

# Aligning Physical and Digital Presence

## Key Insights Summary

### **The Need for Omnichannel Strategies**

Today's consumers expect a seamless "omnichannel" experience that requires tight alignment of digital and physical channels to enhance customer experience.

### **Technology as a Strategy Enabler**

Companies need to view digital technologies not as an alternative to existing approaches, but as an enabler and accelerator of core strategy.

### **New Challenges for Old Structures**

Omnichannel strategies can lead to new and unexpected challenges: the transparency of the web may undercut existing pricing strategies, while old incentive structures and metrics may need to be re-aligned with new channels.

### **Stereotypes and How to Avoid Them**

Digital approaches are often viewed as geared towards younger, better educated customers. Yet, even older and blue-collar customers increasingly rely on technology and expect strong digital capabilities.

### **People, People, People**

The people dimension can provide the most difficult obstacle in the alignment of digital and physical channels. Challenges include recruiting new talent, integrating these employees into the existing culture, and avoiding the isolation of the digital unit from the main business.

## Walgreens and the Omnichannel Consumer

Today's retail channels include traditional in-store, kiosk, mail, web-based, mobile, and increasingly social media. Customers expect an omnichannel experience that integrates the best of physical and digital channels seamlessly. Companies need to provide "whatever customers want, wherever they want it, whenever they want it."

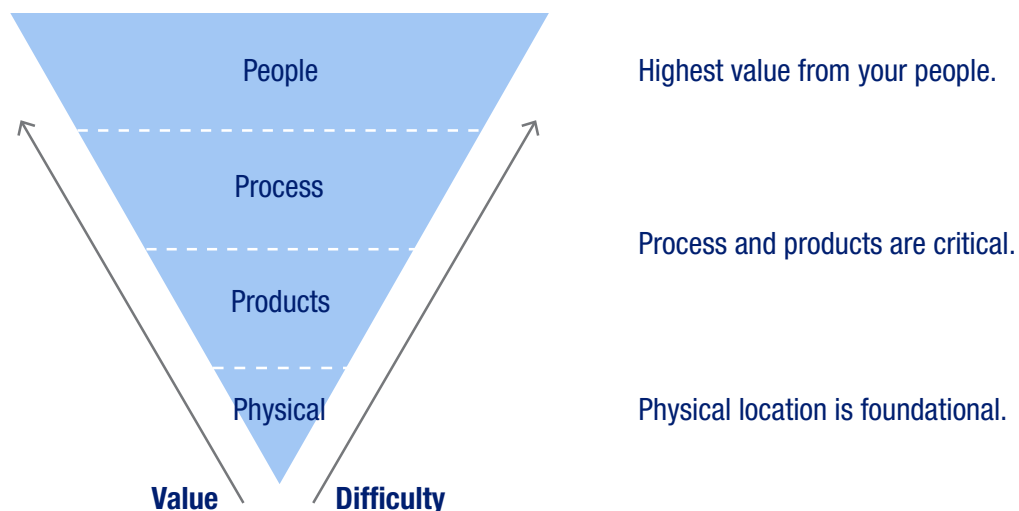
Walgreens is tackling these challenges on three fronts.

**Walgreens' Four Ps.** Over the past four years Walgreens has sought to transform customers' in-store experience through careful attention to the physical store, products offered, processes that support the customer experience, and people that drive these dimensions at every level of the company. Walgreens' people represent the core driver of value creation, but they need to be supported by the right environment, product mix, and processes. Digital and physical channels must be aligned to enable and accelerate this strategic vision.

**In-Store Experience.** Walgreens' 8,500 stores remain its "center of gravity," serving 6 million customers a day. Walgreens has transformed the customer experience by reimagining the store. The new pharmacy represents a major evolution of the neighborhood drug-store: pharmacists sit at open desks easily accessible to customers, with more time for consultations due to efficient, technology-enabled back-office processes; ceiling-mounted jumbotrons provide prescription pick-up status and other information; kiosks enable customers to check in and request their prescriptions, which then appear at the pharmacy window. These changes are complemented by new enhancements ranging from its offerings (for example, Take Care health clinics to upscale nail salons in its "Look Boutique" to its branded "Delish" foods and robust wine and spirit selections) to its services (for example, mobile checkout, "untethered" phone access for store personnel, and rewards).

**Digital Experience.** Walgreens owns and operates five e-commerce websites; its 10 mobile apps handle 12 million visits per week. Walgreens has learned that customers who use all three channels

### Engagement leads to service . . . leads to loyalty . . . which drives value



(store, web, mobile) drive 6x more revenues than store-only customers. Walgreens' digital strategy revolves around three dimensions:

- offering convenient fulfillment (including curbside pickup and home delivery);
- leveraging So(cial)-Lo(cal)-Mo(bile) technologies for enhanced in-store experience and customer engagement (ranging from an in-store navigation app to mobile coupon offers); and
- enabling customers in managing their health more effectively by helping them to view (prescription and health history), transact (manage prescriptions and appointments), and engage (share health goals and data through personalized eHealth offerings).

