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Building a digital culture

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**How to meet
the challenge
of multichannel
digitization**



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Executive summary



Many traditional retailers and other customer-facing businesses have installed new digitally enabled organizations, processes, and systems. Their goal is to remain competitive by building multichannel experiences: attracting shoppers on the Web and through mobile devices as well as through their established retail stores. This approach, however, is not enough in itself to win in the digital age. Even well-designed systems can be undermined by a company's established culture — for example, when employees balk at the new practices required by the new technologies. The result is a divided company: one part moving into the future, the other clinging to traditional sales channels — and a delay in the much-needed transition to a multichannel operating model.

A more successful approach is to fully develop digital capabilities throughout retail operations. This can happen only if there is a company culture that embraces digital media and multichannel capabilities. It takes time to develop a digital corporate culture; the sooner a company acts, the more quickly it will be in a position to compete in this fast-paced, digitized, multichannel world.

Senior management can take practical steps to embed a new way of thinking and new behaviors into business operations, even at the scale of a large retail chain. These steps fall into two categories. First are the formal levers of change — **leadership policies, role definitions, and people processes** — that address the processes and structures that support digitization. They organize the introduction of new digital channels into traditional operations. The second category is the informal levers — **key behaviors, role models, and networks** — that help employees start thinking, feeling, and behaving in new ways. Using these formal and informal levers in an integrated fashion can help people adapt to new ways of doing business and enable companies to deliver the multichannel experience that customers want.

Digitization meets a legacy culture

When Peter decided to take on the job of developing new digital sales and marketing channels at a traditional European retailer, he saw it as an exciting challenge. The company had a good reputation, its new website was a slick online portal with innovative social media features. The company was not yet actively integrating its analog and digital sales channels, and had not yet reached strong performance levels in online marketing. But its senior management had visited some state-of-the-art online retailers, including Zappos.com, and understood what the future could bring. Peter and his team started to build a case for shifting advertising budgets and other processes to focus on online sales.

After 18 months, however, the company was still clinging to its traditional sales channels — which continued to account for more than 80 percent of revenues. Line managers balked at change, and senior management failed to make the necessary decisions to shift resources and reallocate responsibilities. Peter eventually left the company in frustration and joined a startup.

This case study (in which the names of the company and individuals are withheld) is a typical example of how corporate culture can interfere with a shift to a digital identity. Many retailers today are in a similar situation to Peter's company. Their customers demand a seamless shopping experience, where they can choose from a variety of ways to purchase: in a store, online, by catalog, or via smartphone. They get their product information from multiple channels too. But to deliver this experience, and win in the digital age, retailers and other customer-facing businesses need to do more than adopt digital processes and systems. They must develop a distinctive digital capability or identity.

The leaders of Peter's company were sincere in their intention to compete in the digital retail world. They were willing to invest in building the necessary skills. But they did not grasp that there would be cultural resistance, and didn't know how to overcome it when it appeared. Peter himself didn't understand this either. He acted as if all

he had to do was present a fact-based analysis of the top- and bottom-line benefits of delivering a seamless multichannel customer experience, and the necessary changes in the company would happen on their own.

The cultural resistance that Peter and his company's executives didn't fully recognize was embedded throughout the company. It had grown up over decades of shared experience. Indicators of this resistance could be found in the attitudes held by different divisions about each other, in the networks of informal contacts, and in the incentive structure, which was geared to the status quo. Now that digital technology had changed the rules, and rivals were gaining advantage, the company's culture wouldn't let it compete.

The challenge of the digital multichannel world

A digital capability is a cross-functional proficiency in the processes, practices, and customer connections enabled by digital media and infrastructure. This might include, for instance, the ability to convert data from online sales into responsive individually targeted offers that generate more sales; or the ability to provide robust online customer service that answers consumer questions in a compelling way. As this capability becomes ingrained, it gives a consumer-facing company a distinctive identity tied to the electronic media that more and more consumers turn to for shopping. A strong digital identity allows a company to be close to its customers wherever they are, it enables retailers to deliver a new and attractive shopping experience that integrates bricks-and-mortar stores with online and mobile convenience, and it helps build long-lasting customer relationships.

