clarity

Hello

Welcome to the Spring edition of Clarity Insights.

In this edition we're examining a broad range of topics that reflect the breadth of issues and challenges facing Boards today.

Historically Retail CEOs have come from Commercial or Finance, but recently we're seeing an increasing number with **Operations** backgrounds. Is this down to a better ability **to engage** with **customers** and **colleagues?**

Mike Roberts discusses the **evolving role** of the **CIO**

Katie Hart looks at the resurgence of **physical** retail and why it's a good **investment**

Ben Williamson reviews how **FMCG** companies can leverage **ChatGPT**

And Callum Loader argues the pros and cons of the **4 day week**

We hope you enjoy this edition – thoughts and feedback welcome!

Thank you. Fran Minogue, Founder & Managing Partner

The Rise of the Operators: How Retail Ops is Leading to the Top

Fran Minogue, Founder & Managing Partner

If we look at the background of the top 50 retail CEOs, the majority come from the Commercial discipline, followed by Finance and, in recent years, Strategy Consulting has become more prevalent. But there is a new trend to watch – increasingly Retail Operations has been the training ground for some of our most successful CEOs. Is this a reflection of the way we lead and create winning teams today?

According to Gallup's recent State of the Global Workplace report , the UK has the lowest employee engagement score in Western Europe at 8%. This means that the vast majority of the workforce is doing the bare minimum and has little emotional attachment to their employer. Unsurprisingly, employee engagement increases productivity and companies with high engagement are 21% more profitable.

Critical to success in retail is the ability to devolve responsibility to the lowest possible level – front line staff in stores. For that to work, colleagues need to feel valued, empowered and trusted. They respond best to bosses who have good listening skills and encourage them to express opinions.

Stuart Machin, Simon Roberts, Thierry Garnier, Steve Carson, Darcy Willson-Rymer, Mike Logue, all cut their teeth running stores, regions and markets and learnt at an early age how to serve customers, inspire large teams and lead from the front.

The transformation of M&S has been remarkable - or should I say remarksable ? Of course, it hasn't happened overnight and Stuart Machin would be the first to say it's a team effort, but much of it is down to his open style of leadership.
'Straight to Stuart'/ Straight from Stuart' has opened up a 2 way dialogue; head office is now the support centre and stores are clearly the heroes. Instore teams are encouraged to show their creativity and delight customer with Tik Tok videos which have now gone viral. This style of empowerment would have been unthinkable under previous regimes and make Stuart accessible, relatable and human. Not only has this personal approach truly engaged colleagues and

customers, it’s paying off on the bottom line and also proving a great talent magnet.

Another highly successful CEO who has risen through the ranks is Simon Roberts at Sainsburys. A colleague commented, “retail is 90% execution and if you’ve been a store or area manager, you know what is feasible and can be executed easily and what will just take teams away from their core focus – serving customers.”

Outgoing CFO, Kevin O Byrne describes Simon as a very inclusive leader, incredibly hard working and intellectually curious, always keen to learn and understand. “He is driven in a nice way and consensual, but will always ask for more. It was inevitable that Simon would become CEO – he had widespread support from top to bottom across the business.”

At Kingfisher, many of the banner CEOs have come up through the retail operations line, including Group CEO, Thierry Garnier. CPO, Kate Seljiot, believes that leaders from this background do have an advantage. “Being close to stores makes them more aware of market volatility, what consumers want and what competitors are doing in terms of pricing and promotions; they can course correct at speed in a way that just isn’t as credible from HQ”.
And those close to Thierry describe his grounded style of leadership. “It’s authentic, accessible and brings a higher level of credibility. Store teams recognise that Thierry knows first hand what he’s talking about; he can move them forward, not just engage, which has a powerful ripple effect”.

Paul Moody, Chair of Card Factory agrees that great leaders can come from any discipline, but that an operations background is certainly a place to hone the key qualities. “If I ask the Board what makes our CEO, Darcy Willson-Rymer, so effective, it would be his ability to create a vision to empower and inspire those around them. He gives people head space and coaches well. His style instore is clear and never patronising; he is genuinely interested in making colleagues lives better.”

