The New Retail Operating Model of the Future
How retailers need to adapt their operating model to become future-ready
The New Retail Operating Model of the Future

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Retailers today are changing at high speed to become more consumer centric and to operate more efficiently. To achieve these ambitious goals, retailers need to fundamentally rethink their operating models. Finding the right way to organize, steer and employ will be the key success factors over the next five years.
Retail means change. Hardly any other sector is experiencing changes as strongly as today’s retail industry, which has undergone a significant transformation over the past decade and continues to evolve quickly.

External market trends such as emerging new technologies, changing customer behaviors, increasing competitive pressure, and the non-traditional expectations of the Generation Z/Millennial generation workforce are demanding that retailers rethink their way of working. Many players in the market have spent the last decade redefining their (digital) strategy and focused heavily on changing their business model by focusing on the customer experience and technology. The drive for change starts with the detection of relevant trends and is followed by adaptations in strategies and business models that need to be translated into the operating model, the basic frame for bringing a strategy into action. Many retailers have never considered the need to adapt their strategy or business models. In this context, it makes little sense, or at least not enough sense, to adapt an operating model to suit ad hoc topics. Change needs to be tackled starting with a strategy, followed by adaptations in business models and, finally, the operating model. The focus of the present study lies on the operating model and assumes that retailers adapt their strategies and business models on the basis of relevant trends.

Given all of these changes, retailers must ask themselves about their future plans for operating as the environment changes, and how their organization will need to change its operations. Retailers must ask themselves four key questions:

1. How do I need to set up my organization and processes to become more customer-centric and agile?
2. Are my current steering mechanisms the right ones to navigate through changing market environment models?
3. What are the needed employee skill sets, going forward, and how do I become attractive to top talent?
4. What is the linkage of the three issues above and how can they be implemented?

Monitor Deloitte and the German Retail Federation (HDE – Handelsverband Deutschland) have dealt in cooperation with these questions and developed the survey “Future retail operating model.” In it, they asked renowned retailers and industry experts about the following points:

• How important are changes within retailers’ operating models?
• How far are European retailers already on their journey, in terms of their operating models?
• What areas need to change the most in the next five years?
• Where are the most imminent gaps and what are the “must-haves” regarding the future state of the operating model?
• How will these changes impact the retail value chain?
• Finally, what are the calls for action and how can a retailer find its own way toward a new operating model?
Trends, Changing the Way Retailers Operate

The retail market is under pressure. The retail landscape is evolving. Success at the shelf is no longer about the depth and breadth of inventory, but rather creating engaging experiences for customers. Change is the new paradigm. Retailers need to adapt to current trends to keep a seat at the table.

There are four main drivers currently pointing the direction of the retail market. They can be classified into four trend categories: Technologies, Customers, Workforce, and Market.
Fig. 1 – Four main drivers pointing the direction of the retail market

**Customers**
The customer mindset has changed significantly over the past years: focus is on new aspects.

**Market**
With customers demanding lower prices, pressure is growing; the result is increasing consolidation among retailers.

**Technologies**
New technologies are arising in ever smaller intervals; increasing importance of attracting customers and managing companies.

**Workforce**
New employee generations like the “Millennials” transform expectations regarding working conditions.
Technologies: Fast Development and Innovation Cycles
Technology means innovation, it is today’s game changer. New technologies are arising in ever-smaller intervals, becoming increasingly relevant, and have the potential to transform whole industries. The critical question retailers must ask themselves is not if, but which, technologies should be implemented to optimize return and efficiency. Depending on the implementation effort and the innovation degree, retailers can divide technologies into three categories: core, adjacent, and transformational technology.

Fig. 2 – Three types of technology

1. Core
   - Optimizing of existing business

2. Adjacent
   - Expanding of existing business

3. Transformational
   - Inventing new products/technology for (new) customers

<table>
<thead>
<tr>
<th>Innovation Degree</th>
<th>Implementation effort</th>
<th>Risk/Reward</th>
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</thead>
<tbody>
<tr>
<td>Low</td>
<td>Use existing technologies</td>
<td>IoT, Cybersecurity, Internet</td>
</tr>
<tr>
<td>Medium</td>
<td>Add incremental technologies</td>
<td>Blockchain, Analytics, Digital Reality</td>
</tr>
<tr>
<td>High</td>
<td>Develop new technologies</td>
<td>3D Printing, Internet, Cloud</td>
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Core technology initiatives are “must-have” technologies to stay in the market. For retailers, these are mainly efforts to enhance their efficiency and retain customers by implementing technologies that customers are expecting, such as Internet-based (online shopping, e-commerce, “click and collect” service) and cloud (availability and decentralized access to all data) functionality.

Adjacent technology initiatives leverage incremental technologies with medium market maturity and are more complex to implement. Examples are analytics (retail analytics, supply diagnostics), digital reality (virtual reality, smart mirrors), automation (automated shelves, IT services), and cybersecurity.

Transformational initiatives are designed to create new offers – if not whole new businesses. These technologies have the potential to disrupt whole industries and are becoming increasingly important; for example, the Internet of Things (IoT) has changed the way people and things communicate, blockchain offers the potential to create transparency and trust over the whole value chain, and 3D printing technology could empower customers to produce personalized products from home.

What does this mean for retailers?

• To stay successful, retailers need to assess how to use new technologies to serve their customers’ needs and gain efficiency (e.g., how will technology help to gain efficiency effects, generate higher revenue, enhance the customer experience, and so on?).

• Retailers must figure out all the initiatives the business already has underway: How many technology initiatives are being pursued in each realm, and how much investment is going to each type of technology?

• Both risks and rewards increase from core to adjacent and transformational technologies. Retailers need to invest in core technologies to enhance their organizational efficiency, in adjacent technologies to cover adjacent business, and in highly risky transformational technologies to create new markets and customers.

• Retailers must strive for a balanced technology portfolio and cover all three areas of technologies. If a portfolio has only core products, the company is not prepared to be adaptive to changes in its environment. Retailers should invest 70 percent of their resources in core technology, 20 percent in adjacent innovation, and 10 percent in transformational innovation.
Customers: Preferences and Needs

Today’s consumer is an entirely new animal – and unrecognizable from their peer from the good old days. Who is this brand-new consumer? Customers evolve new preferences and needs, which are summarized in eight key drivers.

• **Mobile**
The customer is king, and the smartphone is his scepter. The increasing use of mobile devices makes products and information accessible from everywhere. Consumers demand a means for effortless shopping.

• **Demand instant availability & delivery**
Consumers expect instant availability and just-in-time delivery. With all information being available at every point in time, customers want to shop anywhere and anytime, both on and offline.

• **Individualization of products & services**
Customers no longer accept off-the-shelf products. They want to buy products and services tailored to their individual needs.

• **Customer experience**
Customers want to buy not only a product or a brand, but also a remarkable and individual experience. In a world where technology is becoming more and more important, real-life, individualized experiences are starting to count more. The retailers that are the best at putting the customer at the center of a harmonized, holistic experience will come out on top.

• **Health & sustainability**
Consumers are demanding healthier products and services, which has led to the growth of the health and wellness industry. Sustainability is also a force that is growing in both nature and intensity. Consumers’ expectations concern both environmental and social corporate responsibility.

• **Less loyalty to brands**
Consumers are far less loyal to brands these days and are increasingly willing to try new products.

• **Social Media**
More and more, customers use reviews within communities and product promotions by influencers as their primary sources for information about products. This especially holds true for the new generations; among Generation Z, more than 70 percent argue that social media strongly influences their purchasing decisions (Deloitte Millennial survey).

• **Well informed**
Information is available everywhere and at all times, online and offline. Customers are not dependent on the knowledge and opinions of experts as they build their own opinions and convictions.