For companies that don't develop this digital identity in time, the carnage on the high street is real. Blockbuster, for example, stuck to its movie disc and tape rental business model even when customers shifted to online streaming. It filed for bankruptcy in early 2013. A similar fate befell high street music giants HMV in the U.K. and Virgin Megastore in France, Borders bookstore in the U.S., and household names such as Arcandor, Neckermann, and Quelle in Germany. Even innovative players such as Best Buy in the U.S. and John Lewis in the U.K. are facing significant competitive challenges that require fundamental restructuring as they, too, are forced to close stores and lay off staff.

Most retailers already recognize the need for change. They want to put in place a responsive digital or multichannel capability, seamlessly integrating storefront, mobile, online, click and collect, catalog, and call-center retailing. They are prepared to retool their existing operations to provide the new capabilities they need — and to invest in the skills to make those capabilities competitive. They may also recognize the need to integrate their old sales and marketing practices with the new.

This kind of major change will work only if there is a company culture in place that enables it — one that embraces, not just tolerates, digital

A strong digital identity helps a company build long-lasting customer relationships.

media. A retail enterprise needs everyone in the organization to adapt to a new way of working. But companies are not always prepared to develop and nurture the digital corporate culture that makes an organization digitally capable. There are many examples of employees balking at adopting and championing new practices — and the multichannel transition that retailers need is delayed or loses steam entirely.

For example, employees in a large traditional retail chain usually have clearly defined tasks in a hierarchical structure. Decision making is often slow. Processes are organized hierarchically as well, even though they involve successive elements of the value chain. They are carried out in organizational silos that are not sufficiently connected to provide seamless integration between different parts of the operation. These processes are also highly specialized, and set up to meet the needs of an offline selling environment. A digital overhaul of the back-office functions can introduce new software and hardware solutions that integrate the functions previously carried out in silos, and hiring new talent with digital skill sets can introduce elements such as search engine marketing and optimization. But it won't please everyone.

Peter, who came from a company with a true digital culture, plowed on with his own version of what the company should do, without taking the time to learn from the experiences of other staff members or finding ways to convince them to change. In another case, a retailer hired a handful of young employees to develop an online sales platform. Resentful older staff members in product development all but sabotaged the new division by failing to equip the online channel with the latest and most attractive products. Whether conscious or unconscious, this resistance served a purpose: It protected the traditional, offline channel. Meanwhile, the young staffers bridled that the company didn't give them the scope to innovate and that even the smallest decision required a lengthy internal process.

Similar conflicts took place at a large travel company. Employees responsible for bricks-and-mortar stores fought repeatedly with those who managed online sales. This hurt digital sales growth for several years, even though senior management had prioritized the switch to online. The technology proved to be another challenge. Many customers could not find the deals or destinations they wanted online, and they reverted to store visits — or, increasingly, to competitors.

What can traditional retailers do to change their way of working and their culture to fully embrace the digital transformation?

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How to change a culture

A company's culture — composed of its self-sustaining patterns of behaving, feeling, thinking, and believing — determines “how we do things around here.” It gives an organization its personality and shapes both its internal processes and the way it is seen by the outside world. Apple's corporate culture is one of innovation, simplicity, user-friendliness, and elegant design, driven by perfectionism. It is Steve Jobs's legacy, embodied not just in products and how they are made, but also in every aspect of the company's approach to customers and employees. Similarly, Ikea's frugal culture is embodied in every aspect of the company's day-to-day operations, from product development to store design to internal travel policies. This, too, is a reflection of the founder's vision — providing “the many” with quality furniture at low cost — and it is executed by just about all employees, who are recruited and retained because they fit the company's mold.

Culture is not something that changes with a memo from the CEO or with a town hall meeting. It has an intangible quality that requires sensitive nudging and precise targeting of new key behaviors, which is why changing culture takes time. Although culture can't be changed wholesale, it can evolve; you can even use your existing culture and its strengths to generate the change you need. You can look for the few behaviors that already exist in your company that support the new approach. You can reinforce those behaviors in formal and informal ways. By doing this, you can enable the culture to change itself. You can't change the culture just by trying to convince people of the merits of digitization. The trick is to focus on the way people act on a day-to-day basis. Jon Katzenbach, founder of Strategy&'s Katzenbach Center (an institute dedicated to the development and application of innovative ideas for organizational culture and change), notes that it is much easier to act your way into new thinking than to think your way into new actions.

