
Richard Mia

Why retailers must adopt a technology mind-set

Retailing faces a revolution driven by technology innovation. Here's what retailers can do to get ready before it's too late.

The largely mobile-driven changes in consumer attitudes and behaviors do not necessarily mean that traditional retailers are destined to lose market share. But to avoid that fate, companies need to build new capabilities and take advantage of the opportunities new technology offers them. In this interview, McKinsey's Stefan Niemeier, author of the new book *Reshaping Retail*, says a shift to an enhanced, multichannel consumer experience can make the difference.

McKinsey on Business Technology: *What are the main technology drivers of change in retailing?*

Stefan Niemeier: Computing power, data storage, and networks have grown at incredible rates. A smartphone today has more computing power than the biggest business computers in the 1970s. Advances in data gathering and storage allow retailers to capture every single item, event, and transaction in the supply chain and in the store. Wireless networks have grown enormously in capacity, speed, and the number of users, and they can now connect a multitude of devices.

These interacting drivers are the prerequisites that make it possible for consumers to collect information and make a purchase anywhere at any time. Retailers, in turn, have the opportunity to analyze captured data to build direct relationships with customers and create supply chains driven by granular demand and supply data to reduce inventory and improve service.

McKinsey on Business Technology: *How do powerful mobile devices change the retailing landscape?*

Takeaways

Retailing faces a revolution driven by technology innovation. Advances in data storage allow retailers to build direct relationships with customers and create supply chains driven by granular demand and supply information.

Meanwhile, mobile devices are empowering consumers in many ways. Customers can, for example, compare the product quality and prices of different retailers while shopping inside a store.

Traditional retailers need to start thinking like technology companies. This calls for more engineers and analytics talent and a focus on customer-centered digital experiences.

Stefan Niemeier: They integrate functionality that already existed—phone, text, Internet access, camera, entertainment, geolocation services—into one truly personal device, which makes it possible for software developers to create applications that turn the device into a multifunctional tool for commerce. Mobility is empowering consumers in many ways. Before the smartphone, consumers could sit at their home computers and compare the products and prices of different retailers. Today shoppers can do that inside the store with the device they carry in their pocket. As a result, the Internet challenge to traditional retailing has moved to the store—retailers no longer have an information monopoly inside their own stores.

McKinsey on Business Technology: *What's next in mobile? We've heard about "augmented reality," but what is it and what can retailers do with it?*

Stefan Niemeier: Augmented reality uses inputs such as sound, video, and graphics to overlay the digital world onto the real world. Some retailers offer apps that allow consumers to stand in their home and by looking through their smartphone camera see, for example, what certain furniture from the store would look like in their living room. Augmented reality incrementally improves the user experience, but it also has the potential to help create a shop without a shop. US shoe brand Airwalk set up invisible "pop-up" stores in New York's Washington Square and at California's Venice Beach for the relaunch of a sneaker that was popular among kids who preferred skateboard parks or beaches to going to gym class. For one day, people who had downloaded an app and were in the right locations could hold up their phones, see an Airwalk store, find the shoes, and purchase online a special edition of the sneakers.

McKinsey on Business Technology: *How dramatic is the change that's coming to the retail industry?*

Stefan Niemeier: There will be major changes for traditional store-based retail. Consider a big-box format with a 35 percent gross margin and 3 percent earnings before interest and tax—economics not uncommon in many retail categories. Losing another 10 percent of traffic to online competitors would basically erase all profits.

McKinsey on Business Technology: *In your experience, are retailers ready for change?*

Stefan Niemeier: I think by and large they are not yet ready. Many store-based retailers have a gut-feel merchant culture and lack the digital fluency and tech savvy required to understand the opportunities and challenges that technology brings. Also, the pace of change in retail has historically been relatively slow, which makes many traditional retailers ill prepared for a very agile, fast-changing business landscape driven by new technologies and new tech-focused competitors. Unless store-based retailers can adjust to that pace of change, they will always be at risk of falling behind the latest trends and developments.

McKinsey on Business Technology: *What do they need to do to get ready?*

Stefan Niemeier: Traditional retailers need to start thinking like technology companies and at the same time be very customer-centric

Read more about the digital enterprise in *McKinsey on Business Technology*

Capturing the value of digital technologies will be important in most industries—and critical for survival in some. CIOs have a historic opportunity to reshape their roles by leading the transformation toward truly digital enterprises, as noted in these two articles from the March 2013 issue of *McKinsey on Business Technology* (available on mckinsey.com).

