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FOREWORD

Given that 2020 was — to say the least — different, we thought we'd make our latest Retail & Consumer Journal different, too.

The COVID-19 pandemic triggered some of the most sudden changes ever in the retail and consumer goods industries. Demand for food and drinks shifted towards at-home consumption and the food retail channel — and away from cafés, bars, and restaurants. Many of the retail and consumer sectors more affected by lockdowns and social distancing measures faced very challenging economics and had to find new ways to engage remotely with customers. These trends triggered surges in home delivery and direct-to-consumer businesses.

Amid such upheavals, it is no longer enough just to make incremental improvements and try harder. Instead, leadership faces big questions over both immediate actions and fundamental strategy. To hear directly about the challenges, opportunities, and solutions, we interviewed senior executives in Asia, Europe, and the Americas, working in segments ranging from consumer electronics to beauty to food.

They told us that many of the changes have been accelerations of digital transformations that were already underway. Take health and beauty: Sales were already migrating online, but as stores were forced to close during the pandemic, digital orders doubled or even tripled in some markets. Those retailers and brands that had already invested in online tools and interfaces such as virtual beauty advisers were better positioned thanks to the foundations put in place beforehand.

Other segments have seen a sudden, unexpected tailwind, not only in volume but also in customer perception. Many supermarkets and food producers had been increasingly seen by shoppers as commodities, but the pandemic turned them into pillars of their communities. They provided lifelines to vulnerable people at a time of difficulty, and staff in some locations were greeted by rounds of applause. Food stores are now figuring out the optimal combination of in-store shopping, delivery services, and click-and-collect.

In all consumer businesses, the boom in online sales has led companies to rethink their interactions with customers. That can mean new digital tools or a differentiation of store types, from flagship centers to pickup points.

In these ways, the pandemic is acting as a catalyst for major, lasting changes, and consumers are now looking to see which companies best respond to their needs in a new digital era. Real leadership is especially important in this context: Companies that have taken smart and consequential decisions quickly are gaining trust and share.

Before 2020, many of these challenges were seen as tasks for the future. Now, that future has firmly arrived, faster than anyone had expected — and there is no going back.
INTERVIEW

STEVE HENIG

Wakefern  Chief Customer Officer
Frédéric Thomas-Dupuis, Oliver Wyman’s Retail & Consumer Goods Leader, Americas, spoke recently with Wakefern Food Corp.’s Chief Customer Officer Steve Henig. Henig, who oversees branding, e-commerce, marketing, and advertising at the member cooperative, is tasked with creating a single, consistent brand voice for customers. Their talk ranged from the far-reaching impact of COVID-19, to Wakefern’s unique structure and how digital will transform the sector. An edited version of their freewheeling conversation follows.

How has COVID-19 affected your businesses and how did customers’ needs evolve during this time?

Honestly, I don’t think anybody could have imagined the far-reaching implications of the virus — how people shop, how they feel about safety and crowds, and their embrace of all things digital. We’ve certainly seen an uptake in many product categories that allow people to meet their family’s needs. And that’s had a huge impact on us.

Our ability to deliver the same products has changed: We’ve had to close our hot prepared food bars, place produce inside bags, package our bread rolls when we previously would not have done something like that. So there’s been a widespread impact on the supply chain in the US as a result of mismatched demand. Consumer packaged goods have been under a lot of pressure to deliver what the customer wants.

That’s the 30,000-feet, bird’s-eye view.

What’s been happening and what has stunned everyone is the consumer’s embrace of all things digital, something that under the impact of the pandemic has accelerated by about three years. All retailers have had to move faster in their embrace of digital, whether it’s e-commerce, the look and feel of mobile applications or desktop. That is something that must take place internally: moving that sensibility throughout the organization in a meaningful way so that everyone understands the importance of digital. We thought we had more time to implement the digital move, but reality has taught us differently. That’s the challenge for us as an organization: How do you accelerate digital engagement across our entire enterprise?

To your point, whenever I think about digital and e-commerce, there are three barriers that come to mind: First, there is the digital interface of the e-commerce site; second, there is the picking and packing part where automation may be appropriate; and finally, the third piece is fulfillment — pickup and delivery. Do you feel that COVID-19 has accelerated any one of these or all three of them?

Due to unprecedented consumer demand, retailers all across the US and the globe are reporting increases of online orders on the magnitude of 80 percent, 100 percent, and as high as 200 percent, depending on who you speak with. Just to be able to meet that demand and to make yourself available to your customers with delivery time slots or pickup slots in real-time has put an enormous amount of pressure on all of us.
And so for us, our goal is to expand our e-commerce offerings in a more meaningful way: more slots, more stores. We’ve opened up more e-commerce sites in the past quarter than we have in the past two years and we continue to open more.

But e-commerce in its current format can’t continue, and companies will need to embrace automation in different ways. Also, automation means different things to different people: to some, it means full-blown centralized fulfillment centers; others focus on micro-fulfillment centers; and to others, it means direct-to-customer. That said, all retailers are going to have to accelerate their comfort zone and embrace automation to meet strong customer demand. Because without automation, it won’t be possible to meet the customers’ expectations to have their products in hand in just a few hours. And when you get above double-digit e-commerce penetration in your building, it starts to become very disruptive to your brick-and-mortar customers because item picking is taking place in the stores as customers are going down those aisles and trying to shop.

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Wakefern is a cooperative group of supermarket brands, consisting of more than 50 members who own and operate more than 350 stores throughout the Northeast. In theory, the members could act as an impediment to online sales, arguing that e-commerce might pull sales out of their stores. However, I think the way Wakefern is structured actually enables members to be competitive. Do you do share that view?

I have absolutely no concern about our structure. What is powerful about our members is that all 50 of them are owner-operators and they’re very entrepreneurial. Many have seen the future around automation. Our structure is not an inhibitor — in fact I think it’s one of the key drivers of our success. Our members embrace innovation — including automation.

A core characteristic of your business is that your members own their stores. How did that structure help Wakefern respond to COVID-19?

When it’s your own business, when it serves the community you live in and friends of yours are coming into the store — that is a deep level of engagement. And so our members took their role of protecting their associates and customers very seriously.

What was the division of labor between Wakefern and the members during COVID-19? Was it more about headquarters providing support in areas that were cross-member challenges, such as sourcing PPE?

Our structure is that we oversee distribution, logistics, marketing, and procurement. That’s where the power of the cooperative structure comes into play. Wakefern is at its finest in a crisis and came together to procure as much PPE,
chicken, toilet paper — whatever was needed so that our members could operate at the highest level in serving customers.

Let’s go back to the issue of e-commerce. As we shift to online and digital, what’s your view on whether customers prefer direct delivery or click-and-collect? How do you think that might evolve?

It’s a fascinating topic and potentially one that a lot is riding on. I think delivery to home for groceries makes a lot of sense where you have Zip Code density — urban areas in other words. In many of the rural areas, success may hinge on retailers’ support of click-and-collect. Remember, most of America remains a car-centered society, with people driving to and from their destinations. So for rural areas, we’ll see click-and-collect, while in urban areas, it will be more direct delivery. For our members, it will be a confluence of the two.

Let’s assume that we achieve double-digit e-commerce penetration levels. Do you think the delivery in urban centers will be fulfilled from a warehouse, whereas click-and-collect will be done from a store? And will click-and-collect take a centralized approach too, with picking for orders being fulfilled from an MFC (modified fulfillment center) and dropped off to stores? In that case, obviously, there are implications for fulfillment time.

That’s a complex question — the jury’s still out on it. To answer, I have to step back and ask myself as the retailer/grocer what’s the range of time that I’d like to start with, what can I realistically support, and then to your point, what’s the lead time that I need.