Understanding customers’ preferences and needs is the first and most crucial step in dealing with disruption. Retailers must figure out the drives behind these needs and think outside the box to devise strategies to address them. This is all about customer centricity. Personalization alone is not enough – it needs to be done correctly, in real-time, and according to individual customers’ interests and behaviors. A one-size-fits-all solution and blind actionism in the field of technology no longer works. Retailers need to make use of data, new channels, and technologies to create seamless personalized and individual customer experiences. At the same time, they must create an experience that does not feel like a transaction; these are the ones that will succeed. This must be done in an environment where consumers feel welcome, want to spend their time, and ultimately want to make their purchase.
Market: Changing Competition and Regulations
The variety of competition and new regulations compels retailers to develop strategies to protect their businesses from the issues in their industry's environment. There are four key factors that determine the landscape of today's retail sector.

Fig. 4 – Factors determining the retail landscape

Consolidation of retailers
Growing retail startup scene
New innovative players reshaping the industry
New regulations determine the market

Source: Deloitte Center for the Long View Megatrends (CLV)
The consolidation of retailers
Big retailers are merging and, thus, strengthening their market positions. This issue makes it hard for independent players to survive. In Germany, for example, the top five grocery retailers account for 72 percent of all grocery revenue (USDA), while in the drugstore sector, the two leading operators show a joint market share of 80 percent (das Erste). The big players gain more power and can determine prices in the market.

The growing retail start-up scene
Although there is a consolidation of retailers, the number of small retail start-ups entering the market is rising. Today, customers have more buying options than ever. Whatever they want to buy, whether a simple pair of socks or a table, the range of different suppliers is extensive. A growing number of these buying options are offered not by decades-old retailers, but by small start-ups that offer something unique to the customer, such as higher quality products, new varieties, new technology, memorable personalities, middlemen-free distribution methods, and so on. These start-ups have the potential to disrupt the retail industry with their innovative business model. As an example, a fashiontech start-up company has set out to help online shops solve their multi-billion EUR return problem by recommending a perfect fit to users based on a smartphone video they make of their body. The patent pending approach for extracting body measurements and recommending sizes combines the latest breakthroughs in computer vision and deep learning. As today’s retail customers are both less brand-loyal and keen to explore new products, retailers need to observe and react to the latest developments in the retail start-up scene.

New innovative players reshaping the industry
New innovative players, ones who are not necessarily classic retailers, are entering the market. Global tech giants like Amazon and Alibaba were established in a market niche, grew aggressively, and reshaped the retail industry. They have set new rules for the marketplace with their innovative business models. These giants have since transformed into digital ecosystems that generate less and less revenue through their own online store, and more and more through their function as a marketplace with growing market power. These are the new and serious competitors retailers have to face.

New regulations determine the market
Retailers need to prepare for numerous new regulations and legal changes. The introduction of the data protection law GDPR and Brexit are only two examples that show how political decisions are forcing retailers to react accordingly. The result of the GDPR is that companies need to ensure that customers agree to the use of every data point. Today, businesses must clearly explain what data they are collecting, why they are collecting it, and how they are collecting it. In Germany, this is a hot topic: A majority of Germans consider the protection of personal data to be highly important, and they want to see their personal information protected. Retailers need to be able to react to new regulations and legal changes accordingly and must always have in mind that it is these external uncertainties that determine the market.

These four factors have the following consequences for retailers:

• Increasing consolidation in retail landscape makes it increasingly harder for smaller players to survive.

• The diversified landscape of start-up retail brands and suppliers has the potential to disrupt the market and attract customers.

• New tech players entering and shaping the market pressuring traditional retailers to innovate as well.

• Retailers need to be keen on new regulations that require the flexible and quick adaptability of their business.

• Retailers are facing increasing pressure on margins and the need for differentiation and excellence.
Workforce: Increasingly Demanding Employees

In addition to changing customers, technologies, and market dynamics, the workforce is also changing. New generations, the so-called “Millennials” or “Generation Z,” make up large parts of the current and future working population, and they are transforming expectations of working conditions. The illustrative quote from a Millennial brings this new attitude and view to the point.

The new attitude of the workforce has three main repercussions for retailers.

Decreasing loyalty toward employers

Today's employees desire a better work-life-balance, as they value personal time and development more than previous generations of workers did. At the same time, they want to have a job that creates a visible impact. Searching for these characteristics, new generation workers are not afraid to change jobs opportunistically, if an option arises that is more compatible with their wishes. The sense of loyalty toward employers is decreasing.

War of the best talent

There is an increasing need to find people who can work within a digitalized and quickly changing environment. People with the necessary skill set to implement, use, and develop new technologies are in high demand. In the future, these demands will only increase, as new strategic directions and business models will also require more flexibility and speed. The workforce capable of fulfilling these requirements is limited; there are simply not enough people with the adequate skills. As confirmed by the 2019 CFO Study by Deloitte, the biggest concern for 67 percent of German CFOs with regard to the next 12 months is the risk of a labor shortage due to missing skills. These developments within the retail sector should give them pause; labor shortages within the retail industry increased by 18 percent, YOY, to 25.7 percent.

New priorities of the workforce

Generation Z workers aspire to travel and help their communities more than starting families or their own businesses. They will patronize and support companies that align with their values and will not hesitate to end relationships when they disagree with a company's business practices, values, and social impact. Retailers need to understand this new mindset and offer talent a proportionate work environment.

What does this mean for retail employers?

• Retailers need to open a dialogue with the new members of their workforce, listen to their concerns, and strive to understand why certain issues really matter to them.

• Retailers must prepare their employees for the future by providing the training and tools that will enable them to succeed. They must ask themselves how they can help employees to realize their ambitions and stay loyal.

• Retailers should take visible and vocal stances that assume responsibility for delivering societal impact.

• Retailers need to link about the new requirements for a modern, customer-centric, sustainable, technology-driven organization and incorporate these into their strategy. Then, they need to translate and integrate these ideas into their leadership concepts.

It is the interplay of all three dimensions that makes a transformation successful.
“We have less trust in employers because so many of our parents did lose their jobs, and they had been loyal to companies. We have less trust in the stock market because it crashed. And I think that a lot of us are worried that it is going to happen again. We are either putting off big life moments and keeping money in our saving (accounts), or we’re saying, ‘You know what? It could fall apart again tomorrow. Let’s travel the world.’”

Source: The Deloitte Global Millennial Survey 2019
The Operating Model in Theory

Retailers need to react to the dynamics of technology, customer needs, the market, and the workforce; otherwise it will be hard to survive in the fast-changing and challenging environment. While most retailers are leveraging new technologies, changing their strategy and business models, they are slow to adapt their operating model. However, successful transformations do not develop accidentally; they require equal time, commitment, and fundamental changes in the strategy, business model, and operating model.

The best strategy does not work without aligned changes in the business and operating models. The operating model follows the strategy and has to be realized consequently. It is the interplay of all these dimensions that makes a transformation successful. The retailer’s strategy has to take trends into account and define its vision of the future accordingly, and then the business model must follow it. The structure of the pyramid on the next pages shows how changes need to be implemented: from the top to the bottom.
Fig. 5 – The adaptation pyramid

- Definition of future direction, its corresponding objectives and necessary actions.
- Status quo: retailers have recognized the need for change and have adapted their strategy.

- Description of how the company captures value by using, for example, business model canvas.
- Status quo: retailers have started to align business models and are working on this process.

- Definition of actions to follow business model: “How do we best run the company?”
- Status quo: only few retailers have started to consider the high need for action.
The New Retail Operating Model of the Future | How retailers need to adapt their operating model to become future-ready

Trends
The first step for retailers is to recognize and acknowledge current trends. They need to think about this as an "external" evaluation of overall trends in technology, customers, the market, and the workforce that impact their business. Unless retailers truly understand which trends affect their business and see the competition's perspective, they cannot set an effective action plan for business. Next, retailers need to test different scenarios to learn how to handle these trends.