In many cases, only small changes in operations and actions are required to produce a ripple effect throughout an organization. A recent in-depth study of retail backroom practices, conducted by Strategy&, confirms the key role that behaviors play. The study included nine

retailers, including a mainly analog, bricks-and-mortar model; highly integrated multichannel operations; and pure online players. We found that it is possible to orient behaviors toward a digital culture once you identify what distinguishes the analog, or offline, sales environment from the digital (*see Exhibit 1, next page*).

The process of changing to a digital culture is nuanced, creative, and incremental. Think of how a video goes viral or a fashion takes hold; a consensus builds among a diverse group of people whose opinions are trusted, and that group spreads the word. When there is critical mass, the reach is exponential. A similar dynamic helps a company embrace a digital, multichannel way of working.

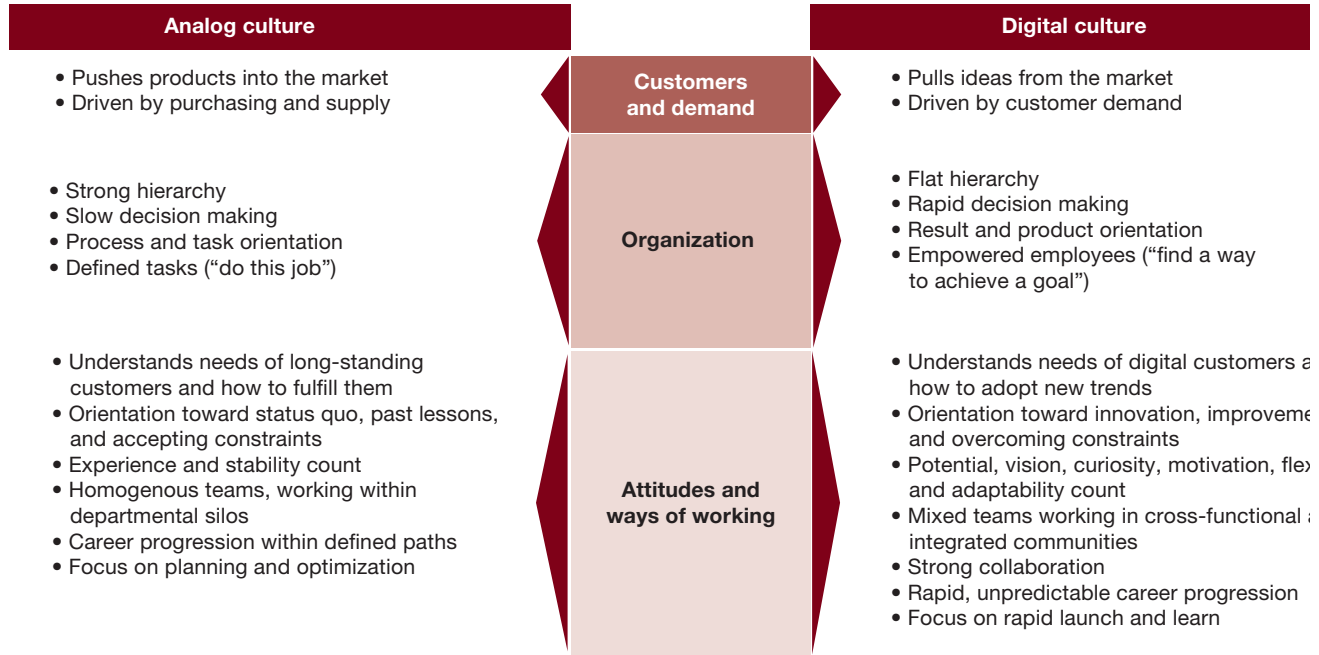
We have identified six key levers of change, three formal and three informal, that help companies develop the kind of corporate culture that delivers the multichannel experience (*see “Six Levers to Change a Culture,” page 14*). The formal levers — **leadership policies**, **role definitions**, and **people processes** — smooth the introduction of new digital channels into traditional operations and address the structural processes within a company. They provide the structure for the informal levers — key behaviors, role models, and networks — that address how people do their jobs, day to day.