## About the Event

On April 5, 2013, the Corporate Leadership Center held the second Company Insights event, to provide the community of *CEO Perspectives* Fellows continued access to relevant business and leadership insights as well as ongoing networking opportunities. *CEO Perspectives* intends to offer the Company Insights events once or twice per year. The second Company Insights event, hosted by Walgreen Company, was focused on the alignment of physical and digital channels to enhance customer experience. It was held at Walgreens' E-Commerce Center and included a tour of the company's flagship store in downtown Chicago.

After introductory remarks by Walgreens President and CEO Greg Wasson, Walgreens executives Richard Ashworth (Corporate Operations—Vice President of Western Operations) and Sona Chawla (President—E-Commerce) presented Walgreens' corporate strategy, its e-commerce approach, and the alignment of the two in an "omnichannel" strategy.

To add the perspective of other industries, a panel discussion featured Kermit Crawford (President—Pharmacy, Health and Wellness, Walgreen Company), Steve Gosselin (Vice President—Customer Services Support Division, Caterpillar Inc.), and Jana Schreuder (President—Personal Financial Services, Northern Trust Corporation). The panel was moderated by Daniel Diermeier of the Kellogg School of Management. The program concluded with remarks by Mark Wagner (President—Operations and Community Management, Walgreen Company). We are grateful to Walgreens and its executive teams for hosting the event and to all panelists and participants for sharing their insights.

## Cross-Industry Perspectives on Physical-Digital Alignment

Digital capabilities must serve as an enabler and accelerator of core strategy, not as a substitute or an add-on.

- Northern Trust has complemented its relationship-driven business model through the digital channel beginning with developing mobile app and online banking capabilities and expanding to a range of digital tools to bring to clients' homes to create "wow" experiences.
- Caterpillar has embarked on a long-term plan to engage its independent dealer network in technology-enabled, collaborative approaches to serve its various customer segments.
- Walgreens seeks to align channels by prioritizing investments carefully, enhancing its legacy fulfillment system in a targeted way, and aligning culture and incentives to integrate digital processes. It sees technology as "a means of enhancing its business, accelerating the business, and developing solutions to serve the business."

## Problems and Challenges

**Understanding the Customer.** Well-established customer relationships can lead companies to "play defense." Caterpillar initially worried about their customer profile and the effects on their global network of dealers worldwide ("Do guys in hard hats even go online?"). That changed when the company experimented with small pilot projects and discovered their potential in generating new revenue and leads—60% from new or previously lost customers. Caterpillar now strives to build an "Amazon-like" experience for customers, engage its dealers, and allow customers to create customized portals.

Due to the highly relationship-driven nature of its business, with relationships frequently passed on from generation to generation, Northern Trust had initially given little thought to digital approaches. That changed with the advent of a new generation of clients who rely on web-based and mobile banking options, but also when an 85-year-old client asked why he can't do more banking on his iPad. As "table stakes," Northern Trust developed a mobile app and online banking site. In the last two years the company has focused on enhancing customers' experience more deeply with digital tools, striving to create "wow" experiences for customers.

**New Challenges for Old Structures.** The integration of digital capabilities can lead to friction with existing strategies and processes. The unprecedented transparency of the Web can create pressure for existing pricing models. Dealers, for example, need to understand the tradeoffs between less pricing flexibility but greater operational efficiency and market share. Walgreens faces channel-alignment challenges around incentives, such as which metrics to use for digital sales and how to redesign incentive systems. Another challenge is presented by legacy systems that have served the company very well (for example, fulfilling 2 million prescriptions per day) but now need to accommodate digital enhancements—"like putting a Ferrari engine in a Volkswagen."

**People and Culture.** Often the biggest obstacles to the alignment between digital and physical channels are rooted in people issues. Companies need to avoid "multi-cultural" clashes and the treatment of the digital unit as a form of "skunk works" that operates in isolation of the business. This may require "teaching old dogs new tricks." Caterpillar trains dealers on how to use digital data to provide better service to its customers. Northern Trust created a "dual mentorship" program pairing younger employees with more experienced employees: the junior employees help their more senior counterparts overcome resistance to new technologies and improve technology skills, while the more seasoned employees help the younger to better understand and appreciate Northern Trust's culture and clients. Overcoming cultural obstacles, however, has to start "at the top" of the organization. ■

## Additional Readings

"The Future of Shopping," *Harvard Business Review*, December 1, 2011

"The Promise of Multichannel Retailing," *McKinsey Quarterly*, October 2009

"Clicks And Mortar: Why In-Store Experience Matters (Now More Than Ever)," *Forbes*, June 11, 2012