2020 (against a growing base), with e-commerce revenues doubling.

What is perhaps more interesting than what it achieved, is how it achieved it. There are, in fact, three parts to that answer – strategy, serendipity and sweat:

1. STRATEGY

In 2019, the business laid out a five-year growth plan to “double men’s, double digital, and quadruple international” revenues by 2023. To do so, it focused on what it calls the “Power of 3”: product innovation, omni guest experiences (significantly investing in digital) and market expansion. In the lead up to the first wave of lockdowns, the business was therefore already focused on building out its proposition, strengthening its digital platform and capabilities and driving international growth.

2. SERENDIPITY

Serendipity, of course, played a role – the pandemic providing wind for lululemon’s strategic sails:

- Athleisure remained an attractive market space, supported by the continued (and accelerated) shift to casualwear and a renewed focus on home-based exercise (Gymshark also had a good year).
- The 2019 investments made in digital and internationalisation set the business up well for the dynamics the pandemic set in action: cross-border ecommerce sales grew 82% year-on-year in 2020, with globally optimised retailers like lululemon seizing new opportunities⁸.
- The home workout platform Mirror came to market, providing lululemon with its first acquisition, reinforcing its fitness model both inside and outside the home.

3. SWEAT

This is not to say that the success came easy. Whilst strategy and serendipity made success possible, hard work and good execution made it happen.

LENS 2: ORGANISATION

The second lens – organisation – recognises that the role of digital in transformations goes far beyond its modest beginnings as a servant of operating model efficiency. Rather than an enabling afterthought, digital is now an input and driver of strategic change. It unlocks fundamentally new options for retail and consumer businesses across four areas:

- **Strategy:** where an organisation chooses to play, and how it wins, can be dramatically changed through the application of digital tools and practices. For example, the ability to differentiate in existing sectors, and enter new ones, looks very different in a digital world.
- **Business Model:** how an organisation creates, delivers, and captures value is another area where digital has changed the game. The rise of service-led offers, and collaborations to build ecosystems around the customer, are notable examples.
- **Operations:** how an organisation “operationalises” its strategy and business model has been transformed by technology and data across a broad range of areas, from customer service through to merchandising.
- **Leadership and Culture:** adoption of a “digital mindset”, at both an individual and organisational level, creates the opportunity to unlock significant organisational potential – challenging historical norms, mental models, and ways of working.

Case: Morrisons

Morrisons is the fourth largest grocer in the UK. Between October 2019 and December 2020, it grew its market share from 9.9% to 10.4% - the greatest rate of increase of any of the big 7 UK grocers⁹. How did it achieve this? Digital was at the core of the growth – and, in this domain, Morrisons was behind its peers entering into the pandemic. David Potts, its CEO, highlighted in May 2020 that they were looking to build “a more accessible new Morrison’s, in a way that

⁸ Source: eShopWorld

⁹ <https://www.kantarworldpanel.com/en/grocery-market-share/great-britain/snapshot/27.12.20/>

is capital light¹⁰, with leadership and staff focused on “playing our part to feed the nation^{11,12}”. From a business model perspective, this meant unlocking new delivery channels and accelerating online presence. To do so, it built partnerships with Deliveroo (offering food delivery in as little as 30 minutes from 180 of its stores) and Amazon (enabling Amazon customers to order their Morrisons groceries directly from the Amazon website and app).

It also undertook significant changes to its operating model. During the panic buying of the first lockdown, Morrisons launched “essentials” food boxes to ease supply constraints. True to its strategy of “playing its part”, it also launched a wholesale spin-off service in May 2020 to help not-for-profit organisations in need of food supplies. The partnership with Deliveroo also enabled new experiments – setting up a Deliveroo “dark kitchen” at its Manchester Piccadilly station store, from which it delivered fresh food directly to customers. All of this necessitated the setting up of a dedicated customer call centre to manage online order enquiries, particularly for customers who did not shop online normally. Digital unlocked this potential, but necessitated significant organisational transformation to realise it.

LENS 3: STAKEHOLDERS

The third lens of transformation is stakeholders (e.g. customers, staff, partners, suppliers, investors), to which there are three aspects:

- **Understanding:** understanding the needs, wants, behaviours, attitudes and triggers for customers, staff and other stakeholders. This is about collecting, storing, analysing, and visualising data to drive action.
- **Engaging:** the meaningful interaction between the organisation and its stakeholders, enriching these relationships.
- **Creating Value:** serving unmet, under-served or emerging needs in a way that creates real value for both the stakeholder and the organisation.