Strategy
Retailers often work to adapt their strategies in part. This is supported by the fact that spending on retail technology has increased by 3.6 percent from 2018 to nearly $204 billion in 2019 (Gartner). Additionally, brand leaders have incorporated an increase in digital hiring into their strategy: they plan to hire 50 percent more data scientists in the next three years (Salesforce). Next to the trend of new technologies, retailers focus on strategic changes toward customers: in the future, 98 percent of marketing leaders expect to compete on the basis of the customer experience, compared to 36 percent four years ago (Gartner), thus they consider a change in the strategy necessary. In addition to adapting the strategy regarding technology and customer trends, a holistic strategy needs to be defined, including how to handle the quickly changing environment for the retailers’ own benefit.

Business models
Changes in strategy require changes in underlying business models. How are retailers planning to generate sales revenue, and which operational factors enable them to reach and maintain profitability? Business models have two parts: The first includes all the activities associated with making a product or service: designing it, purchasing raw materials, manufacturing, development, etc. The second part includes all the activities associated with selling a product or service: finding, reaching, and attracting customers; transacting a sale; distributing the product; or delivering the service. A new business model may require designing a new product for an unmet need, or it may focus on a process innovation. This shift in business modelling has only been partly understood by today’s retailers: A study by Gartner reveals that 16 percent of retailers have changed their business model within the past two years, while 30 percent are in the middle of a change. More than 50 percent of retailers have not undergone any changes recently; overall, the retail sector is in the middle of a change process.

Operating models
Many retailers have embarked on the journey to become digital customer-centric organizations, only to find out that merely “going digital” is not enough to genuinely “be digital.” A new strategy and business model needs to be infused into every part of the organization, which requires adaptations in the operating model. An operating model is a framework an organization uses to align itself with its overall business strategy and goals. It outlines the governance structure and how it functions as an entity.

Today, only 10 percent of retailers are dealing with a change in their operating model, according to Gartner; this is a number that needs to be changed urgently in the future. A company cannot adapt its strategy and business model toward new technologies without training on new technological skills, adopting new key performance indicators (KPIs) to measure the technologies’ success, etc. Without such training, the result would be a half-hearted, unsuccessful transformation. The same holds true if a company decides to put the focus on customers without adapting its processes toward customer-centricity or enabling faster decision-making, which will allow it to react quickly to changing customer needs. A successful transformation needs to bring compelling adaptations to the operating model.

The process from strategy adaptation in response to trends through the creation of the business case and its implementation in the operating model is a long and difficult one. It can be best described by using real-world examples.
Alibaba is one of the largest retailers in China, with 654 million clients and control over 60 percent of China’s online retail sales. With HEMA, Alibaba was able to build an extraordinary retailer for its Chinese consumers. The grocery store offers each customer a seamless shopping experience within a unique retail ecosystem.

Early on, Alibaba recognized the increasing importance of technology and incorporated it into its strategy with the vision of becoming a digital, innovative, and technology-driven retailer. With its advanced technology, Alibaba wants to enable customers to do business anywhere, supported by the necessary infrastructure.

Alibaba has already adapted its business model within HEMA. HEMA offers its products via both offline and online channels and attracts customers with great technological features and a high level of convenience. Its most distinguishing factor is the connections among all its offerings. A walk through the supermarket brings all current relevant trends and channels together. Various sample stations in the supermarket, where purchased items can be cooked immediately, ensure great customer experiences. A custom app works as consumers’ constant companion, even in the offline store. QR codes are used to make product data visible, bills are paid via the app, and products chosen in-store can be delivered to customers’ homes. These are only a few of the many examples of the seamless shopping experience HEMA provides its customers.

In order to change its business model from online play to omnichannel by including brick & mortar stores as channels, HEMA also had to change its underlying operating model. For example, it trained or hired employees with the necessary skills to handle new technologies. It has adapted its management style to embrace open innovation and co-creation with customers, and it has oriented its culture toward a strong focus on innovation and customers.

HEMA is a great example of how a seamless shopping experience can be offered to all customers when the entire process of the adaptation pyramid is completed.
Although some pioneers have already emerged, the target retail operating model has not yet been clearly defined for today’s new digital world. That is why Deloitte, in cooperation with the HDE, conducted the study “Future retail operating model” to take a closer look at the following questions:

- How far are European retailers already on their journey, in terms of their operating model?
- Which are the areas that need to change the most over the next five years?
- Where are the most imminent gaps, and what are the “must-haves” regarding the future state of the operating model?
- How will these changes impact the retail value chain?
- What are the calls for action and how can a retailer find its own way toward a new operating model?

Elements of an Operating Model
The operating model consists of three inter-related dimensions that, together, reflect how a company is organized, how it executes its tasks, and how it behaves.

Organize
Defines the structure of a company, its governance, skills, and its working mechanism: How does the company work?

Execute
Defines how processes and budgets are structured and which tools are used to make the organization work: It enables the company to work.

Behave
Describes how a company operates from within, what pushes and motivates the employees and how they feel and act within the company: What makes employees want to work for the company?

Each of the three dimensions has sub-elements. In total, there are 11 key elements that define the retail target operating model of the future.

Fig. 7 – Overview of an Operating Model

Source: Deloitte – “Digital Era Technology Operating Models” and Deloitte project work
<table>
<thead>
<tr>
<th>Table 1 – Explanation of the elements of the Operating Model</th>
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<tbody>
<tr>
<td><strong>Organizational Structure</strong></td>
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<tr>
<td>What does the structure of the organization and its activities look like (e.g., matrix structure vs. flexible teams, etc.)? What is the interlock with other departments?</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
</tr>
<tr>
<td>What do the decision-making processes and control mechanisms look like? How is responsibility distributed (e.g., complicated and slow top-down decision-making vs. lean, fast, and decentralized decision-making)?</td>
</tr>
<tr>
<td><strong>Capabilities</strong></td>
</tr>
<tr>
<td>Which capabilities are required for delivering the products and services, and who owns them (e.g., technological knowledge, ability to work in flexible functions)?</td>
</tr>
<tr>
<td><strong>Task Designs</strong></td>
</tr>
<tr>
<td>How are the composition of tasks and their characteristics organized within functions (e.g., repetitive, manual work vs. unique, context-related tasks)?</td>
</tr>
<tr>
<td><strong>Budgeting</strong></td>
</tr>
<tr>
<td>How is the budget allocated within the organization (e.g., function-based budgeting vs. project-based budgeting)?</td>
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<tr>
<td><strong>Processes</strong></td>
</tr>
<tr>
<td>How are the activities structured within a special process (e.g., function-based processes vs. a customer-obsessed process structure)?</td>
</tr>
<tr>
<td><strong>Tooling</strong></td>
</tr>
<tr>
<td>Which tools are used to help the organization standardize and automate its processes (e.g., decentralized and manual CRM vs. integrated, centralized, and standardized CRM)?</td>
</tr>
<tr>
<td><strong>KPIs</strong></td>
</tr>
<tr>
<td>Which KPIs are used to measure the organization's performance (e.g., measuring company success based solely on profit and revenue vs. on conversion rates, referrals, etc.)?</td>
</tr>
<tr>
<td><strong>Culture</strong></td>
</tr>
<tr>
<td>How are the interactions and manner of personal relations based on the organization’s culture (e.g., patriarchal, impersonal hierarchies vs. flat, transparent hierarchies)?</td>
</tr>
<tr>
<td><strong>Location</strong></td>
</tr>
<tr>
<td>Which locations and workplace layouts are used to foster collaboration among people and teams (e.g., small, separate offices for teams vs. open spaces for all teams and levels)?</td>
</tr>
<tr>
<td><strong>Incentives</strong></td>
</tr>
<tr>
<td>Which incentives and reward types are used to encourage desired behaviors among the workforce (e.g., personal sales goals vs. team-based incentives with a focus on corporate performance)?</td>
</tr>
</tbody>
</table>

Source: Deloitte – “Digital Era Technology Operating Models” and Deloitte project work
All three categories need to change equally, and in coordination, to adapt the operating model to the changes in trends, strategy, and business models. The operating model will succeed only if the frame of how the company works (its structure, governance, capabilities, and tasks) is aligned with its working methods (such as the budget, process, tools, and KPIs) and the employees are motivated to work for the company (by culture, location, and incentives). The following example shows the importance of the interplay of each dimension if a retailer defines its strategy to become a customer-centric organization:

If the organize category is not changed while the strategy and the business model adapt toward a customer focus, customer-centricity cannot be developed successfully. An increased customer focus can be implemented using a stronger omnichannel approach and e-commerce. This new way of selling and marketing needs to be reflected within organizational structures as, for example, new skills for operating a platform and generating leads emerge. In addition, the customer focus needs to be reflected in the corporate structure, as functional silos do not allow for catering to customers seamlessly along the whole journey.