Because when you move into a full CFC (centralized fulfillment center) model, you’re going to sacrifice lead time, and you’re also going to sacrifice the range of products in a traditional store. Companies are going to have to determine whether they’re going to go to market with a CFC or MFC. There are benefits to each approach. But, again, it goes back to what the customer wants, what’s your line of sight on costs, and what experience you want to deliver to the customer. At the moment, however, there isn’t a tight logistics model in the US to support direct-to-customer from CFC with margins to support it. So it’s a jump ball on that one — you have to start with the customer.

To your point on matter of range: A winning strategy has been for grocers to provide more differentiation. Do you see a shift in your marketing mix? Take ShopRite, which has moved toward a very broad and differentiated assortment. I would imagine that a CFC would skew towards a homogenized offering, with the range of grocery products being limited, and would have a hard time working with ShopRite’s differentiated offering.

That’s right. Again, it goes back to what’s the role of perishables in your building and how important is it to maintain that range. Plus, what do you do with local, because local is not going away. And so if you think range is going to be a key differentiator in your communities, then a CFC will be challenged in supporting that differentiation.

Will assortments, promotions, and pricing strategies need to be different in an e-commerce world?

Some adjustments will be needed to the marketing mix — digital allows for a level of personalization you could never achieve in a store. There will be a shift in how people shop and get information. There will be offers they receive online that they won’t get offline: Eliminate the waste to give the best offer to the customers who are most likely to receive the message.

The biggest challenge for the industry, it seems to me, is where we are today — that is, we still have the grocer’s flyer, and at the same time we have
a number of customers using the app or website — and where we want to be tomorrow, which is much more engagement. This interim period makes it difficult to allocate capital — whether to fund the app, the website, or partnerships that can help with personalization. Is that something that is a challenge for the industry, or do you feel that is something that needs to be done incrementally over time?

This is something we discuss internally all the time. The world has become an “and world.” We didn’t eliminate circulars, we didn’t eliminate billboards, and we didn’t eliminate network television. We just supplemented our approach with banner advertisements, email marketing, social media, and YouTube. So we’ve augmented the traditional mix with a vastly expanded marketing ecosystem.

Companies will have to be very smart about how they go about engaging their customers. I think it’s a continuum: Customers are going to move away from some of the traditional means of engagement. That’s going to free up some capital for investing in the new digital as a means to interact with the customer. That said, I think companies are going to have to make investments in the short run, of maybe five to 10 years, to fund that journey so that they can stay connected to their customers.

I find that marketing generally sees where we are headed in the future. Merchandising, however, sees the same future but lacks the linkages to marketing so as to be effective in this brave new world. Do you see that as a challenge as well?

It’s a huge challenge. The digital ecosystem is complicated: There’s a staggering amount of complexity, vast oceans of customer data and preferences, and all of it overlaid with algorithms. It’s a level of complexity that makes it difficult for most organizations to wrap their heads around. That’s part of the reason why digital retailers have been able to move so quickly. They lack the burden of a legacy system — digital is all they know. Ultimately, however, merchants will understand and leverage digital, but it’s a big lift at the moment.

Plus, there are so many offers and ideas that it’s a little overwhelming. ROI and technology are evolving every day.

Let’s talk about other players in your market. What do you think of discounters such as Aldi and Lidl? Does their future depend on digital? Or do their pricing strategies protect them from the incursion of digital? Are they formidable rivals or fringe competitors?

I think the competition in the market is upping everyone’s game. What I would say is that “digital” is a bad label for what we’re talking about. Digital for a long time meant e-commerce, but digital is really so much more broad-based than that. Many retailers have very successfully leveraged social media to drive sales — they’re

I’m confident that when the pandemic is in the rearview mirror, people will gravitate back to getting a prepared meal, rather than making it from scratch.
finding the right digital tools that resonate with their customers.

Big companies have the scale that allows them to look at AI, machine learning, and other innovations. I'm not claiming that the big companies have an advantage, but they have more access to funds to find the technology that unlocks some of the challenges.

What's your take on quick-service restaurants? Are they a big competitor that the industry needs to take on?

I think so. When I think about QSR, I'm throwing in Applebees, Friday's, and other restaurants like that into my definition — not just fast-food operators. Customers are looking for a quick meal and a way to get in and out, while feeding their family quickly — fast casual as well as quick service. What happens with the likes of Uber Eats or Door Dash, is more people dialing up service on their smartphones and getting quick delivery not only from a single food provider, but multiple ones.

Is e-commerce a competitive advantage for the grocery space?

It can be: I think there's a fresh play here that can be very compelling to a customer. If you can have a fresh heat-and-eat meal without having to drive to it — that is delivered to your house and that can be enjoyed by your entire family after 15 minutes in the oven — then I think that is something that grocers can own.

Do you have a vision of the role of physical store in 10 years?

COVID-19 has complicated the trend that we see, but in the US there was a steady march toward e-commerce, home-meal replacement, meals away from home, and better and more refined unique perishables. Those will be the north stars for organizations for the next 10 years. But companies will need to think of how to enable e-commerce to become central to their organization and design layout. How do I create the best presentation for perishables? What are the best options for meal replacement? I'm confident that when the pandemic is in the rearview mirror, people will gravitate back to getting a prepared meal, rather than making it from scratch. Those are things that organizations will need to think about as they consider building stores.
How has COVID-19 affected A.S. Watson's business so far?

The global economy has been hit hard by the pandemic, and it's been a very tough time for retailers. But our mix of business, geographical diversity, and strong financial foundation has enabled us to be very resilient.

In February, 95 percent of our Watsons China stores were closed temporarily, which certainly affected our business. But as restriction measures gradually eased in Mainland China and as our stores began to reopen at the end of April, we saw a robust sales recovery.

In Europe, footfall on high streets and shopping centers was severely impacted by lockdown measures. But because our major businesses are considered “essentials,” most of our stores could remain open during the lockdown.

In the first six months, our revenue dropped by 11 percent, but stepping into the third quarter, the decline recovered to low single digits. We've prepared well and are determined to get back to growth in the last quarter of the year.

How have health and beauty customer needs evolved and changed over the past half year?

We conducted a global survey in more than 20 markets in Asia and Europe, asking 22,000 customers about their shopping intentions post-COVID. One hundred percent of respondents said they will go back to physical stores for shopping, especially the Gen Z cohort. One-third of those surveyed said they will even shop more often in stores while 80 percent said they will continue to shop online.

The pandemic underlines the desire among customers for human connection. Our customers really want to get back to the physical stores to have the human connection again — touching, trying the new products, and seeing the friendly faces they know and trust.

In the survey, more than 70 percent of our customers told us that their income has been affected by the pandemic. When asked about how their lifestyle would change post-COVID, over 90 percent said they would take part in outdoor activities, followed by cooking at home and doing DIY beauty treatments. This means we will have to adjust our assortment swiftly and continue to enhance the online and offline experience to serve customer needs.
How did you react to the changes and to the operational challenges? What changes to your business model did you introduce or accelerate? And what are your key lessons learned?

There is no instruction manual for how to lead at a time like this. We are fortunate that what we believe in — loving our people and customers and the online and offline strategy we have been driving — plays its most critical role during the crisis.

We believe in loving and caring for our people. We have 140,000 colleagues globally, and a majority of them work in our stores. At the beginning of the crisis, we prioritized our immediate efforts on their health and safety, proactive communications, and most importantly providing security. This has helped to keep our people together to fight the pandemic in high spirits.

Operationally, we immediately adjusted our assortment to ensure we served the customers’ most urgent needs. We also accelerated our online and offline capabilities.

We use digital to stay connected with our 140 million members globally. We enhanced our cloud technology to handle the surge of traffic to our online stores. We mobilized the organization’s resources to handle order picking in stores in addition to our warehouses, so that delivery could be completed within the shortest time possible.

We also tripled production of digital content to keep our customers engaged on social media.