Case: Pizzas, portals and perfume

Domino’s pizza is no newcomer to online - even back in 2016, c.72% of all delivered sales in the UK were made online or through its app¹³. Five years later, that figure was 90.5%¹⁴. The digital investments it has made over that period as part of its “Domino’s AnyWare” initiative means that you can not only order your favourite pepperoni pizza on the website and app, but also directly via social media, your smart watch and even your car entertainment system¹⁵. Why does this matter? To paraphrase Uncle Ben’s advice to Peter Parker¹⁶, “with great accessibility comes great data¹⁷”. The business has built a unified, cross-channel customer view (the Holy Grail of retail) that enables it to understand its customers better, engage them more effectively at every touch point and create value through personalised offers.

The stakeholder story does not stop with data – it is also about how that data translates into experience. Matterport – a platform that enables the digitisation of the built world – knows this better than most. Its technology has been behind John Lewis’s Virtual Christmas Shop last year (modelled on the Oxford Street store) and Furniture Village’s digitised Crawley store¹⁸, offering a novel way for customers to engage with these retailers from the comfort of their homes.

Another common retail tactic to engage and create value for the customer over the pandemic was the use of video to connect shoppers directly with experts, facilitating the sale. Unsurprisingly, this has been most prevalent in areas where consultation was a key characteristic of the pre-pandemic selling process, typically due to the physical nature or complexity of the product in question. Thus, Currys PC World made this an important part of its strategy, as did The Perfume Shop, serving a market where c.85% of pre-pandemic perfume purchases were made in store.

10 <https://www.marketingweek.com/morrisons-covid-19-renaissance-supermarket-food/>

11 <https://groceries.morrisons.com/content/important-update-on-coronavirus-94110>

12 <https://www.nfuonline.com/sectors/food-chain/food-chain-news/morrisons-proud-to-play-their-part-in-feeding-the-nation/>

13 <https://investors.dominos.co.uk/system/files/uploads/financialdocs/dominos-pizza-group-plc-annual-report-accounts-2016.pdf>

14 <https://investors.dominos.co.uk/system/files/uploads/financialdocs/dominos-fy2020-results-presentation.pdf>

15 <https://anyware.dominos.com/>

16 <https://nextconf.eu/2020/03/with-great-power-comes-great-responsibility/>

17 Sam Raimi’s 2002 Spider-Man Film

18 <https://www.furniturevillage.co.uk/3d-virtual-furniture-store/>

LENS 4: VALUE PROPOSITION

The final transformation lens to consider is Value Proposition. Here, it is helpful to distinguish between the three different ways in which digital affects the proposition:

- **Digitally Supported:** make it easier or more compelling (e.g. online product support).
- **Digitally Enabled:** make it possible (e.g. click and collect).
- **Digital Created:** make it virtual (e.g. a fully digital product).

During the pandemic, we have seen several examples of each, some of which are outlined below.

Digitally Supported: H&M¹⁹

H&M is a retailer with a strong social media reach, counting over 120m followers globally across the major social platforms. Typically, this reach has been used to draw attention and build excitement for new collections and products. However, over the pandemic, it has allowed global aid organisations, including the Red Cross (with whom it already had a long-standing relationship), to use its social media platform to share important messages with its predominantly younger audience. The messages relate mainly to health and safety and tackling the effects of the outbreak, getting critical public health messaging out to a wider audience and, in doing so, reinforcing its own positioning as a responsible and ethical retailer.

Digitally Enabled: Lush

Addressing the three-part challenge of getting product into customers’ hands, driving repeat purchases, and bringing a personal touch, Lush launched subscription boxes and designing your own box for gifting²⁰.

Digitally Created: Balenciaga

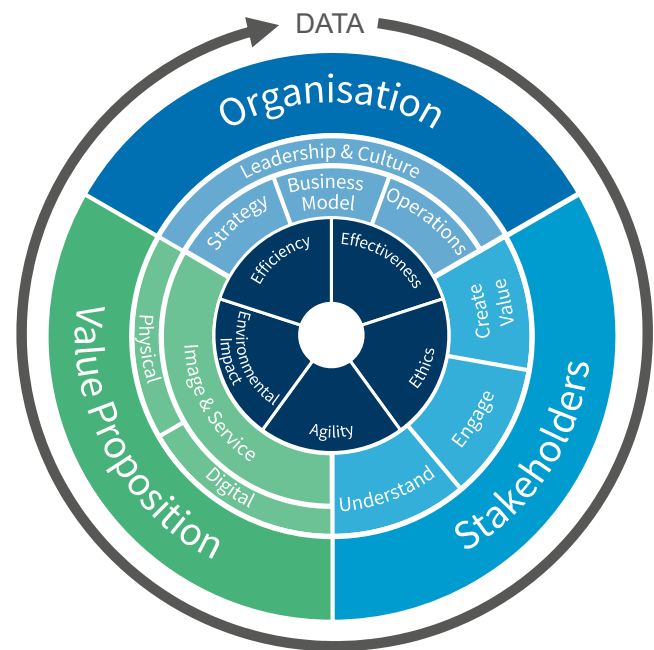
A luxury fashion house founded in 1917 is perhaps not an obvious candidate for digital innovation. Yet Balenciaga released its Fall 2021 fashion collection in the form of a video game entitled “The Afterworld: The Age of Tomorrow” and spread across five zones²¹. Walking through each one, the player