Alan Smith, Chair at ScS says that he didn’t necessarily place too much weight on Steve Carson’s operations background when he appointed him as CEO, but now feels it is central to his success. “Steve is great with people, who enjoy working with and want to follow him. Colleagues feel they can express opinions freely that will be listened to. He has high EQ, a real warmth and an encouraging nature. I’ve seen a cultural shift under his leadership; our stores are a happy place to work.”

Someone with an operations background who embodies a humble and empowering leadership style is Mike Logue, who took Dreams from basketcase to a highly profitable asset that was acquired for $475m 2 years ago. What is truly laudable about that achievement is that Mike did it with largely the same team – which speaks volumes about his ability to inspire colleagues to raise their game and become a winning team.

So an Ops background might not always create a more inclusive leader, but those who show humility, curiosity and genuine interest in others will succeed in engaging and mobililsing colleagues to strive for success.

The CIO Role Post-Pandemic – Top Trends

Mike Roberts, Partner

While COVID-19 was clearly a massive challenge across all consumer organisations, the CIO function in those businesses was particularly hard-hit. Enforced shifts in business models, for example B2C companies transitioning overnight to D2C, employees abandoning their offices for remote working, the scarcity of supplies and the impossibility of effective inventory planning – all, to a greater or lesser degree, fell squarely on the shoulders of the CIO. Post-pandemic, the thirst for transformation seems to have accelerated rather than abated, so it feels like an apposite time to share the key trends that we are seeing in the function:

1 – Success Has Many Parents
The complexity of the technology organisation in consumer companies is at an all-time high, with a plethora of new titles (Chief Technology Officer, Chief Data Officer, Chief Digital Officer etc) and a spreading of 'technology' responsibilities across the business, particularly in terms of digital transformation. There is an increased need for functional leaders to be broader influencers and enablers, recognising that they cannot do everything themselves, but also ensuring that any local tech initiative or digital advancement in another function fits into the overall technology strategy.

2 – Thinking Long and Short
While increased automation is clearly still high on the CIO agenda to provide long-term savings, free up time for more value-added tasks and increase the attractiveness of roles, there is also now a real need to embrace more short-term technology solutions. Rather than only trying to find enduring additions to the tech stack, there seems to be an acceptance that short, sharp interventions and quick wins can often be more valuable, even if the technology needs to be replaced sooner than would previously have been acceptable.

3 – Prepare for The Top Job
We are still some way from CIOs regularly stepping into the CEO role for consumer companies, but the trend is definitely in the right direction. Given that technology is now at the heart of most business transformations, the focus of the CIO role is shifting significantly away from IT operations and pure technical know-

how, towards broader company strategy and enterprise-wide growth. Conversations with CIOs confirm that their softer skills - relationship-building, influencing without direct control and developing teams - are now equally, or sometimes more, valued than their tech skills.

4 – It's All About The Numbers

In recent times, CEOs have recognised that a large part of their successes or failures came down to the quality of actionable data in the business. Most transformation programmes, for example process automation, have data as their backbone. This is reflected in the rise of the Chief Data Officer role which has moved from a "nice-to-have" to a "must-have" and has now reached a status close to that of the CIO. While FMCG companies were mostly behind the curve on data pre-pandemic, only having isolated advanced analytic initiatives or spending more time on lower-value programmes like data cleaning, they have been catching up fast in the last two years.

5 – Leave It To The Geeks

It goes without saying that, to get the best out of a high-class CIO/CDO function, the rest of the organisation needs to work closely with it. However, there is still an innate barrier to true partnership, with other functions typically having much stronger bonds between them. This often stems from a historical mistrust of the IT function or a lack of knowledge/confusion over new technology and what it can do. Since many of the decisions needed to make a success of technology projects, for example a new ERP system, are taken outside of the CIO function, it is vital that key technology projects have Board focus and sponsorship.

