

2024 Finalist Essay Combined



# Joe Berry Award 2024 Final

## Presentation #4

Topic: 5 Question: Risks in Digital Transformation

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*Steven began his retail career and developed a passion for retail on the Coles shopfloor, starting as an in-store team-member, becoming a duty-manager, then joining Coles' Finance function. Since then, Steven has partnered Coles' eCommerce, Store Renewal and Commercial Business Unit functions and is currently Finance Manager – Bakery Business Unit.*

JBA-24-085

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### **Executive Summary**

The continued development and acceleration of digital and technology has structurally changed the environment retailers operate in. It has created a modern, connected, 'phygital' retail and social environment enabling information, perspectives, and opinions to be shared with extreme pace. Retailers need to adapt to this new environment and manage heightened competition and risks which have the potential to impact reputation, market share and earnings. With the sector under extreme scrutiny, the risks posed from this change are high. This essay recommends retailers take three actions to minimise this risk; 1) embed a higher level of business-wide contextual awareness in decision making, 2) ensure behaviour and decision making always exceeds reasonable community expectations, and 3) build capability to react at pace to online content that has the potential to meaningfully impact their business. While there are large risks to respond to, there are also new opportunities that advancements in digital and technology are unlocking, including driving new product launch awareness and sales fuelled by authenticity on social media. Ultimately, this structural change has created an environment where retailers have less control over customer perception. It is vital retail executives embed strong customer obsessed cultures and controls, that limit the risk of their business falling short of reasonable community expectations.

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### Introduction

Large businesses can no longer afford to be tone-deaf. And in grocery retailing, where distrust is high, and switching costs are low, the consequences of falling short of community expectations are severe. When considering the impact of advances in technology and digital on the sector, direct impacts on operations through productivity improvements, ecommerce, retail media and AI logically tend to receive the most focus. However, indirect impacts from technological advances also need to be addressed, and arguably, there is none more impactful than the development and advancement of social media. It has fundamentally changed the way consumers live and shop. It has created a modern, connected, 'phygital' retail and social environment where the pace and quantum of information available, that would have previously been visible by few, is now rapidly visible to many. For retailers, this means that all decisions and actions have the potential to go viral. And of course, it's the decisions we don't get right that spread fastest.

To respond to this relatively new risk, all market participants need to adapt and, if they haven't already, take three actions:

1. Embed a higher level of business-wide contextual awareness in decision making where all team members consider unintended consequences of all decisions, no matter their perceived insignificance.
2. Ensure behaviour always exceeds both regulatory requirements and reasonable community expectations. Increased investment may be required where the risk of breaching customer trust is high.
3. Retailers and suppliers need to build a new skillset: extreme pace and agility, online. All businesses must be able to read, react and occasionally respond to brand damaging content at pace or risk the damage of an uncontrolled viral post.

While the risk imposed by advancements in social media is real, immediate and large, there is also the opportunity to harness it to drive growth. The most successful market participants will have a strategy that serves to mitigate emerging risks, while harnessing the power of social media to drive growth.

### Embedding a higher level of business-wide contextual awareness in decision making

Branded water bottles and Australian flags. In the last six months both major supermarkets made decisions with good and commercial intentions, however both decisions didn't adequately consider the broader context and unintended consequences of how these might land. And in both cases, it was social media that was instrumental in spreading the news and driving negative sentiment. For Coles, it was the team member Christmas present of a Coles branded water bottle and \$5 to spend in a virtual giftshop. Internal communications which didn't mention broader employee recognition leaked to Reddit and the news and negative sentiment went viral<sup>101</sup>. In an environment where retail workers are

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<sup>101</sup> <https://www.pedestrian.tv/news/coles-water-bottle-christmas-gift/>

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being subjected to increased levels of abuse and risks to their personal safety<sup>102</sup>, alongside increasing political pressure on the size of supermarket profits<sup>103</sup> this did not meet community expectations.

And then came Woolworths' decision not to sell Australia Day merchandise due to declining sales.<sup>104</sup> In the broader context of pockets of Australia being divided on the celebration of Australia Day, the perception of this as a political statement was inevitable. In both cases, the intent was logical and well meaning, however both supermarkets failed to fully consider how these decisions would be perceived.

Both businesses could have avoided the ensuing social and political pile-on if greater consideration was given to how their team, customers, community and even politicians would perceive each decision, despite how well meaning or commercial the decisions may be. But most importantly, and the reason that all businesses need to embed a higher level of contextual awareness in decision making, was the unacceptable 50% increase in acts of violence in Woolworths' stores in the period following the news spreading on social media<sup>105</sup>.

