“Handel ist Wandel” or “Change through Trade”  
German Saying
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Why are we talking about a new operating model?

Retail is constant change.
Increasing pressure on retailers
Four factors are driving the retail evolution: changing customer needs, market dynamics, workforce availability and new technologies.

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

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

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

Workforce
New employee generations like the “Millennials” transform expectations regarding working conditions.

Change is the new paradigm – retailers need to adapt to current trends to keep a seat at the table.
Key questions for retailers
In existing trends and developments, retailers have to ask themselves some strategic questions with regard to their future way of operating – our survey helps to answer those for the future.

1. How do I need to set up my organization and processes to be future-ready – will tasks stay the same?
2. Are my current steering mechanisms the right ones to navigate through new business models?
3. Do I need other employee skills going forward and how do I become attractive to top talents?

Deloitte 2019 European survey on “future retail operating model”
The Retail Operating Model of the Future

Do I need other employee skills going forward and how do I become attractive to top talents?

Are my current steering mechanisms the right ones to navigate through new business models?

How do I need to set up my organization and processes to be future-ready – will tasks stay the same?
The retail operating model of the future

How do retailers have to change in the next five years to successfully match digital strategies & business models.
The operating model – “Adaptation Pyramid”

The operating model enables business models and strategies by ensuring their successful execution: retailers have adapted their strategies and are changing business models, while the change of the operating models is mostly missing.

- 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 run the company best?“
- Status quo: only few retailer have started to consider the high need for action.

- Definition of investments, costs and sales to determine the precise impact on business.
The Operating Model – Dimension overview

We define the operating model along the dimensions of “Behave”, “Organize” and “Execute”.

**Behave**
- Culture
- Incentives
- Workplace

**Organize**
- Structure
- Governance
- Capabilities
- Tasks

**Execute**
- Budgeting
- Processes
- Tools
- KPIs
**Deloitte Survey “New Operating Model”**
We asked European retailers about their perception on relevance and maturity regarding the elements of the Operating Model and have determined the “must-haves” for transformation towards a successful future.

**Who did we interview?**
European retailers and retail experts from four different sectors.

**What did we ask?**
Elements to assess status and future of retail operating models.

- Status quo
- Future importance
- Must-haves
- Required actions
### Status quo and future importance

The results reveal differences between experts and retailers and clearly show which elements will have a future importance.

<table>
<thead>
<tr>
<th>Elements</th>
<th>Level</th>
<th>Low</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational structure</td>
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<tr>
<td>Governance system</td>
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<tr>
<td>Capabilities</td>
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<td>Task designs</td>
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<td>Project-based budgeting</td>
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<td>Processes</td>
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<td>Incentives</td>
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<tr>
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<td>Workplace</td>
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</tr>
</tbody>
</table>

1. In many categories, experts see retailers as less mature as retailers see themselves.

2. Overall, there is a mismatch between future importance and assessed status quo.

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Source: Deloitte Retailer Operating Model for the Future Study 2019 Europe
Operating Model gaps
Comparing the status quo of retailers with the future importance of the Operating Model elements, we found eleven significant gaps within the current Operating Models.

**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 assess 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
Lack of flexibility with regard to work locations

#10
Need for open-minded employees as a basis for lifelong learning

#11
Lack of focused model for attracting the "Millennial" generation

Source: Deloitte retailer operating model of the future study 2019 Europe
Organize – Must-haves & impact
Retailers and experts assess that future organizations need to become more customer-centric, analytical and overall more flexible with regard to ways of working and task design.

**Structure**
- 82% Focus on customer-centricity

**Governance**
- 96% Fast, lean decision-making processes

**Capabilities**
- 88% Develop analytical and technological skills

**Tasks**
- 63% Increasing project-based working & outsourcing of tasks
- 77% Close and agile collaboration between functions instead of silos
- 62% Iterative governance system
- 69% Increase knowledge sharing within company
- 56% Standardization of tasks where possible

Impact on value chain:
- Planning & procurement
- Logistics
- Store operations
- Marketing & sales
- Fulfillment
- Aftersales

% = percentage of participants who value element as must-have within the next 5 years

Source: Deloitte retailer operating model of the future study 2019 Europe
Execute – Must-haves & impact

In order to steer future business models successfully new processes, KPIs and tools will be needed.

