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Consumer Products and Services Industry Perspectives

Your monthly blog and industry news round-up

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The Power of Small Changes in Pursuing Digital Transformation: A Retail Perspective

Adaptability has always been critical to retail success. But in the digital era, where disruptive change is constant, many retailers find it difficult to evolve fast enough to remain competitive — let alone relevant. That is especially true for companies burdened by the weight of legacy business models, inefficient back-office processes and outdated technology infrastructure. A proof point: The **massive wave of brick-and-mortar store closures** seen so far in the first half of 2017 involving many well-known retailers that simply didn't adapt fast or well enough to change.

Most retail executives recognize that their businesses need to embrace digital transformation if they are to survive. These leaders yearn to get ahead of the curve — or at least, ride along with it comfortably — but struggle to create a viable digital strategy. One reason for the struggle is that digital transformation is a nebulous concept. It's vast and complex and evolving. Discovering and defining what digital transformation means and looks like for the business is a journey for any organization, particularly one encumbered by a legacy business model with longstanding brand promises.

To bring digital transformation into focus and develop viable business strategies around it, it helps to understand the **four key drivers** for pursuing this type of change:

- Improving customer engagement
- Digitizing products and exploring new business models
- Improving decision-making
- Driving operational efficiencies

These are major challenges for any business, but retailers are under relentless pressure to deliver consistently on all fronts. Many become fixated on trying to develop and execute a sweeping digital transformation program but end up overwhelmed and falling further behind the curve instead. That's because a do-everything-at-once approach is not realistic. It places additional stress on an already hectic business and results in the company overlooking the value of achieving substantive change through smaller, value-adding steps.

One example of an incremental step is the move to mobile technology for retail audits. While not one of the flashiest digital transformation initiatives and not necessarily a strategic move by any means, it nevertheless allows technology to be used to create more efficiency in back-office processes. And greater efficiency can increase operational effectiveness for the entire organization.

More than a decade ago, Protiviti forecasted that internal audit functions in retail would expand their use of mobile audit technology to streamline processes, increase analytic capabilities, and supplement traditional store audits with continuous monitoring and standardized store self-audits. In our most recent **report** on this topic, we note that "*… the adoption rate and maturity of mobile audit technology have increased to the point where retailers not actively pursuing mobile store audit technology initiatives risk falling behind regulatory and shareholder expectations.*"

Here's a quick look at some of the ways that this simple but important technology change in the back office aligns fundamentally with the four drivers of digital transformation:

- **Improving customer engagement**: Internal audit's "customers" are business owners. Mobile technology for store audits helps to streamline and accelerate the audit cycle. That helps to improve the experience for auditees and keep them engaged in the process. And by making the audit process more efficient, the business can address risks and make improvements to external customer-facing processes more quickly, ultimately creating value for the retailer's external customers, too.
- **Digitizing products**: An automated mobile solution for store audits can eliminate paperwork, delays and errors. Audit findings also can be analyzed sooner; data is entered only once at the store into a web-based reporting system that delivers real-time results.
- **Improving decision-making:** Store audit technology can provide management with instant feedback on current store performance as well as real-time insight into compliance trends. Organizations can use that insight to detect and resolve ongoing problem areas before they become insurmountable issues, and improve the company's overall performance.
- **Driving operational efficiencies**: As we note in our store audit technology report, "Self-assessment, coupled with improved productivity from a mobile reporting solution, not only allows auditors to physically audit more stores, but also effectively increases audit reach to all locations by providing convenient, easy-to-use means of comprehensive store-level data collection and analysis." This is what operational efficiency is all about.

While the retail industry's general adoption of mobile technology for store audits has been years in the making, increased regulation and compliance changes over the past 10 years have created more of a pressing need for a digital solution. It's an important reminder that real change takes time and is brought about by necessity, even in an era of rapid digital disruption. It is also a reminder that each thousand-mile journey begins with a single step.

Strategic back-office technology improvements are one such step. Such changes can add significant and lasting value to retail businesses in multiple ways. They can also help retailers become more agile, creative and adaptable — qualities that are essential to achieving digital transformation on a broader scale.

Answer Fundamental Questions and Beware of Overconfidence Before Moving to the Cloud

For any business, migrating to the cloud is an essential step in the digitization journey. The baseline cloud benefits, such as reduced costs, greater efficiency and enhanced customer service, are important objectives to strive for, of course. The latter is especially attractive to consumer products and services companies. But there are many considerations, in addition to the benefits, that businesses must keep in mind when shifting to the cloud if they are serious about achieving true digital transformation.

To begin with, companies must have a thoughtful — and even an aspirational — strategy behind any cloud migration project if they are to realize measurable value from it. Protiviti's white paper, ***Cloud Adoption: Putting the Cloud at the Heart of Business and IT Strategy***, emphasizes this key point: Executives need to recognize cloud adoption as a strategic business issue, not an IT issue. To ensure that such a move will enable true business and IT transformation, executives must have clarity on what they expect the cloud to accomplish for the organization. They also need to understand their digitization priorities within their specific industry and regulatory contexts.

Consumer products and services companies leading the cloud race

Cloud adoption is accelerating across all industries, but for consumer products and services companies the pace is quicker. According to Protiviti's latest annual ***Technology Trends and Benchmark Study***, nearly two in three companies today are now focused on investing in cloud adoption. For consumer products and retail companies that participated in the study, that number is 80 percent. These businesses also reported that they are currently focusing on and investing in digitization.