meets characters wearing items from the collection, experiencing them in an industrial, futuristic setting reflecting the spirit of the collection. It is a dramatic change from the catwalk launches of the past, providing a very different way for customers old and new to engage with the collection and the brand. Louis Vuitton’s partnership with Riot Games to provide virtual items in the game League of Legends, and Burberry’s suite of mobile games illustrate that Balenciaga was not alone in seeing digital gaming as a new fashion frontier.

These lenses are summarised in Figure 1 below, bound together by the data that supports them all.

THREE PROPOSALS

FIGURE 1: TRANSFORMATION IMPACT FRAMEWORK



- 1. OUTCOMES
- 2. ORGANISATION
- 3. STAKEHOLDERS
- 4. VALUE PROPOSITION

The true value of looking back lies in offering insight on how to move forward. Here are three proposals for how to do so:

1. DO NOT WASTE THE LEARNING

In essence, we have lived through 12 months of enforced experimentation. By their very nature, not all experiments will be successful (Heinz Salad Cream ice cream²² had many disbelieving detractors – although the media coverage

19 <https://www.fashionnetwork.com/news/H-m-to-help-circulate-red-cross-messages-on-social-media,1201483.html>

20 https://www.lush.com/uk/en?gclid=EAIaIQobChMI9fLgofzN8QIVg-tCh1p5QNZEAAAYASAAEgIDFFD_BwE

21 <https://videogame.balenciaga.com/en/>

22 <https://heinztohome.co.uk/collections/heinz-creamz>

was impressive, which was presumably the intent). Systematically reviewing these experiments – both your own and those of others that are relevant both within retail and consumer and across other industries – is an incredible source of learning. Ask yourself the simple questions such as what worked well, what would you do differently and why? Seek to understand not just the effectiveness of *what* was done (the change itself), but also *how* it was done (the quality of its conception and execution).

2. DEVELOP AN INITIAL DIGITAL CHANGE BACKLOG, AND COMMIT RESOURCE TO IT

The above review of experiments is not an academic exercise. It should feed into a digital change backlog, and a commitment to resource it. This backlog needs to be read against the organisation’s wider purpose, strategy, and goals, and groomed and prioritised accordingly. The need to invest in digital has never been greater – but the same can be said for the pressure on retailers’ budgets. Consequently, a “prove small, win big” approach is one to which every part of the business - from the CEO through to the shopfloor staff – can subscribe and contribute.

3. MAINTAIN AN “EXPERIMENTALITY”

Your initial view of where to invest for greatest organisational benefit is exactly that - an initial view, and one that needs to be tested. Having developed a mentality of experimenting through necessity, move now to one of experimenting by choice – build an organisational “experimentality”. Identify the next set of experiments to run, establish the structures, processes and governance required to run them successfully and at pace, and continue to learn from them.

PLUS ÇA CHANGE...

In the wake of the past year’s overwhelming and unpredictable change, it is easy to forget that there are still some constants in this world. Returning to Jesper Brodin’s words at the start of this article, retailers pride themselves on the dynamism that has been at the heart of their trade

since its inception; digital tools and ways of working are simply the means by which to embrace it.

Furthermore, if there is one true constant in retail, it is the relentless focus on the customer. Successful retailers never lose that, and lead transformations that are customer focused, commercially led and technology inspired – in that order.

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ACT enables organisations to accelerate value creation, reduce risk and maintain a “continuous differentiating relevance” (i.e. identify and satisfy customer needs consistently better than the competition). It does so by:

- **Unifying the organisation:** clarifying the organisation’s purpose, nurturing its culture, and integrating its strategic, operational, and digital activities and governance.
- **Revitalising the operating model:** identifying where predictability and stability creates opportunities for optimisation, and where uncertainty and volatility necessitates greater agility, and enabling both to happen.
- **Embedding strategic intelligence:** designing and implementing the organisation’s Minimum Enterprise Data Set, with the processes and systems that support it and enable it to adapt over time.

The views expressed in this article are those of the author(s) and not necessarily the views of FTI Consulting, its management, its subsidiaries, its affiliates, or its other professionals.

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