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CFO
Insights

The Future of Retail:

CFOs weigh in on the war for talent, supply chain issues, inflation and other disruptions

By Lex McGraw

Retail companies have been permanently changed by the Covid-19 pandemic. Consumer behaviors have shifted, employees have embraced different ways of working and investors continue to seek guidance, even though each quarter has become harder to predict. We gathered a group of CFOs from major retail companies to share how they're tackling these new challenges and how they see the CFO role evolving. Participants included PJ Guido of Chico's FAS, Matt Osberg of Helen of Troy Ltd., Dave Denton of Lowe's Companies Inc., Shelley Hulgrave of Penske Automotive Group, Matt Schroeder of Rite Aid Corp., Aaron Alt of Sysco Corp., Scott Roe of Tapestry Inc., Peter Crage of TravelCenters of America LLC, David Bergman of Under Armour Inc., and Melanie Marein-Efron of Urban Outfitters Inc.

How Retail Has Changed in the Last Year

Consumers now expect companies to meet them how and where they want to engage across channels. While some customers are excited to return to stores, others have embraced rapid delivery or curbside pick-up methods. "I was shocked at the evolution of ecommerce and how we doubled penetration overnight, which has not slowed down," a CFO explained. "On the back end, the whole notion of same-day and next-day delivery, the demand from consumers, the expansion of the gig network—the pace of change is astronomical. Not a week that goes by I don't hear of another player, model or innovation in that area."

Another CFO shared that his company is focusing on what the role of a brick and mortar store is going forward. "Our data shows traffic is down—depending on the channel and geography—about 20 percent. We've had to pivot on efficiency, staffing, leases, size of stores, and increase productivity with less traffic," he said. "We're more profitable than we were two years ago—even with lower traffic—but we've had to make significant pivots."

But in some markets, store traffic is making a strong recovery. "Our customers like to physically engage. We saw the ecommerce hike, but store traffic has been significantly higher in the last few quarters and we're still seeing that," a CFO shared. "In markets where we have stores, we also have much higher digital sales, as stores are playing a bigger role building awareness and serving as community hubs, customer acquisition engines and distribution and return centers."

Giving Guidance Amid Uncertainty

The lasting effects of the pandemic and geopolitical disruption have made it difficult for companies to plan and communicate their guidance to the market, yet investors continue to have a short-term focus when it comes to public companies. "We are struggling this calendar year to predict consumer behavior. Inflation, wages at raise cycle, no stimulus this year—will people spend through this?" asked one CFO.

In addition to consumer behavior, there is also ongoing supply chain disruption. "Every time we think a manufacturer will be OK, there's a shutdown," a CFO said. "If Covid taught us anything it's be flexible."

The CFOs we spoke with noted that it tends to be better to offer some level of guidance to the market—even if it comes with caveats. "We pulled our guidance at beginning of pandemic. I had a naivete—I thought we could reset the way we do guidance," a CFO shared.

Others agreed and questioned how you provide enough qualifications around assumptions to make it clear that it could impact the guidance. "We gave a range, probably not a big enough one, but tried to be as clear as we could about assumptions," one CFO explained. "I feel uncertain in how I've handled it. Right or wrong, I defaulted toward more certainty than I am comfortable with to try to keep people from being too exuberant or too panicked and keep them in the middle."

Investment Allocation Swings Toward Digital, More Customer-centric Experiences

Like many companies, retailers shifted more investments into digital during the pandemic. Some CFOs noted they were already investing heavily in that area and simply pulled forward some of their plans, focusing on enhancing the ecommerce customer experience or making adjustments to stores, such as more self-checkout options.

Still others invested in their supply chains to provide quicker deliveries and to be more automated. "We are building a new distribution center in the center of the country that will be highly automated with lots of opportunities for technology to make us more efficient," a CFO said.

Wage Pressure, Inflation and New Benefits Make Attracting and Retaining Talent Harder

The talent market is booming for job seekers—especially those at the mid- and lower-management levels. Companies have had to get more aggressive and creative to attract and retain employees. One CFO shared that the company lost two employees who secured nearly double their compensation at another organization. "There's a lot of wage pressure to retain salaried employees," added another. "There are so many headhunters making offers and employees are being offered a higher salary for fully remote positions. It's difficult to compete with that."

The fierce competition for talent has led companies to rethink their incentives. "We're looking at flexibility, extra vacation time, and a sabbatical program, among other things," explained a CFO. "These often cost a company less and have more value for employees."

In addition to a greater focus on incentives, companies are revising how and where employees spend their time. “In our stores, we are looking at how to be more efficient with our labor hours, paying attention to staffing during busier times of day and other measures,” said a CFO. “Our wage costs have gone up considerably.”

Navigating a Flexible Workplace

The days of everyone coming to the office five days a week are likely over. Most of the CFOs we spoke with were using a hybrid model with employees spending some days in the office and some at home. “For companies that are being more rigid, they’re losing people,” a CFO said. “You have to be open and make modifications.” Another CFO echoed that sentiment, saying that some members of his finance team are fully remote. “It’s what we have to do, otherwise we’re losing people left and right,” he added.

This flexibility has also increased the job candidate pool for companies that choose to employ it, especially those with headquarters in more remote locations. Candidates appreciate, if they don’t expect, the opportunity to live where they want and avoid lengthy commutes. Participants observed these factors also increase morale in some cases.

One detriment to more flexible work is losing the element of human connection—Zoom can only take you so far. “I have people who started two years ago who have never been to our space and never met anyone in person,” a CFO said. This creates challenges in terms of both staff development and personal connection to the team and company. We heard consensus around the direct challenges it creates for employee retention.

To entice employees back to the office, companies are trying a variety of options, including catered lunches and adding services on-site, including childcare, gyms and cafes. Many employees enjoy these additional offerings but still don’t want to lose the remote work option. “Leaders have to work harder to get people together,” a CFO explained. “I don’t think it’s ever going back to where everyone is in the office every day talking at the watercooler.”

Another challenge for leaders is to not only cater to employees in offices but also to those on the frontlines who often can’t have as much flexibility due to the nature of their jobs, which is a work in progress.

The Future of the Role

The pandemic expanded the role of CFOs—some leaned more into strategy and others focused more on supply chains. “I never spent a lot of time in supply chain, and now I am spending much more time, modeling scenarios I wouldn’t have thought of before,” a CFO noted. “I’ve always come from a CFO is a COO type of role, but in my personal evolution is transitioning into the strategic side,” another added.

In addition to those tangible business areas for CFOs to lean in, there is also a need to engage the human side of leadership—who you are as a leader and how you connect with and motivate others. The complexities of the pandemic underscored the importance of navigating these challenges with human answers. “A steady hand was really important, supporting the CEO and board,” a CFO shared. “I learned a lot—I had to be less of a bean counter and more of a psychologist.”

The pandemic may have altered some elements of retail, but a more human-centric approach to leadership should be a constant. This encompasses everything from the customer experience to addressing employee needs. Leaders who spend time reflecting on the learnings of the pandemic and seek unique ways to respond to stakeholders will be better positioned to weather the ongoing challenges of a pandemic and whatever else might be on the horizon.

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