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Getting Fit for the Future: Six Organizational Ideas for Brands and Retailers

It's no secret that traditional brands and retailers are under siege. Consumer behavior is changing rapidly. Low- and off-price players are moving in. Labor costs are on the rise, while consumers are moving their spend online — and away from tangible goods.

These and many other trends are creating a fundamentally different world for consumer businesses. In this world — the new normal — winning requires a different approach, not only to strategy but to internal structure and operations as well. This *Executive Insights* is about how brands and retailers can operate in the kind of environment we have today. Simply put, if this is the world we live in, it's time for the organization to get fit so it can be as effective as possible.

Common structural challenges

Let's review the kinds of structural challenges that confront consumer goods companies and the retail channels where these products are sold.

Consumer businesses are complex. Many have multiple divisions, creating organizational complexity and inefficiency. Some have multiple brands and multiple target consumer groups. There are brands and retailers that participate across various product categories and have varying depths of assortment. There are numerous channels of distribution to consider — for example, retail, wholesale, ecommerce and distributors, not to mention the many variations of each of these. There are consumers as well as commercial customers. And there are operations in multiple countries. Any of these factors, alone or in combination, can complicate the management of a business and create waste.

Effectively managing these businesses requires a careful balancing act among commercial functions. The most important parts of the organization must have the proper amount of resources. Roles and responsibilities have to be clear, not just horizontally across functional areas (planning, merchandising, sales and so forth) but vertically through the hierarchy as well. And the right people have to be in those roles, with career development and growth opportunities that encourage talent retention.

This complexity means consumer businesses have many ways to miss their goals. Regarding efficiency, organizations can under-resource critical areas, impeding important initiatives and raising overall costs. A too-strong hierarchy can slow decision-making, obscure accountability and promote uncertainty in the organization. And organizations can be just plain resistant to change as people repeatedly return to their old habits. In terms of strategy, key functions like ecommerce, marketing and merchandising can, if allowed to operate independently, produce results that benefit the function rather than the overall business. The results? Growing distance from consumer and market trends, dulled responsiveness and a hamstrung go-to-market strategy.

Getting Fit for the Future: Six Organizational Ideas for Brands and Retailers was written by **Chris Randall** and **Jon Weber**, Managing Directors, and **Jen Zablotny**, Manager, in L.E.K. Consulting's Consumer practice. Chris, Jon and Jen are based in Boston.

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Table 1 summarizes these operational inefficiencies.

Table 1
Operational inefficiencies in a consumer organization

Cause	Effects
Lack of focus and proximity to the market	• Absent or flawed business strategies • Detachment from key success factors • Brand and value proposition dilution
Ineffective management across physical and digital parts of the business	• Key functions (e.g., ecommerce, marketing, merchandising) operating independently • Function-specific performance emphasized over holistic business performance
Commercial performance not linked to product performance	• SKU proliferation • Reduced product line productivity • Higher product development costs
Go-to-market approach not aligned with customer behavior	• Inconsistent messaging across store, ecommerce, mobile and social platforms • Confusing/impaired customer experience
Organization not aligned with growth strategy	• Isolation or mismatch of SG&A resources • Higher overall cost structure • Inability to carry out enterprisewide strategies
Excessively hierarchical organizational structure	• Slow decision-making • Unclear accountability • Organizational uncertainty
Organizational resistance to change	• Inability to execute strategic changes • Reversion to poor “legacy” habits

Approaches to modernizing the organization

The good news is that brands and retailers have a number of options for modernizing their organizations. What’s more, each option lets consumer businesses get more from the resources and capabilities they already have, just by operating in a different way.

1. Omnichannel alignment. When planning and merchandising occur in silos, the result is not only a clunky customer experience but also a compromised ability to react to customer needs. That said, retail stores and brands that force full functional integration can lose sight of nuances that affect the way store, ecommerce and mobile channels must operate. It’s also difficult to staff positions that require omnichannel competencies.

Instead, consider an omnichannel strategy that moves at an appropriate pace for the organization. The strategy should specifically align with the overall business plan and foster the appropriate balance of collaboration across functions and channels. At the same time, the strategy should offer each area enough room to pursue segments of growth.

2. Assortment strategy and SKU rationalization. To ensure product performance is effectively supporting commercial goals, begin with a look at buying and merchandising. Take note of category and SKU-level assortment trends across dimensions such as consumer needs and preferences, geography, channel segment, product categories, use occasions, and store clusters. This information reveals the ”role” each product plays in the business, along with ways that different SKUs can wind up in the same customer basket.

Product roles are the building blocks of an assortment strategy. They provide a more informed basis for assigning and tracking performance metrics. They also offer a chance to simplify the portfolio by removing underperforming SKUs, thereby eliminating the costs associated with creating and maintaining them.