Adaptations of the elements within the execute category are equally important. An increased customer focus demands end-to-end-oriented processes and tools that put the customer in the spotlight. An integrated end-to-end customer relationship management (CRM) system allows the company to capture all information about the customer and learn from his needs and behaviors in order to build strong relationships. For example, knowing that a customer is a wine lover, the retailer can promote appropriate wine products to him. Observing that a customer visited the company's website looking for holiday trips, retailers can include promotions of those products in her mailings. This requires transparent end-to-end processes.

The behave category needs to adapt in accordance with the categories above. If a company's culture is resistant to change, if employees are not motivated with the right incentives, and if locations do not foster collaboration and do not take digitalization into account, any change in strategy and the business model will be insignificant. If a retailer wants to become more customer-focused, its employees need to think in a customer-oriented way at all times. If customer satisfaction is one of a retailer's core values, then everything that comes before and after will correspond with that value. Happy customers start with happy employees.
The New Operating Model in Retail Study

The New Operating Model in Retail study intended to learn about retailers’ maturity and conception of the importance of their operating models. The results of the survey revealed gaps within retailers’ current operating models. On the basis of these gaps, the “must-haves” for a successful retail operating model of the future were identified in each of the three above-mentioned categories. Furthermore, the processes related to the value chain, which are affected the most by all changes made, were identified and interpreted by retail experts. In conclusion, the survey identified eight action points on how retailers find their own way toward a new operating model. The study is the result of a survey, interviews, and workshops involving European retailers and retail experts from four retail sectors (grocery, consumer electronics, drugstores, and DIY).
Status Quo: Where do European Retailers Stand Today?

Retailers’ self-assessments of the status quo

The self-assessments of retailers’ maturity regarding the elements of the target operating model were heterogeneous. One main observation is that retailers rank themselves very differently across all elements. They already tackle all of the topics with varying degrees of maturity, but none of the elements is classified at a high maturity level. Retailers need to define a strategy for how to enhance the maturity level so that their operating model has greater potential for growth.

The categories in which retailers assess themselves as the most progressed are Capabilities, KPIs, Culture, and Location. Looking at these four categories shows that retailers have reacted to the changing requirements of the modern retail landscape. For example, they are working to build their organizations’ technological capabilities by hiring employees with a digital and analytical skill set; this shows progress in their capabilities. New KPIs with a focus on customer centricity, like customer lifetime value, average conversion time, and so on, have also been introduced. In addition, to enhance their locations’ attractiveness, they have built new open space offices and digital hubs to promote an appealing and innovative work environment.

The categories in which retailers assess themselves as least progressed are Processes and Incentives. That is, they recognize the need for further definitions of seamless customer experiences and new end-to-end processes. Striving for an omnichannel retail experience requires the coordination and integration of various departments across the entire value chain. The implementation of end-to-end processes is a long and complex learning process. However, retailers have already begun to implement process adaptations. Due to the complexity and length of the implementation process, it is normal that the progress in this area will feel slower than in others, which also explains why retailers see themselves as lagging behind.

Experts’ assessments: What do experts say about the status quo?

The assessments of experts regarding the retailers’ maturity within the elements of the target operating model are homogeneous. They rank all elements comparably, at the same medium level. It is interesting to see that the retailers’ self-assessments and the outside views of experts regarding the maturity of the operating model diverge. For some elements, such as Capabilities, KPIs, and Culture, retailers rank themselves drastically better than experts, while for others, such as Processes and Incentives, they think that they are less developed, compared to the experts’ opinions. This is explained by two facts:

First, experts have an overarching point of view; they can consider a whole organization and see the strong correlations among its elements. They do not see variations in the maturity of the elements, as they know that all elements are interlinked and influence each other. For this reason, all elements tend to be at the same level of maturity.

Second, experts have deeper insights about competitors, exemplary international players, and other industries. This reveals to experts what is still possible within the operating model and led to the lower ranking of the elements regarding the retailers’ recognition that there is still much room for improvement.
Future importance: There is still a long way to go

Taking a closer look at the future importance of the operating model, retailers and experts agree that all elements will play an important role in the future and need further development. Nevertheless, retailers still have a long way to go regarding most elements. Culture is seen as the most important element to change, closely followed by organizational structure, capabilities processes, and tools. Cultural change is the key success factor for digital transformations. As employees are one of the determining factors for prosperous change, digital transformations are at the core of most human transformations. The barriers to successful digital transformations are not technological, but rather in people’s heads. Organizations need to change their cultures, which means humans will need to change their habits. Cultural change is a mammoth task and does not happen easily by following a standardized action plan. Still, the future importance of these changes is so great that they affect the whole organization’s performance. By contrast, the importance of the location element is the lowest, as it has no overarching impact on the other elements and initiatives in which the organization has already invested (i.e., digital hubs, new locations, workplace layouts, etc.).

Fig. 9 – Status quo and future importance of the operating model

<table>
<thead>
<tr>
<th>Elements</th>
<th>Low</th>
<th>Level</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Organizational structure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance system</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Task designs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project-based budgeting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tools</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KPIs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incentives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Culture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workplace</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Current Gaps in the Adaptation of the Operating Model for the Future
Comparing retailers’ status quo with the future importance of the operating model, 11 significant gaps within retailers’ current operating models can be observed.

**Fig. 10 – Gaps in the operating model**

### Organize

1. Silo structures instead of customer-centric organizational structures
2. Lack of joint definition and allocation of new job tasks
3. Lack of necessary skills as well as ability to share knowledge
4. Retailers do not own a lean and fast governance structure

### Execute

5. Low usage of “new” KPIs to measure clients and innovations
6. Lack of E2E-managed processes, steered from a (virtual) Center of Excellence
7. Low progress regarding centralization, standardization and usage of tools
8. Need for faster and flexible planning and budgeting cycles

### Behave

9. Missing flexibility with regard to work locations
10. Need for open-minded employees as a basis for lifelong learning
11. Lack of focused attraction model for “Millenial”-generation
Gaps within the organize dimension

The main gap in the organize area arises from existing silo structures. Companies need to take leave of the organizational model that is structured and works based in silos; instead, they need to think and act holistically. Silos are not necessarily a bad thing – they can foster expertise in different areas and promote a sense of individuality – but they prevent collaboration, knowledge sharing, teamwork, and speed, which are necessary for customer centricity and agility within a retailer’s organization. In other words, the end-to-end customer experience touches many parts of the organization and requires various departments, such as customer service, marketing, operations, and e-commerce to work together quickly and easily. The more these departments share strategy, insights, and data, the easier it is for retailers to provide the seamless, personalized customer experience that has become the new standard.

By taking a closer look at organizations’ capabilities requirements, gaps can be observed, too. Businesses and customers are changing, and digitalization is accelerating. The ability to respond to shifting markets requires a new set of capabilities. Retailers first have to ask themselves which capabilities are now strategic to their core businesses and functions; then, they must react accordingly. Strategic workforce development can be achieved in two directions, through training and the enablement of existing talent, or hiring new talent. Both are associated with a great deal of effort, as can be observed, for example, with analytical capabilities. The demand for analytical capabilities is continually rising, as descriptive, explanatory, and predictive insights are needed in today’s world, where it is all about the customer. In the past, these capabilities were bought from external suppliers. While the importance of analytics is indispensable, today’s companies require building analytical capabilities in-house. As the demand is high and skilled employees are hard to find, a strategy needs to be defined for handling this capability gap.

