

Making Change Happen in Retail

How to drive change at a time when making change happen is more important than ever

By Anish Patel and Mathias Schmeer

The retail environment is forever changing. It is no longer good enough to have new product, open new shops, launch new channels, and see the top (and bottom) line improve. The industry has changed more in the past 10 years than the previous 50.

And we believe the pace is set to quicken. Having a winning strategy is one thing... implementing it successfully is another. 'Change' is the new 'status quo'.

At PatelMiller, we wanted to identify the major components of change, where to focus efforts, and how this evolves through each phase of a large-scale transformation. Ultimately, we wanted to understand how to make change happen in retail.

To do this, we built on our own experiences and conducted extensive research with a wide sample of executives. This paper sets out our key findings.

1. The context

Making change happen successfully in retail has always been a priority, but we believe it is more important and more difficult now, than ever before.

Customer expectations are rapidly rising, and new ways of working and disruptive technology are coming to market at an ever-increasing speed. In addition, an unpredictable economic environment, increased competition and a rising cost base means there is less room for manoeuvre.

Most retailers recognise the need for a fundamental change in the way they work, and develop strategies to make the most out of this. But knowing what to do is only part of the answer. Making the change happen is an even more difficult task.

We engaged with over 50 executives to understand how they approach change, what they consider to be important and what are the most critical areas to focus on through the lifecycle of change. The research included interviews, group discussions and a quantitative survey. Our main findings are set out in this paper. In addition, more detail that can be found on our website.

2. How retailers currently approach change

How are change initiatives structured?

Exhibit 1 – Most large-scale change initiatives evolve through 3 main phases

Phases	Tasks
Building the case for change	Analysing the current situation
	Clarifying what has to be achieved
	Building buy-in
Structuring and delivering the programme	Getting the right skills together & fostering cooperation
	Managing overall delivery
	Introducing change to the wider business
Making change part of the everyday business	Embedding change in measurements
	Ensuring continuous support from CEO and leadership team
	Supporting the team to cope with change

Our research shows that most large-scale change initiatives go through 3 main phases of evolution:

1. **Building the case for change;** acknowledging the current situation, building the vision to be delivered and creating buy-in around it
2. **Structuring and delivering the programme;** starting with the team and the organisation across the business, moving on to managing the delivery and finally introducing change to the wider business
3. **Making change part of the everyday business;** which aims at embedding the change process itself into business as usual

For each of these phases, we have identified individual sub-tasks (exhibit 1). More information on the detailed findings can be found on www.patelmiller.com.

What are the drivers for change?

Currently, the main driver for change is the search for efficiencies, which is not surprising given the market and difficult trading climate of the past few years (exhibit 2).

We expect this to change over the coming years, with retailers focusing more on improving the customer proposition and delivering growth strategies, whilst also driving out cost through more fundamental changes to

the operation. This further increases the importance of making change happen, as we typically find this can be more complex in nature and may impact teams even more than efficiency-driven initiatives.

Do change initiatives succeed?

As one would expect, large-scale change initiatives do not *always* deliver *all* of their objectives *all* of the time. However, the impact of under-performance is high considering the increasing cost of programmes and - more importantly - the cost of not delivering on customer expectations or against improving competitor's performance.

It is encouraging that over 6 in 10 programmes deliver most of their objectives. However, our research shows that less than 1 in 10 programmes delivered all of their objectives, and around 1 in 4 delivered few of their objectives (exhibit 3). This data backs up our experiences and we do not believe these rates of success are sustainable for the future.

On the cost side alone, programme delays and failures can typically add around 20% to the overall cost. We estimate this could add up to over £1bn annually in 'lost' capital investment across UK retail. Lost or delayed benefits will also be of the same order of magnitude.

3. Where to focus efforts to make change happen

Given the complexity of change, the most important question is naturally to identify where to focus the effort to ensure success.

What are the priorities?

Through our research, we wanted to understand what is important to focus on, and also what is difficult to achieve, as these together determine where to put most of the effort. We have identified the top 10 areas of focus in terms of importance (exhibit 4). Interestingly, 3 out of the 10 are considered to be reasonably easy to achieve. For instance, having a clear driver for change and securing the continued support from the CEO.