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Driving the top line with technology:
An interview with the CIO of Coca-Cola

Ed Steinike is reshaping his CIO role as The Coca-Cola Company accelerates its use of technology innovations in operations, marketing, and sales.

Robert Levin

Ed Steinike, vice president and CIO of The Coca-Cola Company, has set his mind on being what he calls a "revenue-generator CIO." In this interview, he talks about his department's journey from back-office function to business partner and how it uses technology to cultivate direct relationships with customers and to develop a demand-driven supply chain. Finally, Steinike describes a fledgling innovation that integrates most of the technology-driven trends in the consumer-packaged-goods industry.

McKinsey on Business Technology:
How is the role of IT changing at Coca-Cola, and, with it, your role as CIO?

Ed Steinike: IT and marketing are very close partners at Coca-Cola today—more so, I think, than at most other companies—and that's the way it should be. Coke is spending hundreds of millions of dollars a year on digital marketing, and that number will, no doubt, continue to rise. Almost all of that spending is IT-related. This development calls for a broader CIO role. It's not enough to be an operational back-office CIO running the systems. It's also not enough to be a process CIO reinventing the supply chain and transforming support functions. Important as those two roles are, they need to be complemented by what I call the revenue-generator CIO or business-level CIO.

McKinsey on Business Technology:
What were the beginnings of the strategic partnership between marketing and IT at Coca-Cola?

Ed Steinike: Our marketers started to think more seriously about digital channels five years ago or so. As mobile adoption expanded, they started to build a direct connection with our customers by pushing mobile applications for

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Winning with IT in consumer packaged goods:
Seven trends transforming the role of the CIO

Technology is increasingly fundamental to competitive advantage in the consumer-packaged-goods industry. IT leaders are stepping up to the challenge.

Sirish Chandrasekaran, Robert Levin, Harry Patel, and Roger Roberts

Consumer-packaged-goods (CPG) companies have traditionally viewed technology as a necessary business expense to be managed in the most efficient way possible. As IT spending increased over the past two decades, managers concentrated on standardizing IT systems across the company and reducing costs. Technology programs delivered on consolidating and integrating systems following mergers and acquisitions. Productivity flowed from improved supply-chain processes and from warehouse and plant-floor automation. But growing and differentiating the business through IT-enabled innovation was not a top priority for leadership teams.

However, during the past few years, CPG companies have grasped the commercial potential of the burgeoning supply of information about customers' behaviors, needs, and wants. The volume of data emanating from point of sale, in-store engagement, mobile platforms, and social media is exploding and unleashing value from technology in ways that go beyond operational efficiency. This is leading to a fundamental change in what businesses expect from technology. Senior executives across all functions now realize that IT is capable of game-changing innovation and business transformation that can spur revenue growth, get products to market faster, and sometimes generate entirely new business models.

As information intensity grows, world-class IT in CPG companies requires more than just cost-effective service provision. Companies seeking to seize the commercial potential of

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Technology is increasingly fundamental to competitive advantage in the consumer-packaged-goods industry. IT leaders are stepping up to the challenge.

in their approach. This requires a combination of more engineers and analytics talent, a commitment to new technology platforms, and a new mind-set focused on designing and delivering customer-centered digital experiences. Store-based retailers need to shift the spending mix of their technology plans from the back office to the consumer experience and adopt a clear focus on beating the competition with information technology rather than just using it to keep the lights on and the goods flowing. For many, this will mean increased levels of IT investment at a time when economics are under pressure. But these investments must be made to survive in the new industry structure that is under way.

For many physical retailers, abandoning their store networks is not an option, so they need to figure out how to make those networks a source of strength that enables customer journeys to flow across different contexts—at home, on the go, in the store—in ways that create value and experiences online. If they can deliver a pipeline of innovations, blending new channels with the old to earn a small premium, they can compete well with online players that in many retail sectors have a cost advantage that is difficult to match.

Stefan Niemeier

Stefan Niemeier (Stefan_Niemeier@McKinsey.com) is a director in McKinsey's Hamburg office. He is also coauthor of *Reshaping Retail: Why Technology is Transforming the Industry and How to Win in the New Consumer-Driven World* (Marco Catena, Stefan Niemeier, and Andrea Zocchi, John Wiley & Sons, 2013).