With respect to these changes, how much do you anticipate returning to business as usual? If and when will we begin to get back to a more normal world?

No one has a crystal ball on when the pandemic will end and what the new normal means. Some behaviors will stay, while some are short-term COVID driven. One thing we are certain about is that customers would want to associate more with brands that care for their people, their customers, and the communities. The COVID pandemic has reinforced our purpose to put a smile on customers’ faces, on everyone’s face.

In this context, many retail businesses are accelerating the shift toward online and direct business models. With health and beauty moving in that direction, where do you see your business and business model evolving? And what capabilities are you investing in?

Due to the pandemic, people had no choice but to shop online. This saw our global e-commerce grow by more than 90 percent in the second quarter of 2020. People have become more comfortable with e-commerce and are likely to stick with online shopping in the future, which in the long term will give online sales a boost. To stay close with our customers, we developed 30 to 50 percent more digital content for social engagement during COVID-19. In a survey of our customers, more than 75 percent felt that we had managed to stay close with them in the midst of the pandemic.

Online and offline continues to be our core business strategy and model. As mentioned, our global survey reveals the customers’ desire for human connection, and we believe these bonds

One thing we are certain about is that customers want to associate more with brands that care for their people, their customers, and the communities.
will become even more important in the future. While we continue to invest in offering a seamless online and offline shopping experience alongside industry leading technology, we've also been working to build a lasting and close relationship with our customers.

Customers are more emotionally demanding for relevance, care, and personalization, so we need to show them that we understand, we care, and we want to stay connected to them. All technologies are designed to enhance the customer experience, but they can never take the place of quality service, strong relationships, and personal connections with customers.

And, how do you look at the role of your physical stores going forward? What will a store look like?

Physical stores and online stores are perfectly complementary in our business model. As e-commerce continues to grow in every market, brick-and-mortar stores will increasingly serve as a “third space” — a place that is not only about transactions, but also about human interaction with customers. It is just as much — if not more — about the customer experience, customer service, and creating a unique, engaging environment.

Customers want in-person service they can't get online. And they want to be able to touch the products.

To keep customers coming back to the physical store, experience-based technology will be introduced in the store to appeal to customers. Apart from the debut of WatsonsGO, the recently upgraded ColourMe service has also been launched in the Watsons app in Hong Kong, Malaysia, Thailand, Taiwan, Singapore, and Indonesia. It uses augmented reality technology to instantly and virtually show customers how they would appear with different looks. Now, even if customers are wearing facemasks, they can virtually try on any lipstick product they choose. In addition, Watsons Taiwan and Thailand introduced a virtual hair color tool in the mobile app to help customers choose the right hair colorants in the store.

We recently entered the Gulf Cooperation Council market by opening our first Watsons store in Dubai, offering both the online and offline shopping experience to customers in the Middle East, one of the world’s fastest growing markets for beauty products. We view this opportunity to unleash the potential of the Middle East market as an exciting and important future growth engine for us.
The past months have been full of challenges for CPG companies. How has COVID-19 affected your businesses so far and how did consumer needs evolve during this time? How are you looking at 2021?

For a large food and beverage company like Nestlé, COVID-19 had a tremendous impact on business, and it is still affecting us.

First, when you consider the massive spike in demand for in-home CPG products, across most of our categories, you can imagine the impact that had on our supply chain. Supply chains are not necessarily built to cope with sudden massive increases. Our biggest challenge and commitment has been: How do we continue to ensure our products are on store shelves and we are serving our consumers, while keeping our people safe and supporting the communities in which we operate? Our teams across the company, especially in our factories and distribution centers have come together to deliver on these challenges.

Second, the needs of the consumer have evolved under the impact of COVID-19, with both structural and cyclical effects on food and beverage companies and CPGs at large. For example, at Nestlé, a vast majority of our US business is in-home products, with a much smaller percent representing the out-of-home business. Since the beginning of the pandemic, we have been seeing consumers cooking and eating at home more than ever before, which we have taken to calling the “at-home revolution.” The consumer has been reintroduced to in-home cooking and baking, and I think there is a structural component in this, not just a cyclical aspect. People are evolving their habits, and we believe this is an evolution brought on by the pandemic but one that in many ways is taking hold for the foreseeable future.

Nestlé and other CPG companies are also being challenged to fill in the void left by the loss of out-of-home experiences available to them right now: How do you get that out-of-home experience in home? Now that you cannot go out to your favorite coffee shop or bakery, how do you replicate those powerful experiences indoors? Consumers are becoming their own baristas; they are trying new coffee recipes and trying to reproduce the café experience. Our Starbucks At Home site has seen increased traffic since the start of the pandemic as consumers are increasingly searching for recipe content, and we are supporting them on the website and via social with ideas, recipes, and techniques to try.

Another profound consumer-driven impact was the very significant acceleration in grocery e-commerce and direct-to-consumer (D2C) penetration, which more than doubled two or three months into COVID-19 and continues to hold. In some categories, it almost tripled. I wouldn’t call it a trend — it was more of a speeding up of a shift that we were
already seeing on the horizon for the industry. The immediate challenge was dealing with the reality of exponential growth essentially all at once.

Looking forward, most of the consumer trends and impacts will persist into 2021 and potentially into 2022, with some consumer behaviors shifting for the long term.

In addressing those consumer changes and trends, which adjustments and priorities would you highlight for the consumer products industry?

There is a health crisis and an economic crisis. We need to create products and solutions to help consumers get through both. We are committed to meeting the needs of financially fragile consumers, as well as the needs of those who are not able to leave their homes because of shutdowns, yet at the same time want to have the out-of-home dining experience.

Also, certainly, e-commerce, D2C, omnichannel, and other trends are here to stay. We at Nestlé were talking about those trends and our approach to them long before the pandemic. The priority of embracing a truly omnichannel approach — of bringing offline and online together — was obviously reinforced and accelerated as a result of COVID-19. Also, the pandemic has accelerated the much-needed digital transformation across all aspects of the value chain — not just in the way that you engage consumers, but also in the way that you run your supply chain and backbone.

Despite all the transformation going on, in a crisis it is crucial not to lose sight of the future and of your long-term strategy and goals. For example, take sustainability — at Nestlé, our purpose is to unlock the power of food to enhance life today and for generations to come and being a sustainable company is a key part of that. It is also a core element of our long-term strategy globally, both from a business perspective and the point-of-view of the consumer. Throughout the pandemic we have not only kept focused on our commitments, but actually advanced the efforts we have been making across our markets. For instance, in the US we have announced industry partnerships to reduce greenhouse gas emissions and made great strides in packaging innovation. These elements are very relevant for the planet and consumers expect it — and the pandemic has not and will not divert our attention from it, neither in the US or abroad.

Finally, so much has changed in this year. I hope that some of the new ways of addressing and embracing change, including the empowerment and agility in decision-making, will remain in the post-COVID-19 landscape.

Zooming in on the out-of-home trend that seems to have been disrupted, and the D2C trend that you highlighted: Will out-of-home dining see a rapid comeback? And how does your investment in Freshly (a service that delivers direct to the consumer fully prepared, fresh and healthy meals ready in under two minutes) fit in?

Out-of-home dining will come back, but it will continue to face some challenges. Right now, there’s a lack of comfort among consumers about eating
out that will take a bit of time to wear off. In the long term, we believe part of the consumption that shifted in home will stay — people will slowly start to look for out-of-home experiences when they feel comfortable, but their habits and preferences as to how they balance in-home and out-of-home time may have shifted. Consumers have gotten reintroduced to the enjoyment and comfort of staying and cooking at home and that will factor into how we as people come out of this period. Also, many operators in the out-of-home dining sector are potentially struggling financially. All in all, it will require a lot of partnerships between out-of-home operators and others to work together to rebuild and reimagine the out-of-home dining sector. That said, some of the out-of-home channels are starting to bounce back, which is great to see.