Interestingly, despite being on the forefront of cloud adoption, consumer products and services companies don't appear to be overly concerned about risks that may accompany such a dramatic move. Executives from these businesses who responded to the ***Executive Perspectives on Top Risks for 2017*** survey from Protiviti and North Carolina State University's ERM Initiative did not cite the following as a top five risk for their industry, even though it was fourth on the overall list of top risks in the survey:

> *Rapid speed of disruptive innovations and/or new technologies may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our business model.*

On the surface, this finding seems positive: Consumer products and services companies believe they have a handle on this top risk. However, it might also be a signal of overconfidence. And overconfidence is a risk in and of itself, and could potentially undermine the success of any digital project. To help those feeling confident test their preparedness, a recent issue of ***The Bulletin*** suggests that executives ask themselves the following questions:

- *Directionally, do we know as an organization where we're going and why?*
- *Are we prepared for the journey we are undertaking?*
- *Do we possess the ability, will and discipline to cope with change along the way?*

Pondering these questions can help organizational leaders think more critically about their goals, the risks associated with the changes they want to undertake, and whether they fit within the risk appetite of the company. Answering these questions will also help them to think more critically about what to move the cloud, how and when, to realize the most value for the company.

For example, back-office operations are often overlooked as potential candidates for cloud migration in favor of more customer-facing functions. This oversight could result in the business missing out on some significant benefits, like building greater resiliency into its core operations. The inverse is another common mistake: Rushing to migrate a back-office function and then realizing, too late, that the legacy technology supporting it can't be cloud-enabled. Yet another pitfall is jumping on the cloud bandwagon before properly considering privacy, security or compliance issues.

Even more questions to consider

In addition to the "soul-searching" questions above, organizations should seek to answer some other key questions to help them develop their cloud strategy:

- *Why should we adopt the cloud?*
- *What are the business needs, and what are the outcomes we expect?*

- *What are the use cases?*
- *What portions of the business should we move to the cloud, how, and when?*
- *Which cloud model is most appropriate for this initiative and for our organization (e.g., private, public, hybrid, or multi-cloud)?*
- *What is the economic and operational value proposition?*
- *How would this project impact IT's approach to its current business model?*
- *What vendors should we work with?*

The bottom line of this discussion can be summed up in a word: preparation. Well-placed confidence, clear business-driven goals and a well-thought-out strategy will position organizations to execute their cloud migration project successfully, achieve the desired value from them, and be another step ahead in their digital transformation journey.

Developments in the First 100 Days of the Trump Administration that Affect the Consumer Products and Airlines Industries[1]

In our election implications Flash Report,[2] we suggested there were possible winners and losers across multiple sectors from a Trump presidency. Here is an update of developments during the first 100 days of interest for consumer products companies and airlines.[3]

Possible Winner	
Airlines	**What we said we expected:** More sympathy to U.S. airlines' claims of unfair competition from state-controlled carriers.
	Developments since inauguration: In a February meeting with airline and airport executives, President Trump expressed optimism regarding how infrastructure improvements and relaxed regulations can improve the state of U.S. air travel.[4] In addition, even though declared

[1] Some of the information in this section regarding what we expected was obtained from the article, "Trump Victory: Corporate Winners and Losers," Richard Milne, Financial Times, November 9, 2016, available at www.ft.com/content/8de13154-a677-11e6-8898-79a99e2a4de6.

[2] "Addressing the Impact of the 2016 U.S. Election."

[3] This commentary is from our Flash Report detailing key developments from the first 100 days of the Trump administration: www.protiviti.com/US-en/insights/first-100-days-report.

[4] "Airline CEOs Are Optimistic Following Talk with President Trump," Andrew Sheivachman and Jason Clampet, Skift, February 9, 2017, available at https://skift.com/2017/02/09/airline-ceos-are-optimistic-following-talk-with-President-trump/.

	unconstitutional in the courts, the travel ban signed in January blocking citizens from seven countries created uncertainty that was not positive for the industry.
Possible Loser	
Consumer Products	**What we said we expected:** Repeal of trade agreements would likely cause shortages in raw materials, impacting the availability of consumer products. Shortages would likely increase prices, offsetting increases, if any, in disposable income from tax reform. Trade cases brought against a country – say, China – for allegedly using unfair subsidies to benefit their companies can affect companies that rely on suppliers in that country to make their products as well as the country's consumers to buy those products.
	Developments since inauguration: Trade policy and the potential for renegotiation of all or a portion of the 14 U.S. free trade agreements is the elephant in the room for retailers and consumer products companies. All eyes are on the administration's every move toward policy specifics. Needless to say, with the torrid pace of retailer bankruptcies in the first quarter of 2017, major retailers have launched a campaign to defeat the BAT proposal on the grounds that it would increase the cost of a wide variety of goods.[5] (As noted on page 6 of this Flash Report, the BAT was not included among the "core principles" for tax reform released by the White House.)

[5] "Retailers Go To 'BAT' Against Trump Import Tax," George Anderson, Forbes, February 8, 2017, www.forbes.com/sites/retailwire/2017/02/08/retailers-go-to-bat-against-trump-import-tax/#63d6353a4353.

About Protiviti

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We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

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