The 2 factors considered the most difficult of all are 'getting the right people, skills and experience to work

Exhibit 2 – Main drivers for change

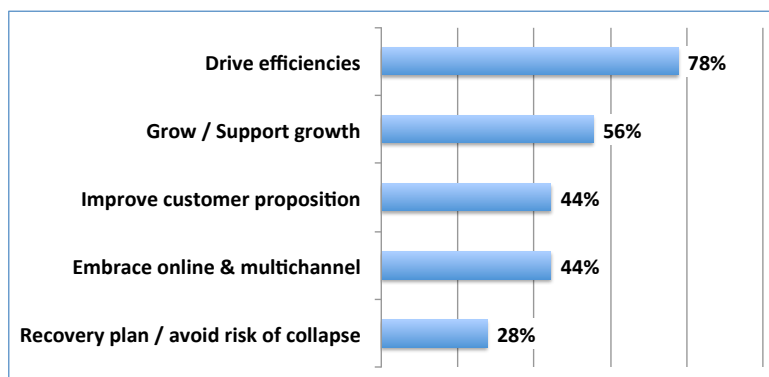
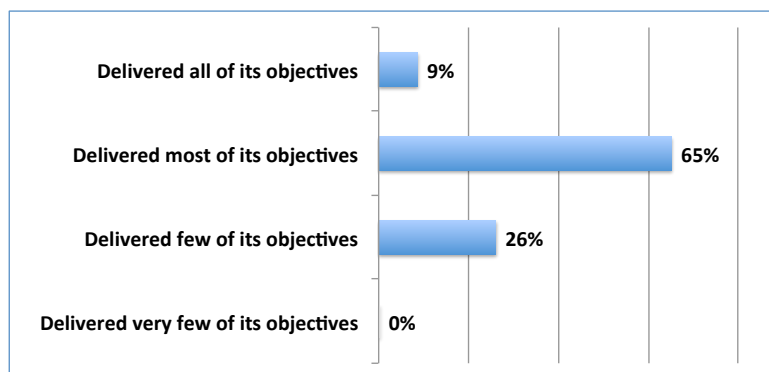


Exhibit 3 – Change success rate



on the programme' and 'building co-operation and alignment between departments'.

The former factor is a common problem where the right blend of internal and external resources can help. However, this highlights the risk of selecting the right partners, and results can be mixed. The latter factor highlights the importance of getting different functions to work together. However, our experience also suggests there is a balance between delivering cross functionally and within-function.

We find in the largest organisations, it can be better to focus on functional change, and building that independence into programmes. As one Director from a large grocer put it "change in our business happens in functions. Trying to manage change cross-functionally results in complete inertia and lack of pace. To ensure we are working together, I just talk to the other Directors regularly".

Each of the three main phases is considered equally important. However, it typically gets easier as the change initiative moves from one phase to the next. It is therefore critical to spend the right amount of time at the beginning to ensure this starts in the right way.

Where to focus in each phase?

According to our research, in phase 1 'Building the case for change', the priority focus should be more on the leadership group and the 'influencers' in the business, rather than on the wider team.

First, aligning the Board and getting buy-in from management teams is considered both as the most important and the most difficult. In our experience, this requires more than just the *rational* arguments (the numbers tell me this is the right thing to do).

"When building the case for change, focus on aligning the leadership behind a clear vision"

The most compelling way to align groups of people requires communications that cover the *emotional* aspects of change (I truly believe and feel this is the right thing to do) and the *political* aspects of change (what will this personally mean for me and my teams). And this should start with the CEO. For example, one of the Directors we spoke with commented "whatever you do, make sure the CEO is on side before starting on any big

cross functional change - it'll just end badly if you don't!"

Although considered relatively easy, the second key success factor is to have a clear driver for change. Here, there's a distinction between recovery-driven initiatives, where the burning platform is usually understood, and growth-driven initiatives. Here we find more effort is needed, especially when the business has been relatively successful in this tough market.

Other areas of focus in this phase include:

- Overall colleague buy-in. This is considered a less important factor in this phase, yet very difficult to achieve
- Shareholder buy-in, which is considered reasonably easy to deliver
- Having a clear view of the future business model
- Building on this, understanding the current situation and what has to change in the operating model

In the second phase 'Structuring and delivering the programme', 3 main factors are critical to success. First, getting the right people, skills and experience to work on the programme is one of the most important factors.

It is also considered the hardest. This highlights how difficult it is to get the

best people to free up time from their day job and to commit - sometimes for a long period - to an initiative that might be less of an immediate priority to his or her Director.