Freshly is indeed a D2C meal-solution proposition and fits nicely with our focus on delivering a wide variety of delicious food to consumers when and where they want it — be it directly in their home, in retail stores, or online. We want to provide unbeatable convenience, choice, and ease to our consumers wherever they are and however they choose to shop.

We had taken an equity position in Freshly back in 2017. This is not simply something that we are doing in response to COVID-19. Our interest in the D2C business model predates Freshly. If you think about the Nespresso business, that’s a D2C business we started more than 20 years ago, long before the term D2C was coined. We also recently acquired other important D2C players such as Mindful Chef in the UK and Persona, a personalized nutrition business. In a nutshell, investing in D2C is a continuation of a path we have been on for a long time and a structural trend that we see continuing in the future. Today, there’s both the consumer demand as well as the required level of preparedness from a supply chain standpoint to make these D2C business models effective.

Moving on to digital preparedness: It seems to be the big differentiator between the “sheep and the goats.” A key factor in that preparedness, in terms of infrastructure, is data analytics. How has 2020 accelerated that agenda?

Across the entire value chain we relied upon analytics — be it consumer-driven analytics, production analytics, demand-signal analytics — and digital at large because we had to run business much more digitally and dynamically during 2020. We will take those learnings and experiences and continue to run even more efficiently looking ahead. As for understanding where consumption was headed during the pandemic, we were guided to a great degree by digital enablement, which helped shape how we planned demand and supply, how we operated, and how we engaged.

In this context, how have you approached the issue of not being able to fully rely on “like for like” comparisons that are so central planning and running to the retail and CPG supply chain in 2020/21?

Look, the past nine months and the foreseeable future have been anything but business as usual. Like-for-like comparisons were difficult in 2020, and will be difficult in 2021. That forces leaders to think through the expected impact of COVID-19, both in
terms of the elevated consumption, and the future as the vaccines are rolled out. Because of this you need to approach financial budgeting in a much more dynamic way and with a great deal of scenario planning — of course leveraging a lot of analytics and digital tools. Also, this is where the role of the CFO and heads of strategy become paramount. They will need to keep different planning scenarios in mind as we navigate this unprecedented period in a very agile manner.

You are one of the most global companies. At the same time, there are different approaches to COVID-19 across regions and countries. Does this create new challenges between global ambitions and local reality?

What you're saying is valid. Having said that, food and beverage is very local: The large majority of our products sold and consumed in the US are also produced in the US and that is the case with almost all our regions and markets globally — the products are produced close to consumption. I would also add that the balance between local and global hasn't changed for us. We are a global company in a localized way: Global frameworks of operating, but agile ways of executing locally. And this in a sense helped us navigate the pandemic — because our local markets had their own local supply chain versus a global supply chain, which during the pandemic became problematic for many.

Finally, is there a moment that stands out that you'll remember 10 years from now?

There are a few memories that I feel will be lasting ones. The first is looking at the numbers early on and realizing the enormity of the coming challenge for our supply chain. The fact that there was not a material interruption in the food and beverage supply chain in the US really speaks volumes about the supply chain resilience. Of course, there are always issues here and there, but generally speaking the industry held firm and rose to the challenge. The agility of retailers, manufacturers, and suppliers to cope with the spikes in demand was simply unbelievable. Seeing the front line coming together to help the country and world get through the crisis has been amazing to me, and I have been humbled by their response. It helped maintain consumer confidence in the food supply chain and reassured the consumer that the shelves were not going to be bare, thus reducing panic shopping. There's no playbook for that and it will stick in my mind forever.

Witnessing the massive acceleration of e-commerce in just a few weeks also stood out: The expansion of the food and beverage e-commerce infrastructure in the US practically happened overnight. It was there previously but not to the extent that we see today. And it's not transient demand: We're seeing a new plateau. And so, we also have to quickly evolve our business model and projections to sustain that.

Lastly, I am so proud how we at Nestlé came together for our communities. From partnering with the Red Cross globally to feeding seniors in New York City with Freshly to donating more than 2 million meals to Feeding America and more than 4 million bottles of water to relief organizations, we mobilized in the US and around the globe to support our consumers and our communities.
Falabella is a diversified food and non-food retail organization, operating in major Latin American economies. How has COVID-19 affected retail in Latin America? Have you seen customer needs evolve? Has the effect been across-the-board, or has it varied by segment and country for you? How has food versus non-food been affected?

The impact has been very different by market, and also by the sequence of events. But there are some common denominators: First is the effort that we’ve had to make to keep operations going. And given that we operate in very different segments — from food to home improvement, electronics, and fashion — we’ve seen each of these segments impacted differently. Second, there was a permanent focus on how to maximize innovation while minimizing the level of risk for our team.

Initially, we focused on securing supply: Our main concern in February was not whether we would be able to operate, but whether our supply chain from China would be interrupted throughout the year.

Another area of focus was to ensure liquidity in all our operations. We prioritized this when it became clear that this coronavirus was a global pandemic and not something that would remain within Asia, as was the case with previous coronaviruses.

The third area of focus was how to implement the right safety protocols so that the authorities felt comfortable with us continuing operations in our distribution centers.

And the final challenge was to find a way to shift all of our efforts to a demand that was moving away from the stores to the digital channels.

Those were the four major areas of impact. Initially, most of our stores were closed, which meant that the volume of home deliveries really exploded. So while until the beginning of 2020, home delivery was something we mostly did internally with our resources — our own distribution centers and contracts with independent transport companies — we now had to adapt ourselves to work with third-party logistics companies to carry out this operation.

To circle back on the split between the food and non-food business: In Europe, we saw a major difference in the impact of COVID-19 on the economics of grocers and non-grocers. Grocers actually did very well, once the issue of the supply chain was settled. We saw a shift towards major “shopping mission” shops, rather than everyday convenience stores. Within weeks, a new model had emerged for in-store shopping that seemed to work.

On the other hand, non-food consumer electronics, DIY and fashion in particular were hit with downturns of 90 percent, and many non-food
Retailers were forced to close for long periods. Was that mirrored in Latin America?

Again, it was an evolving story. For food, we had a shift in channels, not a decrease in demand. Quite the contrary, sales in general were above prior years, as consumers no longer had the alternative of going out to restaurants.

As for non-food segments, it’s hard to generalize. Fashion was hit very hard and continues to struggle. People reverted to basics, such as underwear and shoes, and felt less comfortable buying higher-ticket fashion items online, such as dresses or fashionable shirts.

In electronics, the demand contracted initially, but then expanded due to home-office needs, entertainment, and communications. In this segment, good online channels sustained themselves very well. However, if your business was very dependent on physical stores, it didn’t do well because people were uncomfortable going into stores and interacting with other people.

Another of our strong segments is health and beauty. Sales in that business decreased and were hit, particularly in beauty.

And finally, home improvement, where we command a high market share, was a line of business that did extremely well. People allocated more of their incomes to improving and renovating their homes, partly because they’re spending more time in them, which made them more aware of the wear and tear that’s happened over time. The combination of seeing the issues and having a lot of time at home to take care of them created substantial demand for home improvement. So that’s one sector where we saw online demand and home-improvement needs creating activity in our stores.

What happened to the share of online purchases in your businesses — did it explode?

To generalize, online sales represented about 12 percent of total sales in the previous year. This increased to almost 40 percent in the second quarter of 2020. So in terms of sales, the online channel almost completely replaced the offline channels. That led to a major explosion in home delivery volumes.

In terms of margin, the story is very different, though again it differs by segment. In food, the margin was stable. In home improvement, margins varied.

Department stores is where we were impacted the most in terms of margins, because demand shifted to electronics and away from fashion.