3. Commercial organization redesigns. When a go-to-market approach falls short of customer expectations, it can be a sign that the commercial organization isn’t set up to deliver. To find out if that’s so, think about how it must operate in order to be successful. Never mind what the organization looks like today — what principles should be driving it? How can it anticipate and meet the needs of a changing industry? From there, determine the key activities, decisions and resources required to execute on that strategy. These should guide the right organizational configuration.

When reassessing the design of an organization, keep the following in mind:

- Individuals should be allocated to the new organization, rather than having the organization restructured around them.
- The primary objective is to achieve greater commercial success — that is, consistent, sustainable sales and EBITDA growth. A well-designed organization is also less expensive to run, but that’s a secondary objective.
- If compromises are in order, management can work them out in the context of the new organization.

4. SG&A realignment. Many administrative activities are essential to the business. One way to manage their expense is to prioritize the activities that support critical initiatives. For example, if the strategy is to drive growth via product category expansion and digital channel penetration, consider allocating more resources to the G&A functions enabling that strategy relative to functions that support more mature areas of the enterprise.

To manage these allocations, brands and retailers can set up performance drivers for G&A just as they do for other parts of the business. Performance drivers refer to ways that various parts of the entity — including assets, partners and organization functions — can be brought to bear in achieving near- and long-term performance goals. For instance, same-store sales growth can be driven by additional traffic to stores, higher conversion and higher spend per transaction. In the same spirit, consider identifying G&A drivers that enable the efficient pursuit of meaningful performance goals.

5. Organizational simplification. Getting rid of complexity requires systematically examining the business's essential processes and activities. This includes going through the organizational structure plus policies and procedures, cultures and behaviors, and IT systems (Figure 1). At every step, look for signs that an activity might need any of the following:

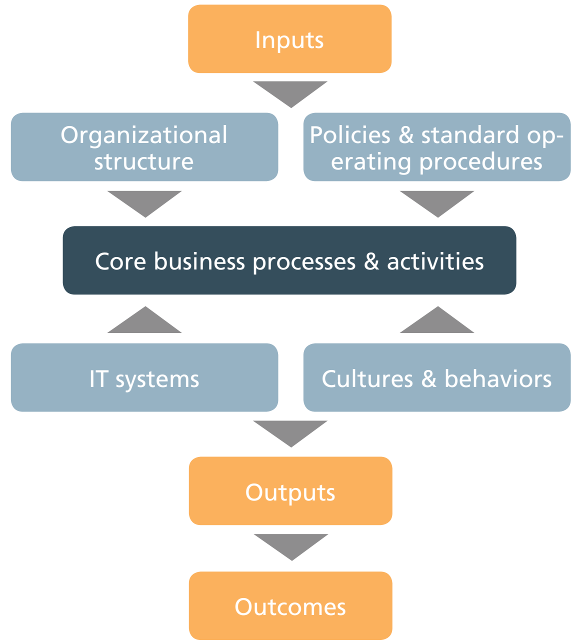
- Streamlining. For example, does there seem to be overinvestment in the activity? Are people spending large variations of time on it? Does it require multiple iterations to complete?
- Elimination. Does the activity seem duplicative or of little value?
- Reallocation. Can the activity be centralized, consolidated with others or reassigned to more junior staff?
- Outsourcing. Would it make sense to hire a third-party vendor to complete the activity?
- Unfettering. Are there structural impediments, policies, systems or behaviors getting in the way of the activity?

6. Change management. Any new initiative is likely to bump up against pockets of resistance or other factors that can make implementation challenging. For that reason, this last idea is about helping all the other ideas take effect.

Change management is a program that provides people with the tools and support to actually enable and sustain the desired change. Most programs require the full-time attention of two or three employees to make sure everything unfolds smoothly. Team members should represent a mix of seniority and skill sets.

Figure 1

Identifying complexity in a retail organization



Source: L.E.K. analysis

Change management teams leave as little as possible to chance. They design and test each proposed change with careful consideration of its impact, interdependencies, risks, financial targets, ease of execution and likelihood to sustain. They also communicate changes to executives and staff.

The ideas in this *Executive Insights* are straightforward but take a lot of skill and resources to operationalize. They also come with operational risk. Therefore, it's worth investing in methodical change management so any overhaul that takes place can bring about its intended benefits and stick over the long term.

For consumer businesses, building an organization fit to win in today's environment is no easy task. Smart brand owners and retailers are taking stock of their organizations' ability to execute in a way that creates real value. It's a pragmatic acknowledgement that agility, effectiveness and efficiency are keys to getting the organization fit for the future.

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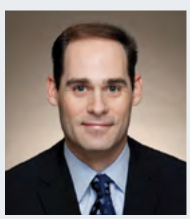

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