Gaps within the execute dimension

The most significant gap in the execute area is caused by the predominant use of classic output-oriented KPIs. While it is clear that traditional steering KPIs, such as profitability or sales per employee, need to stay in place, new KPIs need to be used as well. For example, the success of marketing activities should be measured not only by the number of leads, but also by valuing the customer experience and conversion rates.

The budget planning process is another example that exemplifies this gap of new KPIs. Budgets enable action, fund the future, and set retailers’ goals and priorities. Classical budget cycles are allocated annually in a top-down fashion and often reflect an internal mindset, rather than a customer-oriented, external mindset. For delivering real value to the customer, it has previously been constructive for budgets to be annual, time-boxed, and allocated in silos. Now, budgets need to be allocated to be more flexible and faster across projects or programs with end-to-end responsibility. Classical budget allocation counts outputs, but what counts today are customers and their value add. For example, budgeting a marketing campaign with an annual time-boxed KPI for separate departments is not target-oriented, as marketing is a long-term process with multiple touchpoints within the organization that leads to sales growth over time. New budget planning processes need to be defined that enable the allocation to the return on investment.

Gaps within the behave dimension

Retailers are already implementing in their operating models elements such as flat, transparent hierarchies and new location layouts to foster creativity, innovation, and collaboration among people and teams. For example, Carrefour created a digital hub in partnership with Google Cloud, where teams work in an innovative environment on innovative projects. These are steps in the right direction, but are by no means enough. Behavioral changes call for more than an outsourced digital hub, flat hierarchies, etc., and they do not happen on the go. Cultural change needs executive support, training, a more flexible work environment, open-minded employees, and especially a mindset shift to attract the demanding Millennial generation.
“Must-haves“ and Impact on the Operating Model for the Future: Organize
After assessing the status quo and identifying the biggest gaps within the retailers’ target operating model, a look at their actions is needed. How do retailers ideally deal with these gaps? For each of the three categories – Organize, Execute, and Behave – both retailers and experts have identified “must-haves“ and identified the area in the value chain that will be most affected by these changes.

Fig. 11 – Organize – Must haves and impact

<table>
<thead>
<tr>
<th>Structure</th>
<th>Governance</th>
<th>Capabilities</th>
<th>Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>82%</td>
<td>96%</td>
<td>88%</td>
<td>63%</td>
</tr>
<tr>
<td>Focus on customer-centricity.</td>
<td>Fast, lean decision-making processes.</td>
<td>Develop analytical and technological skills.</td>
<td>Increasing project-based working and outsourcing of tasks.</td>
</tr>
<tr>
<td>77%</td>
<td>62%</td>
<td>69%</td>
<td>56%</td>
</tr>
<tr>
<td>Close and agile collaboration between functions instead of silos.</td>
<td>Iterative governance system.</td>
<td>Increase knowledge sharing within company.</td>
<td>Standardization of tasks where possible.</td>
</tr>
</tbody>
</table>

Impact on value chain

- Planning & procurement
- Logistics
- Store operations
- Marketing & sales
- Fulfillment
- Aftersales
Must-haves
Taking a closer look at the must-haves of the Organize category within the target operating model, retailers and experts assess that future organizations need to become more customer-centric and, overall, more lean, flexible, and tech-driven with regard to governance, capabilities, and task design.

Building a customer-centric organization requires breaking down disconnected departmental thinking and leads to significant changes in retail operations. Through the power of specialties, retailers have built silos in which a great wealth of knowledge is stored. The challenge today is to arrange this expertise, making it accessible and profitable for everyone within the company, and always acting with the greatest customer benefit in mind. Retailers need to embrace more cross-departmental working methods to deliver the connected experiences their customer base expects.

Customer centricity and collaboration need to be accompanied by fast and lean decision-making processes. Retailers need to bring new first versions of products (called “MVPs,” or minimum viable products, in software development) on the road fast, learn from customers’ feedback, and constantly integrate this feedback for ongoing product enhancements. This requires fast and lean decision-making processes managed by an iterative governance system, instead of long internal decision-making processes that focus on products thought out down to the last detail. Software developers have been following this “agile working method” for years now. They work in small groups, potentially with people working all over, in a series of “sprints” with short-term targets and several stages of feedback, in which the employees regularly share experiences and lessons learned in loops that build toward an end goal. This agile working method has proven to be highly effective, allowing teams to identify short iterations for development, to develop those quickly, to experiment and test, and then to move quickly to the next iteration. This means a much faster time-to-market and, of course, happier customers. While software development companies have been the main users of this agile practice to date, there is a great value for retailers using the agile approach, too. Agile is all about change, dealing with the unpredictable, and creating products that generate real value for the customer. These are the points retailers have to deal with today.

Apart from adaptations in the organizational structure and governance system, there is a need for action in the areas of capabilities and task design. Retail has always been product- and channel-centric. Everything about retail has centered on transferring products from a supplier or factory to a consumer. However, today’s retailers are working on moving from product centricity to customer centricity – one key success factor is data, which needs to be turned into insights. New digital business models and increasing levels of digitalization afford analytical and technological capabilities, which retailers need to build up in their organizations. There are two options: hire externally, which has proven to be difficult, due to the high demand for tech talent, or build up talent internally. Ideally, retailers employ a mix of both options, according to the mission of lifelong learning and knowledge sharing. The best talent needs to be hired, internal employees need to be trained, and employees need to train each other. The challenge for retailers in this area is how to put together interdisciplinary teams with different skill sets in projects where they can profit from each other’s knowledge, train each other, and develop innovations. Innovations are the result of teamwork, where everyone challenges ideas from different perspectives, due to their different skill sets. This also means a shift in the modelling of tasks. Success is no longer just about task completion and checking things off a list. Today, success is about a retailer’s ability to sense customer needs and respond quickly and seamlessly. Many tasks will be standardized and eliminated, but new areas of responsibility will be added. For example, simple, repetitive tasks are increasingly automated and controlled by Big Data. The power of Big Data lies in finding patterns that have some predictive value. It is further enhanced by automated processes that help in the identification of specific “data features.” These features help in making a predictive analysis of the customer’s database. Retailers must focus on their core competencies, outsource tasks, and standardize them with the help of technology where possible. Work should be organized in a project-based manner, where project team effectiveness equals productivity.

Impact on the value chain
The identified “must-have changes” will have an immense impact on retailers’ organizations, and especially in their marketing and sales departments. Since marketing can no longer be considered a separate department, it must bundle all customer touchpoints across the entire value chain. This is about more than campaigns and sales, it involves every touchpoint with the customer. Sales and marketing have distinct duties, but, ultimately, they have the same focus and perspective: reaching the consumer and promoting sales. Instead of keeping marketing and sales separate and seemingly unrelated, they operate more successfully if they integrate their structures and knowledge. They need to work together and more closely within the whole organization to shift away from silos and lines to a fluid ecosystem of internal and external partners. Supporting analytical and technical capabilities and creating a memorable customer experience are nowhere more important than in marketing and sales. For example, an integrated CRM platform, uniting marketing and sales, commerce, customer service, and the IT department to capture all customer touchpoints, is needed to be able to predict customers’ future demands with the help of data and analytics.
“Must-haves” and Impact on the Operating Model for the Future: Execute

Fig. 12 – Execute – Must-haves and impact

<table>
<thead>
<tr>
<th>Budgeting</th>
<th>Processes</th>
<th>Tools</th>
<th>KPIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>73%</td>
<td>83%</td>
<td>72%</td>
<td>63%</td>
</tr>
<tr>
<td>Increased speed within budget cycles i.e. with “rolling forecasts”.</td>
<td>Cross-functional E2E-orientated processes.</td>
<td>Employee training for smooth handling of necessary tools.</td>
<td>Definition of new KPIs metrics for success of whole organization, i.e. for measurability of customer experience and innovations.</td>
</tr>
<tr>
<td>71%</td>
<td>52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher flexibility in budget allocation process.</td>
<td>Process development from centralized center of excellence.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Impact on value chain

**Must-haves**
Taking a closer look at the must-haves of the execute category within the target operating model, retailers and experts agree that, to steer future operating models successfully, new budget allocation methods, processes, KPIs, and tools will be required.