There was the increased cost of delivery, which placed major pressure on margins. This meant we saw stable sales, but our results and margins were greatly affected.

Did you cover a lot of the increased online volume through third-party logistics (3PL) providers?

We had to increase capacity fast. So to supplement our delivery capabilities, we had to integrate two or three major 3PLs in the countries where we operate. That will shape our thinking on direct-to-consumer logistics going forward, allowing us to mix our own solution and 3PLs.

And if we look at the food side: Was that home delivery or was that mostly click-and-collect?

Food — which was both click-and-collect and home delivery — is the one segment where stores remained open throughout the pandemic. Stores continued to present a large proportion of total sales and online also grew substantially. Another distribution system that saw rapid growth was on-demand delivery. On-demand delivery had already
Online sales represented about **12 percent** of total sales in the previous year. This **increased** to almost **40 percent** in the second quarter of 2020.

been emerging in these markets even before COVID-19. But the pandemic gave a huge boost to on-demand delivery: Demand for delivery of food orders within 45 to 90 minutes grew substantially in all of these markets. We had a very fast rate of adoption by our consumers: We went from zero to 10,000 orders per month in Chile in a matter of months.

A colleague of yours in North America said that one of the overlooked benefits of COVID-19 was that it provided volume for direct delivery. However, the problem with direct delivery traditionally has been that it costs too much money per unit to be delivered. But with rates of adoption having now doubled or tripled, he's of the opinion that the economics of delivery have fundamentally changed. Do you see that happening?

The efficiency of on-demand delivery is driven both by the delivery and the picking economics. We are not seeing delivery economics improving much as a result of volume. But the picking economics have really improved as a result of the spike in volume, which has allowed for the construction of dark stores. Without the volume, you cannot build dark stores.

How different do you think your channel structure will be in three years compared to what it was in the past three years — and how far and fast will it be changed?

We feel the need to move at a fast pace, and not just as a result of the pandemic. What is happening is that as the whole market is moving toward better solutions from a technological and logistics point of view. The consumer has become more willing to adopt these solutions.

But the most relevant driver is the improvement of the solutions. I see the solutions growing at a very fast rate and the competition becoming more efficient, aiming to make shopping more consumer friendly. Any players who are not moving at this pace will be left behind.

In my own experience, one of the challenges that retail organizations struggle with most as they move in the direction of data analytics and digitization is the profile of their workforce talent.

Do you see a talent issue developing?

There are two things at work here. It's a talent issue, of course, but it's also a cultural issue that you're trying to overcome.

Thinking about talent: There's a shift in the profile of the talent, you need to create engines of growth, such as app development, direct marketing tools, and business intelligence. We're in the process of recruiting those types of talent. In some cases, a region like ours has a limited number of people that have that type of training. So, for example, we created a development hub in Bangalore, India, which complements our technology organization in Chile, and helps us move much faster in terms of developing technology solutions.

But that's only one capability profile where we have been able to recruit the right type of talent. The other is cultural: The whole organization needs to
be on board with these shifts. Therefore, people need to be aware of how the online and physical channels complement each other and how this is not a channel competition, but rather a set of solutions that will make the customer’s life easier. We’re making a great effort to train people in how these solutions work together. We have the Falabella Academy, where hundreds of associates learn about technology and logistics, BI, data analytics, and how all those capabilities help improve the business.

If you look at China, there are retail ecosystems that are built up around the entire portfolio of what people buy and do and how they entertain themselves. And then on the other side is classic retail, for example the Amazon purchase of Whole Foods, a relationship where each can learn and profit from each other. Do you see that evolving in either your company or in your continent?

We are moving in that direction. It is not clear whether it will be through partnerships. But if you think about our acquisition of Linio a couple of years ago, an online marketplace, it meets our main objective. We aim to complement our retail business with a marketplace platform and as a result, have a more attractive assortment and better customer experience.

Another example is the development of our financial services business. We concentrated on financing initially, but then it became focused on the transactional relationship and payment solutions. Now it’s aimed at the payment experience both in-store and online, ultimately complementing our retail offerings.

Another example is when we look at the countries where we don’t have all the pieces of our ecosystem, for example in Brazil, where we’re working with third-party marketplaces. So, depending on the market, we will build different types of partnerships to complement our ecosystem, but our main focus is on enhancing the businesses we operate.

One more question about people. The biggest surprise for many business leaders has been just how well they could operate with fewer associates in the stores than ever before. Going forward, many plan to have a dramatically leaner number of associates in stores. Do you see that happening in Latin America?

In Latin America, we went through a very drastic reduction in overhead and then simplified our organizational structure. I think that same mentality of simplification is taking place in the stores, taking advantage of technology to automate. That also means people’s efforts can be invested to really add value to the customer.

What has been most surprising for you about the past six months?

The biggest surprise for me was the ability of a whole organization to work remotely, and to see remote work actually help break some of the hierarchical and organizational barriers across our businesses. It made us more horizontal in our interactions and helped to boost some of the cultural changes that we were seeking.

Can we assume that this is going to be a permanent change?

I think one of the challenges ahead is to find out whether we can project the reality that we are seeing now into the future. It’s like when you build a dam in a river. You know the river will change direction — and that once you remove the dam, the river will return to its previous path.

We’ve seen very drastic shifts over the last six months. However, once we bring the COVID-19 barriers down, we will go to a new balance. But we will not go back to where we were.

What is the one thing that keeps you up at night?

The main thing that keeps me up at night is the need to increase the speed of execution. What happened over the last six months brought a great deal of pressure to rapidly react to shifts in customer behavior. That pressure will not ease up as we move forward. We have very ambitious plans of putting our e-commerce under a common
umbrella. So if there is one thing that keeps me up at night, it is the question how fast we can execute on all the different initiatives and if they can truly improve the customer experience.

What did you learn earlier in your career that helped you to navigate these dangerous waters?

I actually began in the agriculture sector. From that experience, I learned that you have to stay on the course and not overreact to very short-term shifts. It’s a bad idea to keep changing your actions because it rained yesterday or because something is happening with your next-door neighbor.

The pandemic has brought on a lot of changes, some of them long-term, while others may pass us by. Of course, you have to act in the short-term, but you also have to make sure you hold steady on your future plans. Constantly changing strategy is a very bad idea.

The other big takeaway for me, is the notion that you’d better be prepared to confront the long-term trends quickly, because events like the pandemic can accelerate those trends in a way that you could never have imagined. Had we moved faster in building out a digital ecosystem and creating digital capabilities for our business, we would have been in a much better position during the pandemic.

What lessons do you hope to take with you moving forward, having gone through this very difficult time?

I think the one thing that helped us, and that I’d like to continue moving forward, is that intensive levels of communication are very important. As organizations, we tend to underestimate the importance of communication, we often feel like we are repeating ourselves and get bored of our own message.

The reality is that organizations and markets take a long time to digest those messages. So you need to keep repeating them again and again, even when you feel like you are getting tired.

Is there anything else you’d like to add?

Going forward, we will see an acceleration of greater cooperation between larger companies like Falabella and the rest of the retail and financing ecosystem. Our move toward creating a marketplace — of doing it not just with a view of improving assortment, but of opening up our platform to entrepreneurs and small businesses — is an example of how we can become a more useful player in the overall ecosystem.

The issue of cooperation is something that is not often mentioned, because every company is more focused on its own survival. But I think cooperation between smaller and bigger companies can create a better offer for the customer. We have a lot of small businesses that wouldn't have survived if not for the marketplace business model, because they don't have an online channel. I think that the larger players becoming a channel for everyone is extremely influential and important moving forward.
How has your customers’ behavior in China evolved in the past 12 months, and how have they been engaging with you and your channels and brand?

The past year has been transformative in many ways. Let me focus on a couple of points and how they relate to Sephora and our direction going forward.