The most important element, and one that was lacking in Peter’s story, is the collection of **leadership policies** that ensure that the most senior executives will not just fully support but actually drive the adoption of a digital culture. At any company committed to a new direction, the top brass has to show 100 percent buy-in in words and deeds. This does not happen merely through command, or through informal behavior. It requires rules and codified practices that certify leadership support.

Steve Ballmer, CEO of Microsoft, says: “Everything I do is a reinforcement, or not, of what we want to have happen culturally.... You cannot delegate culture.” In day-to-day terms, this means setting up a series of new policies that will validate the new without trashing the old. Senior executives will be visible emblems of the new culture in their formal pronouncements (including to analysts and investors), in the redesign of their reporting relationships, and in their participation in projects and training.

T-Mobile, for example, wanted to improve its customer service. Top management identified shop floor salespeople who had the best customer service reputations and learned what made them different. Among other levers, T-Mobile then developed a comic book that senior executives were required to roll out across the company. The comic book illustrated the difference between good and great customer service that was accepted, approved, and, most important, used by

Exhibit 1
Features of analog vs. digital culture



Source: Strategy&

T-Mobile employees everywhere. Because employees knew their leaders were watching, they knew line managers and all other levels of the hierarchy were too.

Or consider the case of a traditional retail company in which the slower-paced business processes were reflected in management routines. Management teams met only once a month to make critical business-wide decisions. Even then, the teams often revisited and revised past decisions; in the discussions, they tended to minimize risk and optimize long-standing processes, without spending much time considering the data gathered from online sales.

But then, as competition heated up and the digital retail era dawned, it was an important part of the company's transformation to update its governance processes too. The frequency of management meetings increased to weekly, and people received individual coaching to prepare them to make faster decisions in a more uncertain environment. It took time for management to accept these new leadership policies and behaviors, but ultimately decision making improved and accelerated to support a faster-paced and increasingly digital business environment.

When an analog company starts hiring new staff to implement digital solutions, it must be careful not to create a digital silo for the new employees. Instead it should signal an opportunity for retraining the entire staff. For a multichannel operation to be successful, everyone has to understand how each channel operates and how the channels interconnect. That's where **role definitions** play an important part. They clarify job descriptions that may seem unintelligible to those not familiar with the specifics of the digital business. In a multichannel operation, salespeople are not just those who meet customers on the shop floor; they answer phones at call centers, they reply to online chat, they process orders from the Internet, and they can also be staffers who track Facebook and Twitter. These and other roles need to be clearly designed, so employees see themselves as part of the bigger picture. When people don't understand how they fit into a changed organization, it can lead to unnecessary churn, which is costly and disruptive. Effective role design manages expectations and illustrates the types of career paths available.

Another important formal lever to consider is **people processes** — the functions usually associated with the human resources department, such as hiring, training, performance evaluations, career planning, and incentives that give people reasons to embrace new attitudes and behaviors. This lever is particularly relevant in shifting to a multichannel world where the criteria for evaluation will change because the nature of job functions change. For example, in an analog world, the person on the shop floor can easily figure out commissions by

ringing up end-of-day sales. But with online purchases, “click and collect” (online ordering with in-store pickup), and telephone sales promotions from the store all feeding into the bottom line, tallying commissions becomes more complex. If the range of platforms is not reflected in the incentive structure and career paths, employees may not have the incentives to encourage digital and multichannel sales, particularly if management focuses solely on one channel, ignoring the others, and does not recognize in monetary terms the contribution of team members at all points along the customer journey. The same is true in reverse. Even when management makes online sales a strategic priority, in the beginning online will account for only a small percentage of sales. If this reality is not recognized in the incentive structure, it will be hard to motivate employees to invest time and energy into building the online business.

One example of a multichannel incentive system comes from a large German technology retailer that is trying to build up its online sales, which account for less than 10 percent of the company’s total sales today. That share needs to grow if the company is to compete with online-only retailers. The company wanted to convince franchise store managers that the two channels were complementary, so it sorted all online sales by postal code and then allocated them to the nearest physical store, effectively double-counting online sales. This gave store salespeople a strong incentive to push both offline and online sales to improve their overall performance.