Traditional budgeting, which is characterized by a static budget that was created in the prior year and built from the “bottom up,” is outdated. Budget processes, where individual business units supply their own forecasts for revenue and expenses, which are then consolidated with corporate overhead, are no longer able to cope with today’s requirement to breaking down organizational silos to create a flexible, customer-centric organization. Products and services must be delivered and adapted quickly in response to customers’ changing needs, and this requires that budgets be allocated where they are needed most for the time being. New budgeting requirements need to be defined with respect to an increasing speed within budget cycles and higher flexibility in the budget-allocation process. An example is the use of rolling forecasts, which enables retailers to adapt plans and resource allocations based on changing business conditions and customer demands in as close to real time as possible. This approach strives to address some of the shortcomings of traditional budgeting and involves a recalibration of forecasts and resource allocation every month or quarter based on what is actually happening in the business.

In addition to budgeting, new cross-functional end-to-end processes need to be defined, especially to deliver the right customer experience at the right time at
the right cost. A practical example makes the need more obvious: Marketing and sales functions are typically found in different areas spread across the whole organization and work both locally and in the corporate office. Different teams produce different content. In those situations, retailers benefit from a structure that brings together various groups outside of the regular reporting structure, as a center of excellence (COE) does. Gartner describes a COE as “concentrating existing expertise and resources in a discipline or capability to attain and sustain excellent performance and value.” A COE combines learning and oversight around a specific area, driving the organization to shift across multiple disciplines together while looking at processes from end to end.

Today’s retailers need to deliver to their customers extremely personalized customer experiences that are based on the data the organization collects from every single consumer touchpoint. The question for retailers is how to use and coordinate all the data to reach the customer and create unforgettable experiences. As customers require complex and automation solutions, retailers’ tools must be scalable, expandable, and seamlessly integrated. Modern, modular tools are indispensable, as they seamlessly control the flood of overarching data, improve process efficiencies, and lower the total cost of ownership. For example, modular tools provide open-standard solutions that are flexible, scalable, and capable of matching all customer data from diverse touchpoints to create predictive customer forecasts. On the one hand, retailers need new modular tools for structuring and coordinating data to make the work of employees even more efficient. On the other hand, employees need to be trained in the smooth handling of the necessary tools, as this is the prerequisite for the successful use of tools. Another must-have within the execute category is the definition of new KPI metrics, especially those that measure customer experiences and innovations. Data drives personalized relationships and strong customer experiences. Without tracking key metrics, retailers do not have the full picture of their customer experience progress. KPIs, which can help retailers better understand their customers and investments, are ideal for measuring customer retention (how many customers come back for a second purchase), customer effort score (how much work customers have to do throughout an interaction with the brand, by asking them “How much effort did you have to put in to resolve the issue?”), social listening (how often people are talking about you on social media and what they are saying), and many more.

Impact on the value chain
The changes outlined above, how retailers steer their operating model with new budgets, processes, tools, and KPIs, will most affect the planning and procurement department in the value chain. Retailers’ supply chains need to gain visibility into their multi-tier supplier networks and need to share this information with their customers, partners, and stakeholders. Also, increasing regulatory requirements intensify the need for transparency across the entire supply chain network. The requirements for supply chain traceability, which describes the process of tracking the provenance and journey of products and their inputs from the very start of the supply chain through to the end-user, continue to rise. For example, in the food sector, where safety is critical, end-to-end traceability is provided with the help of a blockchain technology (“hyper ledger-fabric”) food trust. Walmart already uses a hyper ledger-fabric blockchain-based food traceability system to trace pork sold in its Chinese stores. This allows for the uploading of certificates of authenticity to the blockchain, bringing more trust to a system where authenticity used to be a serious issue. In total, Walmart traces over 25 products from five suppliers using a blockchain that is built atop hyper ledger-fabric. This solution allows it to see the whole chain in seconds, including where the product was manufactured, and to trace back all the ingredients to the farms. Blockchain is only one example of the value to be gained by using technology in a retailer’s planning and procurement department. Other technologies, like artificial intelligence (AI) and robotic automation, help retailers to build a holistic supply chain and to drive enterprise-wide cost reductions. For example, AI enables procurement departments to design and deliver intelligent bots to complete standardized tasks with minimal human intervention. AI can handle all these tasks, from managing large-volume orders and running repetitive sourcing events to negotiating with suppliers for low-value items and updating inventory lists, thus putting mundane tasks on auto-pilot mode. With the help of tools and technology, planning and procurement processes will change fundamentally.

“Must-haves” and Impact on the Operating Model for the Future: Behave
Taking a closer look at the must-haves of the behave category within the target operating model, retailers need to create more flexible work models in order to be able to attract and retain talent with the right skill sets.

Fig. 13 – Behave – Must-haves and impact

<table>
<thead>
<tr>
<th>Incentives</th>
<th>Culture</th>
<th>Workplace</th>
</tr>
</thead>
<tbody>
<tr>
<td>72%</td>
<td>89%</td>
<td>94%</td>
</tr>
<tr>
<td>Attraction through flexible work models, meaningful work or work-life-balance.</td>
<td>Development of open-minded employees for lifelong learning basis.</td>
<td>Implementation of flexible workplace models.</td>
</tr>
<tr>
<td>63%</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>Detailed, regular feedback cycles.</td>
<td>Decrease in change resistance to be able to adapt quickly.</td>
<td></td>
</tr>
</tbody>
</table>

Impact on value chain

- Planning & procurement
- Logistics
- Store operations
- Marketing & sales
- Fulfillment
- Aftersales
Must-haves
Retailers talk about the consumer shift to digital, but the results within the business and the workforce are mostly neglected. Generation Z, or Millennial, workers have begun to usher in a completely different level of comfort with what is private or public in their personal lives. Retailers need to adapt to these changes and define additional incentive systems with regular feedback cycles, develop a learning culture, and set up new workplace models.

Taking a closer look at today’s incentive systems, non-monetary rewards are on the rise. To encourage desired behaviors among the workforce, retailers need to define incentives that go beyond compensation. Bonuses, perks, and stock options are among the many traditional motivators for employees, but new incentives promoting the work-life balance and meaningful work are gaining in importance. If employees feel that the work they do is important, they are more likely to want to work and remain with the company. One key aspect that gives teams a long-term perspective and increases loyalty is giving them a purpose beyond payment. Playing to employees’ individual strengths and finding a role where these are valued is likely to lead to work that is fulfilling. Leaders must give their employees all the information and support they need, and, as far as possible, let them “get on with it.” Regular feedback cycles are must-haves, as these enhance the work of each individual. If employees always feel free to share what they think about the organization, management, and other employees, they are more likely to be motivated and engaged with the organization.

One key aspect of cultural change that retailers need to consider is the development of open-minded employees for lifelong learning. Employees want more than just training and development; they want to pursue lifelong learning. In addition to the fact that it is becoming increasingly difficult to find people with the right skills, it is also becoming more important to train and develop one’s own employees continuously and to implement a learning culture. Such a learning culture can drive performance, boost employee engagement, and develop future leaders. On the one hand, retailers need to offer job-related trainings that are directly related to the work at hand, so that employees acquire the knowledge they need to perform their best, such as product knowledge training, codes of conduct, onboarding, etc. On the other hand, retailers need to offer a learning catalogue that helps employees become better people; this includes training not exclusively focused on their current jobs. Employees should be allowed to choose for themselves trainings regarding their own preferences and skills. This encourages people to develop themselves, their skills, and talents and transforms them into high performers in the long run.