The first — and most obvious — point to touch on is the shift to online consumption: COVID-19 underlined and substantially expanded the importance of online channels for all retail, not just beauty. The rapid expansion of digitization enabled us to reach and engage our consumers — despite the temporary offline constraints of lockdowns.

The second, somewhat linked aspect are the new, much more direct ways we now engage with shopper communities and individual customers online. Last year gave a strong boost to live-streaming, social media connectivity, and private domain sales. These approaches are enabling us to connect one-on-one with our customers and build a community around our brand. This in turn allows us to better understand customer needs and trends, to more effectively tell stories, to explain innovative brands and products, and to add an emotional dimension to the relationship with our customers. Unsurprisingly, private domain traffic has become very much top of mind for online business in our sector.

Finally, the pandemic has not only driven change in how customers shop, but also in what they are looking for in terms of product proposition. We have noticed an increase in the awareness of sustainability and in how sustainability connects with wellbeing. How do you maintain your health? How do you maintain your wellbeing and healthy lifestyle at home? How do you manage for things to be uncluttered, given that everything is arriving in a package? In China, this sustainability trend has translated into a desire for products that are simple, direct, and uncomplicated, and packaging that is less wasteful. The simpler, the better.

Interesting! Let’s zoom in a bit further on the private domain point you made. Why is it that private commerce membership schemes and communities are growing so rapidly and effectively in the prestige beauty sector?

Prestige beauty retail has traditionally been closely tied to stores inside shopping malls and department stores, and relied on a “private domain experience,” in terms of personal advice and product testing. The usual online experience is radically different from
that: Just seeing a product on a screen is simply not good enough, because the product is ultimately applied to the skin and influences how we feel and are seen. Private domain is in a sense about bridging that gap and bringing back some elements of the offline experience. This is one of the reasons that private domain is growing rapidly.

The second reason is that prestige beauty is a higher ticket item. There are a lot more requests from customers for the product experience. Personalized service plays a crucial role — not just in terms of bringing authentic customer feedback to us but also by connecting professional knowledge from the beauty adviser to the target audience in a personalized way through social media.

**So, how did you react to all the change? What changes to your business model did you undertake? What lessons did you learn?**

As a global prestige beauty company, we have always been centered on consumers. Consequently, our retail concept, which we call “True Retail,” takes a holistic view of the full omnichannel retail experience across all customer touchpoints. This thinking was very helpful to begin with. It enabled us to quickly adjust and optimize our strategy, proposition, and priorities. Fundamentally, we initiated a more direct and close conversation with the consumer, leveraging the online ecosystem while connecting it to the offline experience as well. Let me highlight four examples:

One change that we made is the “Smart BA” (BA for beauty adviser). We launched Smart BA in late February/early March during the pandemic as a way for customers to draw on the expertise of our beauty advisers even though they could not be in the stores. By leveraging WeChat, our BAs can connect with customers and provide them with advice that is unique to them. Our goal was to empower all BAs to provide one-on-one service and information to fulfill the beauty promise to consumers. We basically digitalized the physical touch point between the BA and the customer.

We also intensified our collaboration with Meituan, a last-mile service provider or platform. We rolled out this service, which allows customers to go onto the platform, order a product, and have it delivered to their door within 30 minutes, in 16 major cities in China. This is a useful capability to have during the pandemic, but its utility extends beyond COVID-19: For example, if you suddenly remember you need to buy a gift for a loved one on Valentine’s Day or their birthday — you can go on your app, order a gift-wrapped item, and have it delivered in 30 minutes. At the beginning, this was done in order to bridge the last-mile issue, but now we have extended it beyond that.

We also are leveraging digital to share beauty trends in the broader consumer base in China. In the past, Sephora China launched beauty trends twice a year at a physical fashion show or conference. But because of the pandemic, we launched our first virtual Sephora Day, which literally allowed us to reach millions of viewers

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I truly believe that Sephora is on the right track in China. The real concern was how to protect and make sure our employees were safe during the pandemic.
much more directly. To maximize the viewership, we partnered with other platforms, like JD.com and Tmall. Together, we presented 100 new products — from Sephora and leading global brands.

Finally, when launching our Sephora Cross Border Tmall Global flagship store, we also coordinated it with key offline stores connected through the virtual “shelf” in more than 40 physical stores.

Talking about stores, what do you see as the future of your stores? Your stores have become famous as real destinations for customers. What role will they play tomorrow?

Physical stores will continue to play a key role for us — especially in building a sense of community around our brand. We will continue opening brick-and-mortar stores in the right places. However, what we see as different for the future is how we go about empowering our community. In the future, we see the store as being the hub of the community. While many of our stores are in shopping malls, some are located in residential and in commercial areas. The type of customer visiting each of those stores has different requirements, both in terms of the time they can spend at the store and in terms of their beauty needs. So the stores will be tailor-made to suit the clientele of the specific environment.

Digital tools will also play an important role in meeting the beauty needs of our customers. We’ve already mentioned the ability to arrange a delivery from your store within 30 minutes. But there are also other digital tools available that help customers to shop better. For example, we are developing a fragrance ID tool that creates a profile for the customer, which, based on personal fragrance preferences, makes fragrance recommendations. There is also a tool that allows you to visualize how a makeup foundation will look on your face, which helps to narrow choices before physically trying them on at the store. Similarly, we also have Visual Artist 2.0, which is a technology that allows you to try out different types of makeup before going to the store to try them on. And the Smart BA will then be able to help the customers when they come in the store.

Brilliant! Sounds like you have the right answers for a lot of the challenges and changes faced by your business. Still, are there some concerns that keep you up at night?

The things that keep me up at night are not the strategy or whether the business is growing — I truly believe we are on the right track in China. The real concern was how to protect and make sure our employees were safe during the pandemic. At the start of the crisis, we had a very strict focus and protocol that was built around protecting employees and customers. So many things were happening all at once that we had to figure out what to prioritize in terms of serving the customer and executing fast. What we learned as a result of COVID-19 is that we have a very resilient organization and workforce, one that is getting better as we continue to learn and evolve.
FERRAN REVERTER

MediaMarktSaturn

Chief Executive Officer
MediaMarktSaturn Retail Group
Let’s discuss the impact of the novel coronavirus on MediaMarktSaturn, with more than 1,000 stores in 13 countries and roughly 55,000 employees, the leading consumer electronics retailer in Europe. Mr. Reverter, how does your company cope with the pandemic?

First of all: We see crises, whether internal or external, as an opportunity. Obviously, COVID-19 — along with the restrictions — is an external one. And all in all, the lockdown accelerated our transformation to an agile, customer-centric omnichannel retailer. It served to strengthen our online business, a strategy we were pursuing prior to the pandemic.

So, the epidemic was a kind of booster?

Yes, you can see it this way. Before the coronavirus there were colleagues who were not convinced of the online business strategy. They were concerned that it would put pressure on prices, that the competition was too strong, and that we would find it harder to maintain margins and make money. Then the coronavirus hit, and it turned out that our strategy was working. We now have a new, high-performing online platform and well-operating logistics capabilities. During the lockdown, every day was like Black Friday for us. More importantly, there is no way back to our former way of doing business. Since COVID-19, this is crystal clear to all our people. The pandemic is terrible, no question, but the virus has also driven necessary change.

What were the key success factors to mastering the pandemic?

There were three pillars that helped us succeed: Firstly, it was about mindset, or what I would call attitude. From the get-go, the tone from the top was that this was an opportunity for us, and we needed to be positive as we strengthened e-commerce in a very big way. Our attitude was that while experience selling online was important, fresh abilities, enthusiasm, and new ideas are even more crucial.

And the second pillar?