From our recent conversations with technology leaders, it appears that raising the technology capability of a business steadily across all areas – data, the tech stack, digital transformation etc – is a reliable path to success. This can take a little more time (and be a little more low-key), compared to putting all your investment in one, attention-grabbing area but will typically pay dividends

The Resurgence of Physical Retail

Katie Hart, Consultant

The acceleration of ecommerce has had its fair share of headlines over the past few years and espite the viability of some DTC models being called into question recently, the ease and convenience of online shopping is here to stay. But we are seeing a renewed push behind physical retail and competitive advantage being achieved through store investment.

Since opening in October 2022, Battersea Power Station has recorded a footfall of five million. The shopping centre has welcomed a huge number of businesses with more brands set to open shop over the coming months. Yes, it is a London landmark, yes the opening has been supported by special events and yes there has undoubtedly been intrigue around how the Grade II listed building would be developed. But its success shows that the physical retail store is by no means 'dead'. When the proposition is right, people will come.

There are the obvious benefits of seeing, touching, and experiencing products first hand in stores. But in addition, consumers increasingly seek personalised experiences that can't be replicated online. Retailers have responded by creating immersive, experiential environments that offer unique ways for customers to interact with their brand and we have seen some first class examples come to market. Gymshark's flagship store on Regent Street is a showcase for the brand. The store displays a wide selection of products, but also offers in-store classes and fitness events. A weekly running club and areas of the store dedicated to different types of exercise, sit alongside Joe & The Juice to refuel post workout. It is an immersive, energetic and accessible touchpoint that allows the consumer to 'live' the Gymshark lifestyle.
Another example is Sephora's new flagship store in Westfield White City (its first UK store after a 17 year absence). In addition to 140 brands, for some of which it's their physical retail debut, there is the Grand Beauty Hub at the heart of the store offering a comprehensive range of treatments and makeup services performed by in-house experts and brand professionals. When Sephora first opened, customers queued for seven hours to purchase products they could easily buy online. But they were lured away from their screens by an enhanced retail experience that feels like a vibrant beauty playground.

Knowing the target consumer and what they want from their shopping experience is key to success. That could be expert advice on selecting the best product, exclusive brand collaborations or simply a friendly, welcoming space. Investment is then made in the right places and innovation avoids being judged merely as a marketing gimmick.

But the importance of the store extends beyond just the shopping experience. It also plays a key role in building brand loyalty and trust. Physical stores provide a forum to engage with customers face-to-face, which in turn builds brand relationships and increases retention. The concept of ‘community’, enabling consumers to identify, be understood and known by a brand, creates stronger connections. Retailers can differentiate themselves in a crowded market by engaging directly with consumers and the growth of communities actively encourages interaction to create ambassadors. When these interactions are personalised, compelling and authentic they can be incredibly powerful and profitable.

However, in today’s world where people move without thinking across channels and devices, physical stores cannot be managed in isolation. In 2023, there is greatee balance between shops and ecommerce than there has been over the past three years, but there is still room to improve how they work together. The majority of consumers begin their purchasing journey online, browsing, reviewing and comparing products. This makes the website the ultimate shop window and critical to making a good first impression. Converting the browse to a sale will involve numerous touchpoints across multiple channels. How stores and websites work together to make this consumer journey a seamless experience is expected and essential to the future of retail. A symbiotic relationship where one supports the other in a happy, always-on ecosystem is the ultimate goal to cater for the ‘continuous’ consumer.

While the future of stores was questioned when physical retail shut down in March 2020, brands are now increasingly confident in investing in bricks-and-mortar. As consumer habits evolve, retailers will need to adapt their operating models to meet those expectations and it is fantastic to see many brands rising to that challenge.

ChatGPT & Consumer Goods

Ben Williamson, Associate

Since ChatGPT's launch in November 2022, it has become the subject of mass appeal. People have used it to converse, entertain, teach, cheat, explain and analyse. Much has been written about how it can be used by companies improve their business; this only becomes more relevant with the release of GPT4.0, an impressive upgrade that makes the former product (GPT3.0) look trivial by comparison. While certain aspects of ChatGPT's use within the corporate world have already been covered extensively, there are a few unique ways in which the tool can be used, specifically within the consumer goods industry. This article will look at how an fmcg brand might use ChatGPT to optimise its supply chain and improve its new product development function.

