

The Retail Culture War

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Retail Mindsteps (def): Key developments that have caused dramatic and irreversible changes to paradigms and world views in the fast moving consumer goods retail industry.

Retail Mindsteps INNOVATION BRIEF



Gary Hawkins has lived his career ahead of the curve, putting him in the right place at the right time to lead the fast moving consumer goods retail industry into the future during a time of exponential technology growth using never-before-available capabilities to innovate the future of shopping.

His expansive industry view and early insight into disruptive technology makes him a sought-after keynote speaker at conferences in the U.S. and around the world. Hawkins is the author of Building the Customer Specific Retail Enterprise; Customer Intelligence; Retail in the Age of I, and Bionic Retail, along with the Retail Mindsteps Innovation Briefs and White Papers. Hawkins lives in Colorado with his wife Heather, and Remington, their Bernese Mountain Dog..

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The Retail Culture War

What's the defining battlefield in the grocery industry now and over the next few years? It's not eCommerce. It's not automation. It's not computer vision. It's not personalization. It's not AI this or ML that. It's culture.

There are significant, fundamental differences in culture between traditional retail companies and digital native firms. And those differences are becoming more apparent by the day as we progress up and out the exponential growth curve of tech-fueled innovation. The 'operating system' of traditional organizations is becoming an increasing liability as speed, nimbleness, risk-taking, and digital-first thinking become evermore important to success.

Some traditional retailers have realized that they now operate in a new environment: Fast-changing shopper expectations, new competitors, and ever-faster innovation. What many have not yet realized is that the traditional retail organization was built for the world of yesterday, not for today and certainly not for tomorrow.

The way traditional organizations function - their culture - is becoming a fast-growing handicap. This, while digital native organizations, born from technology and nurtured on the pablum of data, are built to thrive.

The risk for traditional retail companies is not this or that new technology or capability. The most serious threat to traditional retailers are digital native companies that simply think differently. Retailers that fail to realize this are at growing risk of obsolescence.

The Culture Wars

Traditional retail company culture has developed from a slow moving industry and a strategy based on following others when it comes to new innovation. And while a good number of retailers have appointed a Chief Innovation Officer, or given responsibility for new innovation to the Chief Information officer or senior IT person, this approach inevitably results in a bottleneck, having the opposite of the intended impact. The bottom line is that traditional retailers are not moving fast enough with regard to new tech capabilities. They always have an excuse for going slow.

And as a vast number of upstarts seeking to bring new innovation into the staid retail industry can attest, there's always something. A couple years ago it was the pandemic. Then it was 'we're focused on eCommerce', can't do anything else. More recently a lot of retailers saying their IT resources are consumed by rebuilding core systems. They don't have enough bandwidth. The list goes on and on.

That traditional retailers are moving slowly with regard to new innovation - and seem to actually becoming slower - is not without risk. We hear from a growing number of solution providers that they are becoming increasingly frustrated with traditional retailers lack of responsiveness. We have already seen a couple very sophisticated solution providers become so frustrated with U.S. retailers that they have shifted resources to Europe where retail seems to be much more responsive to new innovation.

Those excuses are covering up a problem festering at the core of traditional retailers. And it's a problem that leadership has failed to recognize or address.

There is always an excuse. And what I am saying is that it doesn't matter what the excuse is. If you want to make something happen badly enough, you'll find a way. Traditional retailers do not yet recognize the imminent threat posed by digital native companies that think differently.

Do you think Amazon executives make excuses for why some new product or service can't be delivered quickly? Do you think they focus on only one or two projects at a time? Do you think Amazon channels all new innovation through one executive? Look no further than the recent announcement of Amazon launching a new data platform for in-store vendors giving them access to true shopper behavior data captured by the company's Amazon Just Walk Out computer vision tech and the smart Dash Carts.

That one example showcases how Amazon thinks differently. The company understands the power of exponentially growing tech like computer vision, and has linked their business strategy to that growing capability, scaling it into more and bigger stores. Where are traditional retailers? A handful of retailers piloting similar tech, in small footprint stores.