Within the workplace category, the implementation of flexible workplace models is a must-have for retailers, as an increasing number of workers take it for granted that they should be allowed to work wherever and whenever they want. Flexibility is an umbrella term that describes any role that breaks the traditional norm of a rigid 9-to-5, five-day week structure. At its core stand individuals with potentially greater freedom over when, where, or how they fulfill their particular roles. Working from home and co-working will be the norm in the future. This is why retailers need to implement a digital workplace strategy, so they can enable more efficient and flexible ways of working and improve productivity with the help of technology. A great digital workplace strategy puts the employees’ needs as the focus and asks: How can we make them more productive, flexible, and engaged? Content, information, and documents are at the center of a worker’s world, as they are how information is passed among them, their colleagues, customers, and seniors. In the near future, employees will need to be able to access, collaborate, share, print, scan, and store documents and information from any device, on any platform, at any time, and from anywhere.
Case study: food retailer Wegmans*

Another example of a retailer employing best practices, one that puts emphasis on the satisfaction and development of its employees, is the US food retailer Wegmans. Wegmans takes the approach that customer relationships start with the people employed at the store, serving those customers. The retailer is very famous for its quality of workplace as it has appeared on Fortune’s annual “100 Best Companies to Work For” list since the list first appeared in 1998. “In order to be a great place to shop, we must first be a great place to work. It is our employees, and the incredible service they provide our customers, that set us apart. We hire the best, and we invest in training and development,” says Jo Natale, Wegmans’ Vice President of Media Relations. Wegmans runs several programs that invest in employee development and education by devoting, for example, $50 million in 2018 to employee development, according to Fortune, including structured programs to help employees grow into management positions and develop their culinary skills. Wegmans also sets aside money for scholarships. This commitment bears fruit, as more than half of its store managers have worked with the firm since high school or college, starting as part-time cashiers, and many completed their education with help from the Wegmans Scholarship Program. In addition to these engagement the retailer offers a workplace that welcomes diversity and donates funds to charity. In the age of digitalization Wegmans seems to put people first.

Case study: food retailer Schwarz Group**

One retailer that has demonstrated how to create and build its own talent is the Schwarz Group. In 2019, it appointed 26-year-old Annabel Ehm as the Division Head of its Internal Audit and Consulting Department. At the age of 17, Ehm started working as a salesperson in a discount store, before commencing her dual studies at DHBW Heilbronn, in cooperation with the Schwarz Group. DHBW Heilbronn is an example that shows how retailers can create leaders of tomorrow in their own qualification centers. At DHBW, students change their learning environment between the lecture hall and the retailer’s premises every three months. During their residence and active training at the retailer’s site, they acquire professional knowledge and practical know-how, as well as the necessary work and social competences needed in their later professional routine. The program involves students at the company in the early stage of their careers and offers both the students and the retailer opportunities for continuous learning and optimization from one another. The retailer invests three years in close cooperation with the university in the training of the students and rewards superior candidates with a steep career trajectory, as the success story of Annabel Ehm shows.

Impact on the value chain

These identified “must-have changes” have an immense impact on retailers’ whole value chain. There are no functions that are not impacted by them. The whole organization needs to be transformed, starting with defining a strategy for how to achieve a mindset shift by the leadership and then ensuring it is lived in the everyday lives of every single employee.


Retailers in Comparison
Looking at the status quo of different retailer types, the majority still have a long way to go when it comes to the modernization of operating models toward customer centricity, operational efficiency, and employee management to offer the unforgettable customer experiences. Nevertheless, drugstores perform, on average, the best in all areas of the target operation model.

Fig. 14 – Retailers in comparison
Organize: The right balance of centralization and decentralization

Retailers have to manage the interests of their customers in the right way. The challenge is to find the right balance between offering a common, consistent, and standardized set of offerings and being, at the same time, local and individual enough at every touchpoint for a personalized customer approach. This requires organizations to become customer-centric and overall more lean, flexible, and tech-driven with regard to governance, capabilities, and task design. The optimal organizational setup strongly depends on the subsector dynamics, customer preferences, individual retailer’s strategic ambition, and its specific legacy embedded in the existing operating model – there is no “one size fits all” approach.

The European consumer electronics industry, for example, still follows the principle of one size fits all. Consumer electronics retailers typically offer standardized, comparable products with low potential and need for local assortment adjustments, but they do have opportunities to differentiate themselves from one another through the intelligent bundling of value-added services. Despite this, their product portfolios are often still managed in a decentralized manner; organizational structures are hierarchical, governance is complex and slow, and digital capabilities are still limited. As a result, the significant potential for customer personalization through value-added services is not fully realized and management efficiency at the core of the business leaves room for improvement. Current developments toward a better-fitting operating model are driven by short-term financial ambitions, rather than a customer-centric and lifetime value-focused strategy.

Grocery stores take this one step further. Although their core product portfolio is mostly standardized, they often leverage the sector-specific potentials of localization and individualization adequately. Store managers can adapt part of their stock according to customers’ needs. The high degree of centralization in most operations helps manage this additional complexity.

DIY stores have made strong efforts in the digital area to enhance the customer experience. They try to align existing structures with new customer requirements, such as through special internal units that develop customer-centric and omni-channel strategies. The heterogeneous product assortment is further managed both centrally and locally; the linkage between the different localized markets and channels is still ongoing.

Drugstores typically have a standardized product portfolio with a low degree of customization. Compared to other sectors, the online channel plays a subordinate role for customers. Due to these two facts, the development of the operating model is less complex for drugstores. They have more capacity to focus on the in-store experience. These markets stand out for the right mix of a corporate identity with standardized products while also offering decentralized and individual products.

Execute: End-to-end processes for a seamless customer experience

Customer-centric retailers require their organization to operate efficiently end-to-end to offer customers seamless, unforgettable experiences. For a seamless customer experience, all customer touchpoints and channels must be interlinked, processes have to be coordinated end-to-end along the entire value chain, and KPIs and budgets must be aligned with customer needs.

The online revenue of DIY stores is low, as customers tend to prefer buying these products in person. Nevertheless, the brick and mortar relevance of the DIY store has to enhance the overall process control and linkage of all customer touchpoints and enlarge the limited tool support (e.g., continuous and dynamic pricing tools).

Despite the late entry of the grocery sector into multi-channel sales, these stores have quickly caught up where necessary. Most challenges can be defeated by process and KPI control (for the time being). The same applies for consumer electronics. These retailers have to focus on process and KPI control for a seamless end-to-end integration of all channels across the whole value chain.

The linkage of all customer touchpoints is easier for drugstores, due to the limited relevance of their online channels. Their strong focus is on customer and goods control, which is also due to, for example, simplified processes (e.g., an always low price policy).

Behave: Create satisfied customers and employees

In recent decades, the focus has been on cost reductions on the shop floor. In today’s age of increasing digitalization and anonymization, an unforgettable customer experience is the winning edge for retailers, especially in the brick and mortar environment. Happy customers start with happy employees.

In the grocery and consumer electronic industries, monetary incentives are predominant. The focus is less on each employee’s capabilities and development than it is on a standardized and single means of onboarding. This has an immense effect on employees’ work attitudes. Customers perceive the employees in the store as old-fashioned with low motivation in their consultation efforts.

Employees in the drugstore sector are rather team-focused, an attitude that traces back to the fact of a lean and open culture. This has a positive impact on the customers, and they perceive the staff as being more friendly and engaged during consultations.