ChatGPT is merely a language simulator – it isn't a calculator, researcher, or some form of intelligent being. It uses Natural Language Processing (NLP) and Deep Learning to interpret an input of text and transform it to generate responses that are contextually appropriate. To John Doe then, it might seem like little more than an incredibly advanced version of Siri or Alexa (minus the voice recognition). In reality, ChatGPT is far more sophisticated; it has the ability to understand and analyse vast amounts of data and transform it into very simple, clear reasoning. This allows it to be leveraged to improve the efficiency of a brand's supply chain function by forecasting demand, thereby optimising inventory management and improving logistics.

In terms of demand forecasting, an fmcg company could feed ChatGPT all the standard information used in demand planning, for example past sales data and trends, news articles, social media engagement figures and survey responses. ChatGPT can interpret, analyse and transform this data to provide accurate and reliable demand forecasts. This in turn can be used to optimise production and distribution schedules and reduce waste (especially where perishable goods are concerned). In addition, GPT4.0's even more advanced algorithm is able to take into account external factors such as seasonality, promotions, and consumer behaviour, making demand forecasting even more accurate.

Outsourcing the NPD team to ChatGPT probably isn't a good idea. AI can only base outputs on its training – it cannot think for itself. By virtue of this, ChatGPT can only ever come up with answers which it has already encountered somewhere in the past. This means that any new products or ideas put forward by ChatGPT will not be original; a widespread outsourcing of NPD to AI would completely stall global innovation. However, ChatGPT is excellent for discovering what types of products would satisfy consumers, and for providing some degree of creative inspiration.

It does this in a similar way to how it assists with demand forecasting. By analysing customer reviews, social media posts, news articles and other sources of consumer feedback, ChatGPT can identify patterns and trends in customer preferences. This

information can then be used to generate new product ideas that are more likely to resonate with consumers. Its role extends as far as the user wishes – ChatGPT can be instructed to simply analyse consumer trends and report back with an written overview of what it believes consumers want, or it can provide a list of new product ideas based on this feedback. It could go as far as developing marketing plans if so instructed.
In the latter stage of the NPD process, ChatGPT has the ability to boost creativity by offering ideas for brand names, taglines and ad campigns based on its analysis of the features and benefits of the product. It can come up with branding and packaging designs by analysing market trends within the design industry to ensure its outputs are on trend and fashionable (note that if a business really wants to capitalise on AI, it can cut and paste ChatGPT's branding instructions into DALL·E 2 to receive the finished product!). Finally, by using data such as competitor pricing, consumer behaviour trends, and demand forecasting as above, it can assist with pricing strategy. While none of the above should be seen as a way to completely replace current methods of NPD, ChatGPT can serve as a useful starting point, allowing the team to become more efficient.

Using ChatGPT in the ways described is not as simple as going to chat.openai.com and asking it nicely. To access the full plethora of ChatGPT's abilities in a commercial context, a business must incorporate AI into its own systems. In February 2023, Bain announced an international services alliance with OpenAI. The partnership will allow Bain to offer its clients access to OpenAI's tools and platforms, including GPT. These can be used to automate tasks, improve efficiency, generate new ideas and improve decision-making. Bain will also provide clients with strategic guidance and digital implementation capabilities to help them integrate AI into their business processes.

Needless to say, this short article doesn't scratch the surface of ChatGPT's (and wider AI's) potential. A friend reading Machine Learning at Imperial laughed when I told him I'd be trying to cover the application of ChatGPT to the corporate world in 1000 words – he's attempting to do the same in a 30,000 word dissertation. Rather, the aim of this article is merely to act as a taster of how future shareholders might benefit from AI in ways we can't yet imagine. The war between Microsoft and Google is beginning to disrupt and advance the world of artificial intelligence. The possibilities within this field are endless and truly exciting.