The second pillar had to do with a sense of urgency. On the internet, speed is essential. But to achieve speed, you need to be prepared. So we changed our structures, a program that was underway well before the start of this crisis. But we had to adapt, and we had to gain new skills in the face of COVID-19.

Can you give examples?

At the start of the crisis, we set up a task force focusing on procurement, marketing, and logistics.
We shifted our resources towards e-commerce. So, for example, we did away with country-based marketing budgets and focused company-wide on online marketing. Looking at logistics, the supply chain collapsed temporarily due to COVID-19, and it was no longer possible to order certain products. But we reacted flexibly and quickly and set up a new service called “ship from store.” We used the warehouses in our stores to fill the rapidly increasing online orders. Online and offline merged in record speed: The salespeople from the stores switched temporarily to the warehouses and by deploying an app that enabled them to locate where the items were in our store warehouses, we made sure that customers received their orders quickly. As a result, we were able to do in three or four days what would have been unimaginable a few years ago. Prior to the crisis, no one would have believed we could have achieved that.

You mentioned three key success factors...

Communication is the third pillar that underpinned our approach. Communication is crucial, especially during a crisis where people feel lost. We began using our digital tools more intensely, tools like Yammer, our internal social network, we sent out weekly messages from the board of directors and video messages to make sure that everyone in the organization was in the loop and felt close to the company. Communication is often underestimated, wrongly.

Our attitude was that while experience selling online was important, fresh abilities, enthusiasm, and new ideas are even more important.

In talking to other retail leaders, many of them had to customize or to adapt to the crisis in each of the countries they operated in because each country was different. How did you handle it?

In general, we applied the same approach in each of our countries. Of course, there were some differences, but the overall strategy was the same, and it was implemented immediately. There was the shift to online and a focus on the protection, health, and safety of our customers and employees.

What do your key learnings from COVID-19 mean for your stores? How do you see the role of the stores in the future?

At MediaMarktSaturn, the stores are the heart of the company and of our omnichannel approach. But, even before the COVID-19 crisis, we understood we needed to change the role of our stores and to remodel them. We started to define and focus on four different store concepts: Large flagship or experience stores; core stores for availability, advice and services; smart stores for pickup, and finally shop-in-shop concepts that offer proximity.

What goals are you pursuing with the new store concepts?

It’s quite simple: We want to sell more and provide even better service. We want to further improve the customer experience, and at the same time increase market penetration and productivity. The different store formats contribute to this approach. For example, in our new flagship store in Milan, we tripled the space of our so-called experience areas, and the results are amazing: We generated much more traffic, increased our sales by almost 40 percent, and improved the net promoter score significantly. What we have also learned: Flagship stores are the stores that people are still willing to drive to. While on average people are reducing the amount of time to seven minutes to get to a store by car, for the flagship stores, they are prepared to drive longer.
That means, to offer proximity, you have the other store formats?

Right. For proximity, service, and advice. Our core and smart stores are contact and fulfillment centers that above all allow for greater penetration to online. We see that the combination of our different store formats is creating more sales in both online and offline. Combining offline and online is the perfect fit — and the big differentiator for us.

Since the role of the stores changes — what about the role of your people in the stores?

It changes a lot. Their task is to add value and provide service as well as advice. Our people in the stores no longer need to think about replenishment and administration. Instead, they can focus on what really matters: the customer. We equipped all colleagues with smartphones, having all necessary data at their fingertips. They see everything at a glance: Stock, product availability in the store or in the central warehouse, they can match competitors’ prices, and so on. And they feel much more comfortable thanks to the smartphone in their hand.

Do you believe that MediaMarktSaturn is becoming a real ecosystem?

We have a clear goal: We will build the biggest omnichannel platform in Europe. We turn technology into unforgettable experiences, and, above all: We believe in our people. They make the difference, especially in a tech-driven world. We are in a privileged position. No one else connects the online world with the stores like we do. Done right, it’s the perfect combination. Our suppliers tell us the same, by the way. We are a “House of Brands,” we know everything about the products. We personalize them to the individual needs of the customers, tailor the appropriate services and accessories, and make the final recommendation — whether in the store or online.

How important is digitization for the transformation of your company? Do you need further investments in terms of automating processes and implementing more sophisticated algorithms?

To further digitize our company is a key element of our way forward. Our new website, our new consumer app, our new employee app — this is all part of what we call becoming a smart retailer. Our company is good at adopting new technologies and at creating new technologies. And we’re further accelerating here.

Do new technologies and data reinforce the trend toward personalized offers?

That’s for sure. The future of retail is data-driven. We are developing into a data-driven, intelligent retailer. Data analytics will be the decisive factor in determining our assortment. It will be key for individualized products and service offerings based on customer insights. Everybody wants personalization. It’s like going into a bakery where the staff knows you and has the bread that you want ready for you. Knowing and serving your individual taste — it’s one of the best experiences you can have. This is the kind of experience we are trying to offer our customers.

We are trying to turn tech into an unforgettable experience and we believe in our people. They make the difference — especially in a technology-driven world.
Let’s assume that we will be able to get COVID-19 under control at some point in the near future and we can return to normal life. Do you think that the way customers are behaving now is permanent?

We see COVID-19 as accelerating many of the trends that were already in place — above all the trend to online. Shopping behavior has changed, no question. But, that’s not to say that people will no longer shop in stores — they will come back to the stores, but they will return much better informed. We expected that this would happen and were moving in this direction, and the pandemic accelerated the process.

Because of the stay-at-home regulations, demand has been huge for equipping homes with consumer electronics. But will there be a slowdown in demand in near term?

You are right that our sector benefited from high demand because technology enabled people to get through the crisis. But I am also convinced: Technology will remain crucial in the future. The future of consumer electronics is bright. Technology is embedded everywhere, and the market is becoming bigger: New products for the home office are in demand, home schooling, gaming, and new product categories like health will be expanded. While the boom that we see today may not continue at the same clip, we strongly believe the sector will continue to grow.

We are observing discussions and debates about potential consolidations. In some retail sectors, we are seeing big investors trying to basically merge different companies. Do you see that kind of movement in your sector?

There will be consolidation, for sure. The sort of speed and investment necessary in the industry cannot be maintained in every company.

Mr. Reverter, you have been commuting from Barcelona to Germany on weekly basis to manage the business. Given the increasing stress and tension in the system, how have you coped with managing the business and finding a balance in your personal life?

Especially in times like these strong leadership is key. That also means to be present on site. This is a company of 50,000-plus people, and everyone feels it if the captain is not on board. I know my role, and I'm aware of my responsibility. My family accepts it and has learned how to handle it.

Has there been a particular highlight or “wow” moment for you during the crisis?

The real highlight has been the mentality and attitude of our people. This crisis caught everyone off-guard. No one was expecting anything like this. But I felt that if there's any company that can rise to this challenge, it was ours. I sat with our management team and told them it was an opportunity to put in place all the things we had been working on — and at the same time, we would take care of people, protect them, and make them feel secure. I felt that the company would rise to the occasion and that we would find a way. After one week, I realized we were going to get there.

Is there something that you learned earlier in your career that helped you cope with this crisis?

My experience over the years in Spain and Italy helped me a lot for this situation. In general, Spanish people have a lot of experience with crises — and you should never forget: When something goes wrong, it's important to stay focused on what really matters.
How to navigate it?
THE END OF BUSINESS AS USUAL

If the retail and consumer goods industries had been preparing for a more settled period after the disruption and hyper-competition of the past decade, in 2020 they got the opposite. The COVID-19 pandemic led to numerous big changes. Online shopping surged. Technology-assisted methods of intermediation, such as online shopping advisers, became more widespread. And product brands accelerated their direct engagement with consumers.

These transformations have raised customer expectations, and from now at least one rule will apply to all the industry’s segments and geographies: Average propositions will no longer work. That means retailers and consumer goods manufacturers need to figure out what they want to be known for.