"When delivering the programme, build the right skills and align different departments to work together"

We also found that there is a lack of people with sufficient skills and experience to effectively manage projects or part of projects. This extends to the Board and senior leadership team, where we believe a new set of skills and mind-set change is needed. For example, one of the Directors we spoke to commented, "... the reality is that many CEO's and Board's are just not change savvy. They have come from a background of operations and needed to change their skillset quickly to balance change and run".

Second, building co-operation and alignment between departments is seen as both very important and very difficult. We believe this echoes the need to align the leadership team highlighted in the previous phase. From our experience, an important part of the solution lies in the structure of

the governance group and how they interact with the programme team. We believe it is critical to move the Steering Group from being backward looking (forever focussing on historic budgets, activities and deliverables) to forward looking (focussing on key confidence points, mitigations and end goals).

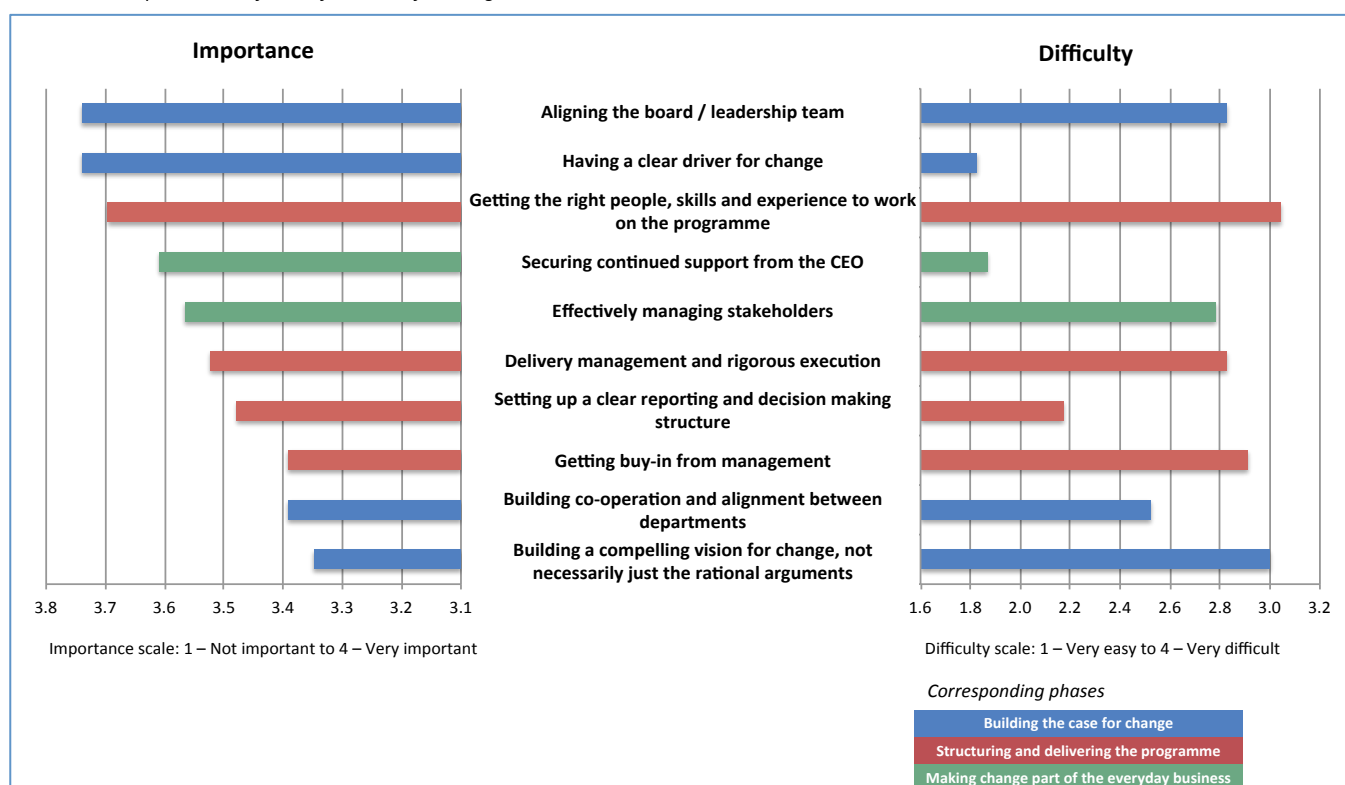
Keys to success here can be investing in a high quality programme office and moving it from being an administrative activity to a value added activity that brings the whole programme together, provide insights (not just information) and helps forecast forwards.