Retailers need to find a balance of centralization vs. decentralization in their organization, connect all channels end to end, and to reflect their customer focus in the organizational culture, so that they can offer unforgettable customer experiences. What matters is the linking of the three sectors (organize, execute, and behave) within the future operating model of retailers to serve the customer best.
Case study: drugstore market dm

The drugstore market dm is a retailer that shows one option for how to shape a successful future operating model by unifying the three areas. dm is based on the principle of humanity and partnership. The firm’s success has proven it is taking the right approach, as no trading company in Germany is as frequently represented in the top positions of rankings as dm drugstore market. Here are some of the most important success factors of its operating model:

Customer-centricity as a core principle across the whole value chain
For dm, customer-centricity means more than just offering good customer service. It designs products and services to meet its customers’ needs and create seamless experiences across all channels. dm offers its customers a wide-ranging product portfolio. The product management division invests a lot in confidence building and bringing an emotional element to the brands, and it lets customers vote on developments through the company’s social media channels. New products from third-party brands are quickly incorporated into dm’s own product line to participate in trends, and more and more innovative product ideas find their way into the dm range. Additionally, the retailer invests in its own crowdfunding contest, dmSTART!, to develop products customers really want. Product development is characterized by lean and fast decision making processes, which are only feasible because the retailer takes the approach of cross-departmental working methods to deliver the highest degree of customer experiences.

The customer experience
For customers, the dm shopping experience feels like a discovery trip in a familiar environment, one where they are always surprised by new, innovative products and experiences. The customer knows at which point in the market to find standardized products and is at the same time surprised by the continuous introduction of new products and services that create a unique customer experience.

Integration
“Hier bin ich Mensch – Hier kaufe ich ein” (Here I can be myself, here I like to shop) – that’s what dm stands for. This slogan expresses dm’s attitude, which is consistently committed to the idea of “humanity and partnership” in all its relationships with customers, employees, trading partners, and the environment.

Individuality
A business is for people, not the other way around. This is what dm is convinced of and what makes its corporate culture so special. Each employee contributes to this corporate culture with his or her commitment and individuality and actively shapes it.

Technology
New apps on employees’ smartphones make every workday easier and improve the customer service.

Work environment
A pleasant work environment and friendly employees naturally have an effect on the customers, who are happy to spend time in the stores.

Culture
A good work environment is more important than profitability. This creed made dm’s founder one of the pioneers of modern corporate culture in the 1990s. Personal responsibility, flat hierarchies, and employee participation are of the greatest importance.

Employee empowerment
No retailer has entrusted as much responsibility to local salespeople as dm. They determine the local stock assortment and negotiate with each other to organize not only duty rosters but also salaries. Everything is discussed in large rounds, so that every employee has the chance to get involved.

Employee development
dm is thinking about tomorrow: More than 3,600 young people are learning a trade at dm, but learning does not end with training; dm’s training and continuing education concept is designed to give every employee the space and opportunity to develop professionally and personally on an ongoing basis. More often than not, Werner Götz, dm’s founder, was ridiculed as an ineffective “Waldorf manager,” as he runs theater workshops as part of trainings, but his success has proven him right.

Corporate social responsibility
For dm, the top priority is to act sensibly and assume responsibility. Ecologically, economically, socially, and culturally sustainable action is therefore always the focus of attention. The market is committed to more sustainability in many areas. As part of a community, dm wants to make its contribution to a society worth living in.

Sustainability
dm invests in the development of innovative packaging materials and alternative raw materials for its own brands.

For dm, the top priority is to act sensibly and assume responsibility. Ecologically, economically, socially, and culturally sustainable action is therefore always the focus of attention. The market is committed to more sustainability in many areas. As part of a community, dm wants to make its contribution to a society worth living in.

The New Retail Operating Model of the Future | How retailers need to adapt their operating model to become future-ready
New generations of customers and employees are evolving. In parallel, technology is changing business models in every industry. For a successful digital transformation, retailers need to adapt their operating models, but what concrete action points can retailers follow to achieve the future operating model?
We recommend making eight adjustments to most retailers’ operating models to transform them into a future-ready operating model:

**Fig. 15 – Actions to achieve the future operating model**

- **Win “War for Talents”**
  Develop flexible work models, good working environments and possibilities for training.

- **Break up old structures**
  Implement new, cross-functional and decentralized structures.

- **Make value out of your database**
  Become a data-driven organization.

- **Put the client into focus**
  Align all processes, structures and KPIs towards the client.

- **Ensure knowledge sharing**
  Foster permanent exchange among employees by using tools, training and events.

- **Speed beats planning**
  Use fast and flexible planning, budgeting and decision-making cycles.

- **Digitalize to fix the basics**
  Use digitalization as a tool to break up silos, improve backbone, speed up processes, and automate easy and repetitive tasks.

- **Find your own way**
  Adapt the operating model to the company’s heritage, strategy and business model.
1. **Put the client into focus**  
Put the customer first and build a customer-centric organization. All processes, structures, and KPIs must be aligned toward the client. The customer, not the product or service, is the starting point. Start with the recognition of customers’ needs, wants, and priorities.

2. **Break up old structures**  
Implement new, cross-functional, and decentralized structures. Break down the organizational silos and show every employee the “big picture” (i.e., the retailer’s goals). Make sure people from different departments and with different skill sets are working together to realize one common goal.

3. **Digitalize to fix the basics**  
Use digitalization as a tool to break up silos, improve backbone, speed up processes, and standardize and automate easy and repetitive tasks. Ensure life gets easier for every single human being with the help of technology, and that the company becomes more efficient.

4. **Make value out of your database**  
Become a data-driven company and make data and analytics a part of the business strategy, its systems, processes, and culture. Enable employees at every level to use the right data at the right time to drive operational excellence and foster better customer relations.

5. **Speed beats planning**  
Use fast and flexible planning, budgeting, and decision-making cycles enabled by lean structures. Speed is of the essence. Release products in the shortest time possible, reduce the development costs, test them in the market, and integrate customers’ feedback.

6. **Ensure knowledge sharing**  
Foster permanent exchange among employees through tools, training, and events. Teaching people how to share knowledge and motivating them to do so creates a knowledge-sharing culture within the whole company.

7. **Win the “war for talent”**  
To make all this happen, companies must hire the best talent with the right skill sets. Develop flexible work models, good working environments, and possibilities for (lifelong) training to attract the best talent.

8. **Find your own way**  
Adapt the operating model to the company’s heritage, strategy, and business model. There is no “one size fits all” solutions, but the ideal way toward a new retail operation requires a few clear steps:

1. Assess the current status of your operating model.
2. Define a suitable concept for your future operating model that suits your individual needs: Where do you want to go and where are the current gaps? Does it fit into your company’s strategy and business model and take relevant trends into account?
3. Is your plan holistic? Do you account for all relevant dimensions of the operating model: organize, execute, and behave?
4. Do you have the right resources and skill set for that the new plans?
5. Who are the facilitators to overcome organizational inertia?
Fig. 16 – How to find your own way

Critical success factor is set up as smart change management to activate, educate and multiply stakeholders.

1. Assess your current status
   Before you know where to go, you need to know where you stand. 360° assessment along the lines of “organize”, “execute” and “behave” is required.

2. Define your future state
   Your new operating model can only be defined by counting on business specifics and by carefully prioritizing areas of action.

3. Adapt structures to operate
   As a frame for new ways of operating, new structures, processes, tools and steering mechanisms need to be installed.

4. Elevate skills and culture
   Core success factors are people, skills and company culture, which need to fit into the new way of operating. After that, nothing stands in the way.

There is no master plan for achieving the future operating model. Every company has to find its own way, as every retailer is individual. Nevertheless, these eight action points offer retailers a framework for action. These eight steps cannot be considered separately, but must be approached holistically, as they are mutually dependent. All action points have to be tackled, but to which extent is something all retailers have to decide for themselves.
The ways towards a new operating model are as diverse as retailers businesses are. Most retailers' have already started their own digital transformation journey. Retailers should not waste much time rethinking the way they are operating their business – only this way will they be able to ensure success of their transformation.
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