Due to the speed at which the decisions that aren't landed well now spread online, it is imperative to build a culture where all team members consider the unintended consequences of all decisions and are empowered to challenge decisions they don't think are right, no matter their perceived insignificance.

### **Exceeding community expectations must be the benchmark**

The best risk mitigation of viral negative content online is eliminating the reason of the post all together. For both retailers and manufacturers, this means ensuring all decisions and standards of behaviour, across all areas of their businesses, are above and beyond minimum regulatory requirements and always exceed reasonable community expectations. This may also require prioritisation of investments in initiatives that address risk with low or no immediate direct financial returns.

Given the current scrutiny the sector is facing with multiple government and regulatory enquiries<sup>106</sup>, ensuring reasonable community expectations are exceeded is vital. Failure to do so could very quickly result in severe consequences. A quick scroll of TikTok, X, Facebook or Reddit will show just how many are prepared to spread any shortcomings. And in the current environment, they would spread with pace straight to traditional media outlets, politicians, and regulators.

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<sup>102</sup> <https://www.aap.com.au/news/retail-workers-facing-increased-violence-and-abuse/>

<sup>103</sup> <https://www.afr.com/politics/federal/why-it-s-a-dangerous-time-to-make-a-big-profit-in-australia-20240222-p5f6w1>

<sup>104</sup> <https://insideretail.com.au/business/woolworths-to-drop-australia-day-merchandise-citing-cultural-sensitivity-202401>

<sup>105</sup> <https://www.youtube.com/watch?v=IVx9HkyGcg4>

<sup>106</sup> <https://www.abc.net.au/news/2024-02-21/what-will-all-the-inquiries-into-the-price-of-groceries-find/103474580>

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It is in this environment that investments in technical infrastructure and resourcing that may have been deprioritised in prior years, need to be reconsidered. Additional controls on shelf edge pricing, ethical sourcing and team member remuneration will now all have stronger qualitative benefits due to the increased likelihood of regulatory scrutiny and financial penalties. One can only imagine the impact of a similar announcement to Woolworths' 2019 \$300m back-payment to salaried team members<sup>107</sup> being announced in 2024 – the public is likely to be a lot less sympathetic. Restoring trust with the Australian consumer will be vital for the grocery industry across the next 18 months. Ensuring behaviour exceeds customer expectations, while minimising the risk of breaches of trust, potentially with capital investment, will be imperative.

### Reading, reacting and occasionally responding to brand damaging content at pace

Modern social networks have become an integral part of consumers' lives; with 85% of Australians active on social media and spending an average two hours a day there<sup>108</sup>. Given the coverage of population and volume of content being created and consumed online, the likelihood of potential or current customers viewing content that celebrates or criticises grocery retailers and the products they sell is all but certain. This makes monitoring social networks for sentiment and reputation damaging content now essential. Failure for a retailer or supplier to do so, could risk an organisation's mistakes going viral, and their executive team being the last ones to find out. And with anyone now able to post almost anything, the risk of brand damaging content going viral has never been greater.

An effective example of a retailer monitoring and responding to brand damaging content came in January 2024 when a Woolworths customer posted to Reddit that they were charged more than the cost of the products they purchased [Figure 1]. This post spread quickly, being shared more than 60,000 times, included comments encouraging referral to the Senate Select Committee on Supermarket Prices [Figure 2], and spread to traditional media outlets<sup>109</sup>. Amid calls for boycotts and multiple government enquiries underway, this was exactly the type of post that could cause meaningful damage to Woolworths.

Woolworths acted with pace and issued a comprehensive statement to media addressing the issue explaining the “isolated incident at our Macarthur Metro store...due to a technical

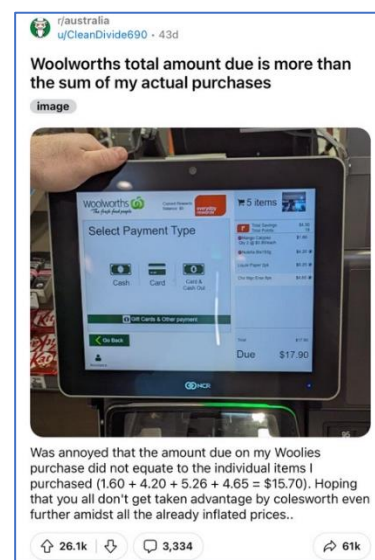


Figure 1

<sup>107</sup> <https://www.afr.com/companies/retail/woolworths-underpaid-staff-up-to-300-million-20191030-p5351b#:~:text=Interim%20back%20payments%20will%20be,and%20stretching%20back%20to%202010.>