Too many traditional retailers look at Amazon and dismiss any near-term threat. They don't have many physical stores. They aren't a factor in our market. Results at Whole Foods shows that Amazon doesn't really get the grocery business. Sound familiar?

And yet while traditional retailers rationalize not moving forward with similar tech, Amazon is methodically expanding the use and realized value from computer vision, opening up a growing performance gap vs traditional retail competitors.

And it's not just about Amazon. According to Netshop, there are over 300 million startups created in a year; over 1.3 million of those are tech companies. Those startups are incredibly well funded; Pitchbook reports that US startups raised an estimated \$330 billion in 2021, nearly double the prior year.

I would suggest that it is far easier for a digital native company to learn supply chain, fresh item management, pricing strategies, and store operations, than it is for a traditional retailer to become digital-first in their culture.

Remember Kmart? Remember Sears? At one time, two of the largest, most prominent retailers in the United States. At their peak, each was considered truly innovative in their go to market strategy, operations, and marketing. Through a series of terrible decisions and mismanagement, these one time best-in-class retailers are today virtually extinct. Even the largest can fail.

Ernst & Young has extensively studied traditional and digital native organizations and have identified several key differences. My thoughts are in italics beneath each.

Mindset over skillset. Digital natives recruit people for their mindset rather than their skillset. This enables them to build a workforce with the flexible capabilities needed to respond to evolving priorities and shifts in customer or market demand.

This is perhaps the most important differentiator, that digital companies hire people for mindset vs skillset. Retail organizations have a long history of hiring people with industry experience, not hiring people from outside that can bring a truly different, unique perspective. And if a traditional retailer does bring in an outside executive, more times than not the organization rejects the person before any significant change can happen. Grocery retail suffers from the “we’ve always done it this way” syndrome.

The obligation to innovate. Rapid innovation is what often makes digital natives stand out; it is key to their ability to disrupt. Responsibility for innovation doesn’t rest with any single person or department – everyone is empowered and expected to innovate. This creates an environment where the focus is on teaming for the best ideas and outcomes.

Unlike more traditional organizations, digital native organizations rarely have a chief innovation officer and associated function. Innovation is seen as an intrinsic part of everyone’s role, not centralized in a function or the accountability of an individual leader. They achieve this by being customer- and product-led, using enterprise technology as an enabler and empowering all employees to innovate by design. Digital natives expect everyone to innovate and participate in that innovation.

Approach to risk. The digital native approach to risk is very different compared to traditional organizations. It isn’t expected that every idea or investment will work: digital natives are comfortable failing and failing fast. Employees are empowered through the design of their roles to take risks and this creates a culture of continual growth and learning.

The ‘fail fast’ approach to innovation is simply foreign to most retail organizations. Traditional retailers must view innovation as an ongoing process, allocate resources to piloting new capabilities, and move as quickly as possible to make a go or no-go decision.

Based upon the countless conversations we have with retailers of all sizes across the U.S. we clearly see that the most significant issue confronting traditional retailers is this: Executives do

not yet truly realize the implications of living in a world unlike any before, a world where technology capability is growing exponentially, and that the old rules no longer apply.

Key takeaways for traditional retail executives:

Recognize that the operating environment has fundamentally changed.

Recognize that the most serious threat in the time ahead are digital native competitors... and not just Amazon.

Recognize that, unlike the slow moving past, digital threats can explode overnight and change the landscape very dramatically, very quickly.

Recognize that traditional culture is a growing handicap in this new environment.

Recognize that the excuses your company creates for not pursuing innovation aggressively are just that: Excuses.

Recognition of the issues is only the first step. Retailers that wish to remain in the game and succeed in the time ahead must move from recognition to action.

It is human nature to seek comfort and security. Most supermarket retailers are riding high on strong sales, margins, and cash positions coming out of the pandemic - a position that inevitably makes executives comfortable. It takes something to intentionally seek uncomfortable situations - like changing a company's culture, and changing the way you see the world.

But there is growing risk to remaining comfortable, to maintaining a culture that is increasingly unfit for the world of today. If traditional retailers don't recognize the threat posed by digital native companies it may already be too late.