Many of the transitions underway are dramatic accelerations of long-term shifts that had already been in the pipeline. We analyzed them in our report, Retail’s Revolution, along with others that will resume after the pandemic ends — such as the critical role of physical stores as places for human interaction and high-quality service. Succeeding at any of the new models will require three things: Match fitness, a game plan, and the leadership to implement.

MATCH FITNESS

Match fitness in the digital age implies understanding your customer and being quick and agile when bringing new products and formats to market. Companies have to establish new channels and business models while still operating their core business, making it essential to focus more intensely on cost and end-to-end processes.

Customer Understanding

In the digital age, retail and consumer goods companies need detailed knowledge of their customers and end users. A key question is how to get access to data and content on their behavior and thinking. While digital tools and platforms should simplify this task, it is not easy for these to stay relevant.

To hold consumers’ attention, such platforms should offer meaningful benefits — for instance, engagement through communities, high-quality recommendations, and personalized services and offers. So retailers and brands are introducing
new breeds of customer programs and private communities. To complement these, they are also listening in to the flow of content on social platforms, which provides a detailed, objective, and up-to-date picture of consumer opinion.

Agility
The speed of digital change already underway is being accelerated by the COVID-19 pandemic, which has increased uncertainty over consumer behavior and demand. To keep up, companies need to be faster and more agile in anticipating and addressing change at all consumer touch points and all stages in the supply chain.

However, it is still quite common for incumbents to run data analytics and digital engagement with customers separately from the core commercial parts of the business. This disconnect no longer works in a world where digital processes are used throughout an organization. Companies need to develop a clear picture of how the growth in consumer-related data can enhance the development of products and services and make their entire business more effective.

Cost Focus
Building digital channels and direct-to-consumer businesses requires substantial investment in infrastructure and capabilities. To finance this, companies need to generate and increase their profits in a significant way. However, price pressures are growing, as prices are more transparent than ever. One example is the rise of platforms comparing consumer goods prices in different European markets, which creates new challenges for companies used to addressing those markets in targeted ways.

It is therefore essential to streamline costs and improve process efficiency. One effective approach is end-to-end transparency. This involves tracking costs across all departments and organizational silos — from the conception of a product to its activation; and from raw materials all the way to the shelf, whether this be digital or physical. The value chain can then be transformed through a zero-based approach: Redesigning activities and resources from scratch, and focusing on what the customer really needs.

A GAME PLAN
Consumers' widening range of choices in products and shopping channels make it urgent for companies to find ways to stand out. Playing to win in all dimensions of the retail and consumer products businesses is unlikely to succeed: The various aspects of the industry require different organizational focuses, which will sometimes oppose each other; trying to succeed at them all would demand unrealistic resources.

Our Retail's Revolution report therefore suggested six models that will prosper in the new world, each based on a particular dimension of strategic control. These are paradigms, however, and most retailers and consumer product makers will likely combine elements of more than one model (see Exhibit 1 on the next page).

LEADING THE CHANGE
The revolution in retail has arrived — and is accelerating. Preparing for it requires strong leadership: Leaders must come up with a strong vision and define bold answers and moves. Then they need to communicate their plans effectively to inspire consumers and staff alike. And they have to maintain an organization's energy and commitment to transformation.

We were already living in a period of unprecedented change, and this has been accelerated by a black-swan event in the pandemic. There is now even greater urgency to find and implement the right solutions for the retail and consumer goods industries — and to prepare organizations for further opportunity and transformation.
Exhibit 1: What role will you play?

These leaders offer market-beating products and brands with exceptional recognition. They trigger strong emotions, often by telling stories and delivering unbeatable quality or value. In many cases, product leaders aim for and achieve global scale — a path more accessible than ever given the global scale of social platforms, influencers, and marketplaces. But there is also a role for small, local producers that satisfy the growing consumer demand for products that are ethically produced with a low carbon footprint. In all cases, direct access to the consumer can help brands learn about consumer tastes, consumption patterns, and purchasing behavior.

Product Leader

Shopping ecosystems can become magnetic by providing a seamless, hassle-free experience and real engagement through communities and AI-powered advice. This is usually achieved through a mix of strategies, such as personalized recommendations, one-click payment, and same-day delivery for members. Integration with other industries — such as health, media, and financial services — will increase the variety of such services. Constant innovation, surprise, and improvement will play a big role in keeping these platforms fresh and magnetic over time. Currently, we see a lot of focus on setting up private user communities and channels.

Magnetic Ecosystem

Choice intermediaries are where consumers increasingly begin their shopping journeys to save time and money and make better decisions. Review aggregators, for example, which are popular in the travel and restaurant business, assemble high-quality reviews and generate customized recommendations. Market mappers, such as online flight bookers, focus on products and help the consumer make sense of the available choices. The choice-intermediary model could scale well globally, particularly in sectors with few market-specific products, such as technology, hardline goods, and some areas of apparel.

Choice Intermediary

When retailers and manufacturers going direct to consumers create the best customer experience — online, in-store, or in a combination of the two — they can become shoppers’ preferred destinations. A superior experience does not depend only on the functional aspects of a store or platform, or on leveraging customer communities. Instead, the cornerstone is often passionate front-line staff, who are strong product and brand advocates, whether in a store or via digital tools. Smart operators in this archetype empower their staff, sometimes by building systems and tools to help them readily access product and stock data to answer a shopper’s questions and offer a personalized service.

Customer Experience Specialist

By owning the last mile, fulfillment specialists get products rapidly and cheaply from distribution centers and stores to customers. This strategy focuses on efficient, reliable, and low-cost operations, and it can fuel a product manufacturer’s own B2C business or provide a service to other businesses. The specialists build scale networks and processes that are optimized from end to end. That strength may translate into a differentiated customer offer based on low cost, great service, and reliability. It may also include real-time fulfillment tracking, the offer of frequent drops, or a network of easily accessible collection points.

Fulfillment Specialist

Making the best use of locations remains a strong strategic play for a store-based business despite a shift to digital channels and despite the recent lockdown measures and the trend towards working from home. Locations can have value by being convenient: They can consist of pickup points at commuting nodes or close to people’s homes; and they can be combined with — or close to — offices and residences that provide a pool of potential customers. Some key locations are upmarket, such as prime high streets and shopping malls. Nearby entertainment venues can draw traffic too. Location players acquire strategic control by setting up in these places and using them as a basis for a proposition and operating model that supports customer needs.

Key Location Player
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In the Retail & Consumer Goods Practice, we draw on unrivaled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: An obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands on approach to making change happen is truly unique — and over the past 20 years, we've built our business by helping retailers build theirs.

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CONTACTS

Sirko Siemssen
Global Retail & Consumer Goods Practice Leader, Germany
sirko.siemssen@oliverwyman.com

Pedro Yip
Retail & Consumer Goods Practice Lead, Asia
pedro.yip@oliverwyman.com

Nordal Cavadini
Retail & Consumer Goods Practice Lead, Switzerland
nordal.cavadini@oliverwyman.com

Maria Miralles
Retail & Consumer Goods Practice Lead, EMEA and LatAm
maria.miralles@oliverwyman.com

Ronan Gilhawley
Retail & Consumer Goods Practice Lead, Australia and New Zealand
ronan.gilhawley@oliverwyman.com

Coen De Vuijst
Retail & Consumer Goods Practice Lead, The Netherlands and United Kingdom
coen.devuijst@oliverwyman.com

Frederic Thomas-Dupuis
Retail & Consumer Goods Practice Lead, North America
frederic.thomas-dupuis@oliverwyman.com

Rainer Muench
Retail & Consumer Goods Practice Lead, Germany
rainer.muench@oliverwyman.com

Eric Bach
Retail & Consumer Goods Practice Lead, France
Eric.BACH@oliverwyman.com