A different, more nuanced approach is required for the second group of levers for culture transformation, the informal levers. Here we are talking about how people do their jobs. The first step is to identify a few **key behaviors** that are geared to helping people adapt to a digitally oriented culture and boost the multichannel experience. For example, to encourage people to think out of the box and embrace the new, one global consumer electronics company includes a section for “creativity and curiosity” on its performance reviews. The company values an employee who “comes up with new and unique ideas, easily makes connections, questions conventions,...can shift gears comfortably, [and] handles risk and uncertainty.”

Zappos, the online shoe retailer that is now part of Amazon, ensures that all of its employees deliver its customer service culture by having everyone, from accountants to office assistants, spend a small part of the day answering the customer service hotline. They are also given a small, discretionary budget to respond quickly to customer problems. If a customer sounds upset, a staffer can decide on the spot to send an extra product or a bunch of flowers. The autonomy instills a sense of responsibility and identification with the ethos of customer service.

The first step is to identify a few key behaviors that help people adapt to a digitally oriented culture and boost the multichannel experience.

Just as leadership has to embrace the new digital direction, managers need to focus on finding good **role models** to spread the word. These evangelists of change, often called pride builders, help to motivate others and demonstrate the new behaviors in the organization. Once the pride builders have been identified, companies can leverage their insights and behavior to influence co-workers. For example, one German retailer struggling to develop a social media presence identified people who understood the benefits of this channel and had the required skills, and it deployed them in separate departments to spread the word. Its use of social media to boost sales increased significantly.

This informal approach can go viral inside a company simply by using the multiplier effect of formal and informal networks. These can be online communities, but also gatherings within the company of staff from different departments for sports activities and other shared interests. Word-of-mouth is a powerful tool; if pride builders and role model managers share their enthusiasms in informal groups, they create an opportunity to exchange ideas and promote collaborations that can reinforce the new digital culture and create a ripple effect throughout the company.

Best Buy, famous for its highly qualified in-store salespeople, realized that their knowledge was not reaching customers who shopped online, a part of the business that was growing rapidly. It developed a social network tool called Twelpforce, which lets people anywhere tweet a question to the Best Buy staff, who respond in real time. This not only leverages expertise and validates the shop floor staff, but also boosts online sales and provides customers with great service across channels.

Six levers to change a culture

Formal levers govern the processes and structures of management — including incentive and bonus structures, reporting lines, and career paths.

- *Leadership policies:* One hundred percent buy-in from the top of the company is demonstrated in words and deeds.
 - *Role definitions:* Job descriptions detail what people do, and thus give staffers a clear career path that validates both the analog and digital worlds.
 - *People processes:* The human resources department understands the need to hire, train, and reward people based on the corporate goal of delivering the multichannel experience.
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Informal levers determine how the structures are translated into action every day in the behavior patterns of employees throughout the company.

- *Key behaviors:* Decision makers pick just a few incremental changes in everyday practice to make a difference in introducing digitization.
- *Role models:* Executives identify (or hire) people who epitomize the key behaviors and promote them throughout the company.
- *Networks:* People throughout the company take part in informal networks, such as clubs and social groups, to spread the word.

Embracing the digitization path

To fully embrace the digitization path requires companies to adopt new ways of working. In short, they must develop a digital culture. They can use the formal levers to help change processes and adapt organizational structures and roles and responsibilities. They can use the informal levers to encourage people to change the way they think, feel, and behave to embed the digital way of doing business in their day-to-day work. If senior management addresses only the formal aspects and develops structures without targeting critical behaviors, the transformation is unlikely to take root over the long term; similarly, a push to change behavior just by bringing in role models and nurturing pride builders will have limited success if the more formal corporate structures that support the staff are not in place to sustain it.

Peter, the ambitious and motivated manager who sought to introduce digitized sales channels into a more traditional retailer, was thwarted by his reliance on formal structures. Because senior management didn't grasp the full picture and failed to walk the talk, Peter's success depended on his ability to talk directly and informally to his threatened colleagues. When he couldn't or didn't do that, the organization resisted taking on its new digital identity. The urgency to adapt to the multichannel experience that customers are demanding is real. Few weeks go by without news of another corporate bankruptcy. By understanding the process of digitization and the important role that corporate culture plays in determining the success of its implementation, companies can transform themselves to compete in this multichannel mix. As Tony Hsieh, founder and CEO of Zappos, says: "If you get the culture right, most of the other stuff will just take care of itself."

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