Third, and unsurprisingly, a majority of respondents consider delivery management, rigorous execution as well as clear reporting and decision-making structures to be very important.

Other areas of focus in this phase include:

- Structuring programmes with the flexibility to allow for unforeseen elements, both in scope and risk
- Surprisingly, a lower priority at this stage was to 'deliver incremental change rather than big bang' and 'balancing quick wins along with long term objectives'. This contradicts the principle of delivering quickly to ensure momentum. However, in our experience this is due to the nature of change currently being focussed

Exhibit 4 – Top 10 success factors for successful change



on operational efficiencies, which may be best delivered through big bang. If in the future, change is driven more from growth opportunities, the importance of delivering incrementally may increase, whilst reacting to a changing customer and testing new technologies

The objective of this 3rd phase is to embed the change process into business as usual. In order to achieve this, 3 factors stand out as priorities:

"To make change part of the everyday business, put in place the appropriate set of metrics and make sure leadership stay involved"

First, securing continued support from the CEO. The most effective way to achieve this can be to make change part of the lifecycle of the Board meetings.

Second, managing stakeholders is seen as important and difficult to achieve. It is critical to reduce the risk of reverting back to the previous ways of operating, especially where the new ways of working are not supported by systems.

Third is setting up the right tracking and measurement processes. It is critical to understand the measures of success early and integrate them into a simple balanced scorecard that presents the right information at the right time. Another Director commented, "We measured and reported on 120 KPI's on a monthly basis. However only 12 of them are really important and we got much greater engagement when we simplified it"

Other areas of focus in this phase include:

- IT ownership across all business functions is highlighted as a priority
- On-going training and development for teams
- Interestingly, incentivising and rewarding staff based on results is not seen as particularly important or difficult

4. Conclusion

We believe making change happen in retail is more important now than ever before, and it will be a clear differentiator for the future.

In this paper, we have described useful ways to think about your programmes, the main stages they go through, and the critical success factors within each.

It all starts with identifying the actions that can make the biggest difference to your business, which is a combination of what's important and what's difficult.

However, we believe that there are some givens that will move change programme from not quite working to being a real success.

It really starts with the leadership team and the CEO being front and centre. Alignment and understanding of the messages and true buy-in is required, not just a nodding of heads without thinking too deeply about what's required.

The second is getting broad awareness, involvement, and even excitement about the change from across the business, across all levels of seniority. Change happens within the business function, so it's critical to get them to work in a new way.

The third is to find a pragmatic way to manage the change, which gives enough control and insight to keep on top of things, whilst providing flexibility to cope with the everyday realities of operating a business.

Lastly, changing the culture of the business from one that focuses on 'run', to embracing change across the organisation will help in the long term.

These are not always easy to achieve, but mastering these points can be the difference between success and failure.

If you want to find out more about our change programme management capabilities, please contact us or visit our website www.patelmiller.com

5. About this paper:

This paper has been developed through conversations with our clients, two dinners with senior executives, as well as an online survey. We'd like to thank all of the people that participated for their input and continued support.

About PatelMiller:

PatelMiller is a business consultancy that works closely with its clients to develop their strategies and deliver the full benefit of them.

Our team have gained their skills from working for leading consulting firms as well as the world's best retailers.

We combine the tools, methods and analytics of a strategy consultancy with the pragmatism of a retailer, to make sure potential benefits become real benefits, quickly.

The main things we do are:

- Create a **challenging vision**
- Develop **business plans**
- Design new **operating models and improve business processes**, (including Lean Six Sigma)
- Use **analytical tools** on key business levers to drive rapid improvement.
- Run **programme management**
- Carry out **due diligence**

The businesses we have worked with include Dixons Retail, feelunique.com, John Lewis, Monsoon Accessorize, Morrisons, Tesco and White Stuff.

Our senior team:



Anish Patel
Managing Partner

Anish has built up considerable retail consulting experience, both with top tier firms and as an independent advisor. Anish focuses on developing new strategies for retailers and helping them with implementation.



Jonathan Miller
Managing Partner

Jonathan is an experienced advisor to retailers, having worked for Accenture as a strategy consultant, and then directly for Asda-Walmart, Tesco and Dixons in strategy and operations development roles.



Mathias Schmeer
Senior Manager

Mathias is an experienced strategy and management consultant, having advised leading European retail and consumer clients for 9 years, including L'Oreal, E.Leclerc and Monsoon Accessorize.

www.patelmiller.com
enquiries@patelmiller.com