<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>
</tbody>
</table>

**Budgeting**
- Increased speed within budget cycles i.e. with “rolling forecasts”
- Higher flexibility in budget allocation process

**Processes**
- Cross-functional E2E-orientated processes
- Process development from centralized center of excellence

**Tools**
- Employee training for smooth handling of necessary tools
- Centralization and standardization of data with relevant tools

**KPIs**
- Definition of new KPIs metrics for success of whole organization, i.e. for measurability of customer experience and innovations

Impact on value chain

% = percentage of participants who value element as must-have within the next 5 years

Source: Deloitte retailer operating model of the future study 2019 Europe
**Behave – Must-haves & impact**

In order to be able to attract and retain talents with the needed skill-sets, more flexible work-models and incentive models need to be in place.

**Incentives**
- 63% Detailed, regular feedback cycles
- 72% Attraction through flexible work models, meaningful work or work-life-balance

**Culture**
- 89% Development of open-minded employees for lifelong learning basis
- 51% Decrease in change resistance to be able to adapt quickly

**Workplace**
- 94% Implementation of flexible workplace models
- 88% Implementation of flexible workplace models

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**Impact on value chain**
- Planning & procurement
- Logistics
- Store operations
- Marketing & sales
- Fulfillment
- Aftersales

% = percentage of participants who value element as must-have within the next 5 years

Source: Deloitte retailer operating model of the future study 2019 Europe
Retailers in comparison
On average, most retailers have still a way to go to modernize their operating model – drugstores, however, already made many right steps.

<table>
<thead>
<tr>
<th>Organize</th>
<th>Execute</th>
<th>Behave</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>Consumer electronics</td>
<td>Drugstores</td>
</tr>
<tr>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
</tbody>
</table>

**Grocery**
- Strong centralization, learned how to manage complexity; however, only catching up slowly and where necessary.

**Consumer electronics**
- Old structures, slow governance and limited digital capabilities, partially customer-centric and good control of backbone KPIs.

**Drugstores**
- Rather agile, decentralized management, with strong customer orientation and good control also due to i.e. simplified processes.

**DIY**
- Partially strong efforts in digital area to foster customer experience, trying to offset old structures and slow governance.

Source: Deloitte retailer operating model of the future study 2019 Europe
The Retail Operating Model of the Future
Recommendations for actions

How to prepare your retail organization for the future.
**Actions to achieve the future operating model**
We recommend making eight adjustments to most retailers’ operating models to transform into a future-ready operating model.

- **Win "War for Talents"**
  Develop flexible work models, good working environment and possibilities for training.

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

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

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

- **Use big data to automate**
  Standardize and automate easy and repetitive tasks by using tools and data.

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

- **Digitize to fix the basics**
  Use digitalization as a tool to break up silos, improve backbone and speed up processes.

- **Find your own way**
  Adapt the operating model to the company’s heritage, strategy and business model.
Contacts

Egbert Wege
Lead Partner | Retail, Wholesale & Distribution
Monitor Deloitte
Tel: +49 (0)40 32080 4596
ewege@deloitte.de

Jan-Sebastian Hovest-Engberding
Senior Manager | Retail & Consumer Products
Monitor Deloitte
Tel: +49 (0)211 8772 5837
jhover-engberding@deloitte.de

Thorsten Zierlein
Lead Partner | Retail & Consumer Products
Monitor Deloitte
Tel: +49 (0)89 29036 7202
tzierlein@deloitte.de

Carina Garbe
Manager | Retail & Consumer Products
Monitor Deloitte
Tel: +49 (0)69 9713 7241
cgarbe@deloitte.de
Monitor

Deloitte.

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