“The Four Day Week: A Modern Solution to an Age-Old Problem”

Callum Loader, Associate

In 1926, Henry Ford reduced the working week of his employees at Ford Motor Company from six days to five days, with no reduction in pay. Ford's decision was based on his belief that leisure time was important for workers and their families and that a world in which people had more leisure time would be one in which there was more demand for his products. However, his decision was met with opposition from other business leaders and some workers who saw it as a threat to productivity and profits. Critics argued that the reduced workweek would increase labour costs and reduce output, leading to decreased profits. Some workers were also concerned that they would earn less money with the shorter work week.
Despite the opposition, Ford's decision proved to be successful. Workers became more productive and had more time for leisure activities. Other companies eventually followed his lead and the five-day week became the standard in many industries.

In 2023, the debate now centres around a further reduction to four days, with proponents hailing it as a way to increase productivity and employee wellbeing, while critics are cynical or argue that it is impractical in certain sectors. The UK recently conducted the biggest ever experiment on this working model, with more than 60 companies trialling a four-day work week between June and December 2022. The guiding principle of the study was 80-100-100: 80% of the hours to produce 100% of the work at 100% of the salary. Over 90% of these businesses have opted to extend the four-day week trial, with 18 of them adopting it permanently. The majority of employers who took part in the project say they have seen production levels maintained and improvements in staff retention and wellbeing. Business revenue stayed broadly the same, there was a 65% reduction in the number of sick days and 71% of employees reported lower levels of burnout. The article examines the pros and cons of the four-day work week.

The advantages of a four-day work week are numerous. Improved morale and fewer absences are key benefits, as a shorter working week leads to less burnout, making staff happier and more focused in their roles. It can also aid recruitment by offering potential and existing employees a flexible working pattern, which can help attract and retain talented professionals. In the UK, more than 80% of people would prefer a four-day work week, according to a survey by recruitment company Reed.

However, there are potential drawbacks that should be considered. Firstly, it does not suit all industries. Sectors such as hospitality and retail are already facing a shortage in labour; reducing the number of hours worked by current employees will only serve to worsen the shortage. Secondly, the findings of the recent study must be taken with a pinch of salt. It was conducted over a six-month period; in such a short space of time, it is feasible that employees could make the extra effort to maintain output at pre-trial levels, especially with the added incentive of a permanent move to a four-day week if they are successful. It will be important to monitor whether productivity gains and reduced absence rates will be maintained over a longer period of time.

A recent article from The Times outlines what it describes as "shirking from home" – the rapid rise in popularity of activities such as golf, gyms and beauty salons during weekday afternoons, (especially on Fridays). Are the increases in these activities representative of a new relationship between employee and employer? One in which the employee is trusted to work flexible hours so long as they can deliver the same productivity. Sceptics will argue that some employees are taking advantage of their new flexibility to the detriment of others and by not pulling their weight they will force employers to return to more traditional office working models.
Whatever our conclusions on this matter, there are a couple of key takeaways from the working from home debate that can be applied to the question of the four day week:

- Employees demonstrate that they can maintain productivity at the required rate if they are to be given increased flexibility / time off
- Employers must be able to trust their employees to operate more independently (and for that trust not be abused)

Despite the potential drawbacks, the appetite for a more condensed work week is strong in many parts of the world. Belgium recently granted its employees the right to work a full week in four days without loss of salary. In New Zealand, consumer goods giant Unilever has expanded its four-day week trial after encouraging results from an 18-month pilot. Iceland ran a four-day work week trial between 2015 and 2019, and found that the well-being of 2,500 workers who took part increased in terms of health and work-life balance. A 2019 poll of 36,000 Americans carried out by YouGov found that two-thirds of respondents would prefer a four-day work week, regardless of whether that meant longer working hours on those days.

Ultimately, the future of the working week will depend on the ability of employees and employers to align their respective interests. The Covid-19 pandemic proved that most companies were able to maintain output whilst also extending the option of increased flexibility through remote working. To generate a similar win-win outcome, employers will again have to place trust in their employees, whilst employees will have to demonstrate a willingness to generate the same output within a shorter period of time.

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