<sup>108</sup> <https://ecommercenews.com.au/story/australians-spend-more-time-on-social-media-tiktok-leads-the-way>

<sup>109</sup> <https://7news.com.au/lifestyle/woolworths-responds-after-shoppers-warning-over-self-serve-registers-wild-overcharge--c-13224486>

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error”<sup>110</sup>. This stopped the post from spreading to further media outlets without context, and importantly provided reassurance to customers that the issue was not widespread. This is the type of approach that businesses should have in responding to damaging content online. While this post was focused on retail pricing, the scope of potentially brand damaging content could span any area of the sector which is why both retailers and suppliers need to implement a comprehensive strategy of when they do and when they don’t engage with damaging content online, with a tendency towards proactive engagement with the most brand damaging content. While businesses won’t be able to, and shouldn’t, respond to all negative commentary online, assessing the risk of content and responding at pace to the most brand damaging is vital in limiting damage.

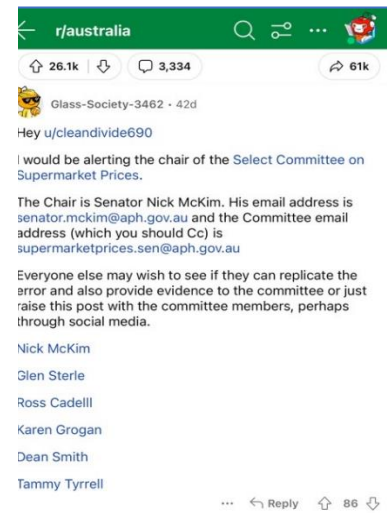


Figure 2

### Harnessing social media to drive growth

While social media creates new risks for food retail businesses to address, it also creates logical opportunities for brands and retailers to increase awareness and drive sales growth. A particularly strong use-case is new product launches. Australian users are gaining millions of views sharing their authentic, unfunded, reviews of new grocery product launches which in turn is driving awareness and sales of new product launches [Figure 3]. Retailers and suppliers introducing new products should consider how they engage and partner with this new area of social media given the potential to make their new products go viral.

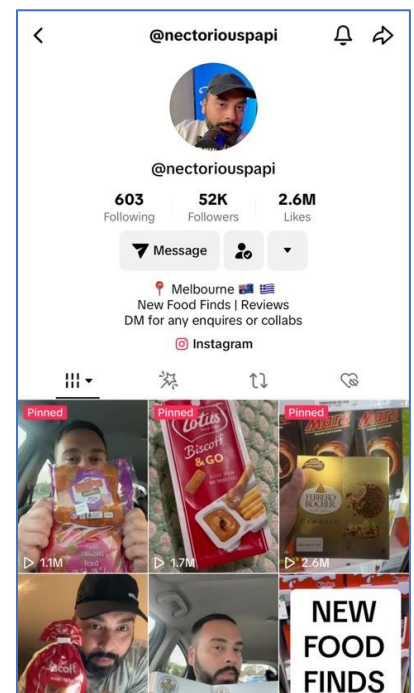


Figure 3

### Conclusion

Retailers and suppliers are operating in a materially different environment to that of Joe Berry’s Brisbane Cash and Carry. Society, and retail, is now plugged into transparent, connected and dopamine driven networks that, for retailers and suppliers, have the potential to both damage and drive growth.

<sup>110</sup> <https://www.dailymail.co.uk/news/article-12961145/Why-photo-Woolworths-checkout-screen-outraged-shoppers-supermarket-reveals-theres-simple-explanation.html>

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The retail sector will never be able to control the narrative online or completely mitigate the reputational risks associated with brand damaging allegations being made online. But there are ways to limit the reason for viral criticism. Embedding higher levels of contextual awareness in decision making and ensuring behaviour always exceeds both regulatory requirements and reasonable community expectations will minimise risk.

But with so much of day-to-day operations now able to be filmed and posted online, mistakes will be shared. It is vital for all businesses to be monitoring social media, and in the most extreme brand-damaging cases, responding at pace.

While the advancements driven by digital and technological have created a fundamentally dissimilar environment to that of Joe Berry's, one thing remains the same, and it is key in responding to this new and increasing risk, a strong culture centred around exceeding customer expectations will drive long term success.