

## Forget Same-Store Sales: Think Digital

Will Ron Johnson's move from Apple to JC Penney spur other retailers into digital action?

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By Les Berglass



Last week JC Penney sent a shockwave through the retailing world. The struggling retailer announced plans for Ron Johnson--a hero of the digital era from Apple--to take over as its CEO early next year. Wall Street applauded the news with nearly a 17% jump in stock price. Johnson is the best example out there of a

retailing leader that has been successful in marrying digital to brick-n-mortar shopping.

Digital commerce fuels growth like nothing else. In 2010, Web sales accounted for 33% of total revenue at the ten best performing brick and mortar retailers in the e-commerce category. The worst-performing companies in e-commerce derived only 2% of sales from such channels, according to data from *Internet Retailer*.

Rewards should be rich for the investor who foresees which retailers will conquer digital sales. Yet they won't unearth these future kings using metrics like monthly same store sales and new store openings, which are irrelevant in the fast paced world of digital retail.

Instead, as the Johnson news demonstrates, I believe it all boils down to management. As an executive recruiter specializing in consumer goods and retail, I have witnessed many retailers treat digital commerce like the in-laws visiting for the weekend--an unpleasant, yet unavoidable reality. This attitude has cost them dearly. Those who've flourished have carefully hatched a plan to make emerging technology work for them. These are the winning tactics for which investors should be on the look-out.

The CEO must consider digital commerce a top priority. Neiman Marcus Direct's new president John Koryl reports directly to Neiman Marcus CEO Karen Katz. That's because Katz recognizes that e-commerce not only contributes 16% to total sales, but also ranks among the most powerful tools in the luxury retailers' branding and marketing arsenal. In other words, e-commerce impacts 100% of the business.

Similarly, since taking over at New York & Company (NWY) (a client of Berglass + Associates) this winter, Greg Scott meets with his digital commerce team every Monday morning. The company's commitment to the digital space has also

carried into the Board room, where Michelle Pearlman, who ran e-commerce at Ann Taylor (ANN), recently joined as a director.

The most successful digital platforms are usually joint efforts of marketing and merchandising leaders and their digital counterparts. In 1997, when Patrick Connolly, who then ran William-Sonoma's catalog business, wanted to expand onto the Web, he carefully laid out a detailed branding and e-commerce strategy designed to win support of top management. His efforts paved the way for a smooth transition into digital sales, which remain a force to this day. Last quarter, a 20% increase of sales at Web sites, such as Pottery Barn, Pottery Barn Kids and Williams-Sonoma (WSM), helped pull the company out of a recent performance slump. Since last June, Williams-Sonoma has risen more than 30%.

Retail leaders must aim to create a seamless consumer experience--be it at the mall or on an iPhone. This is the specialty of Glen Senk at Urban Outfitters (URBN). As the first retailer on iTunes and an early adapter of ratings, reviews, Facebook and Twitter, the clothing retailer hungrily seeks new ways to engage with the consumer. Investing in such technology supplants advertising, for which Urban Outfitters spends a fraction of its revenue. A wise investment considering social media sometimes generates 20% of the daily online sales, and Urban Outfitters' stock has nearly doubled in the last five years.

Such digital retail magic does not require a Ph.D. in computer science. Ron Johnson, who came from traditional retailer Target (TGT), built his reputation at Apple (AAPL) not for a Web site or iPhone app, but as the mastermind behind the Apple Store. The Apple Store gently ushers consumers into a world where it's cool to shop from an iBook, iPhone or iPad. By dedicating more than half of the space to education rather than sales, Apple consumers became addicted to the brand. In other words, Johnson threw out every known model for the Apple Store.

Such visionary leadership rests at the core of all winning businesses. It's a lesson that will serve investors well wherever their money may take them

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