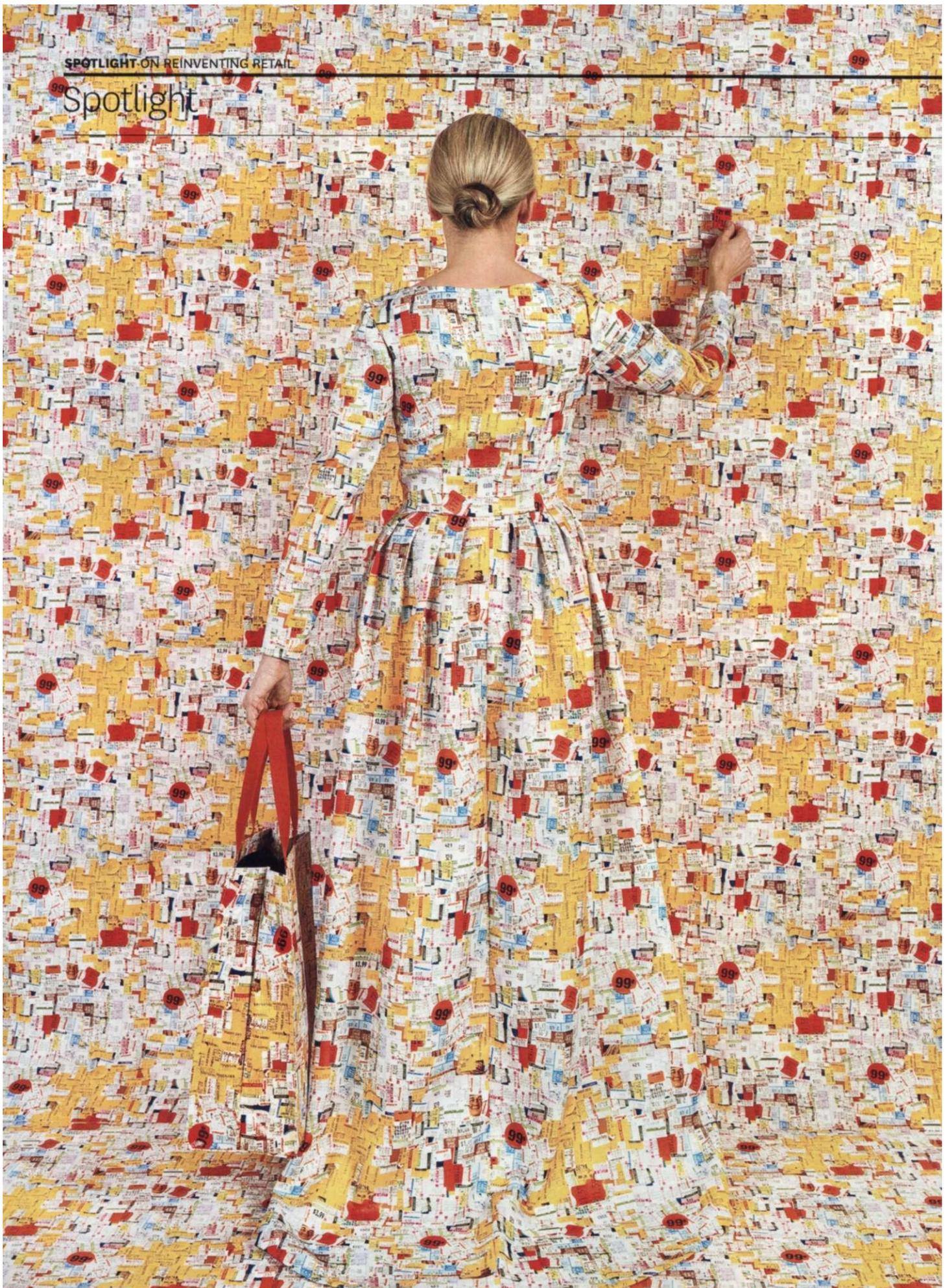


SPOTLIGHT ON REINVENTING RETAIL

# Spotlight



# Retail Isn't Broken. Stores Are.

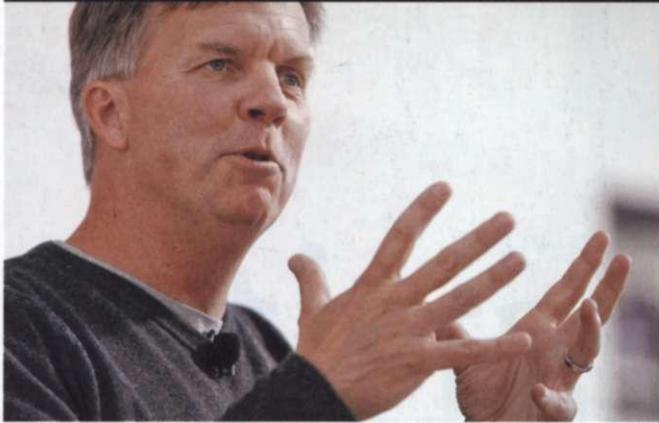
When Ron Johnson left Target in 2000 to join Apple as senior VP for retail, conventional wisdom held that a computer maker couldn't sell computers. Johnson tossed out the retailing rule book and, working alongside Steve Jobs, built the Apple Store from scratch. In November 2011 Johnson took the reins as CEO of the venerable **J.C. Penney** department store where investors and the board hope he'll work some of his magic. In this edited interview, HBR senior editor Gardiner Morse talked with Johnson about innovation, leadership, and when to trust your gut.

**HBR:** Brick-and-mortar retailers are struggling, in part because of the growth of e-commerce. Is the traditional retail model broken?

**Johnson:** I don't think the model is broken at all. Many stores are executing it very well. Look at the Apple Stores, which have annual sales averaging \$40 million per store in a category that in 2000 everyone said would move entirely to the internet. Today the Apple Stores are the highest performing stores in the history of retailing. Physical stores are still the primary way people acquire merchandise, and I think that will be true 50 years from now.

**Aren't consumers dramatically shifting their buying to the internet?**

It varies a lot by category, but only about 9% of U.S. retail sales are online today, and that rate is growing at only about 10% a year. And a lot of that buying is from the online businesses of physical retailers like J.C. Penney and Apple. In reality, what's growing is physical retailers' extension into a multichannel world. It's not as though there's a physical retail world and an online retail world, and as one grows, the other declines. They're increasingly integrated. But physical stores will remain the main point of



**Ron Johnson (at left), who helped reimagine retailing for Apple, is now applying his creativity to J.C. Penney.**

contact with customers, at least for the stores that take the lead in this integrated environment.

#### **How do you take the lead?**

A store has got to be much more than a place to acquire merchandise. It's got to help people enrich their lives. If the store just fulfills a specific product need, it's not creating new types of value for the consumer. It's transacting. Any website can do that. But if a store can help shoppers find outfits that make them feel better about themselves, for instance, or introduce them to a new device that can change the way they communicate, the store is adding value beyond simply providing merchandise. The stores that can do that will take the lead.

#### **So how does a traditional retailer figure out how to create value?**

For most stores, moving from a transaction mind-set—"how do we sell more stuff?"—to a value-creation mind-set will require a complete overhaul. The Apple Store succeeded not because we tweaked the traditional model. We reimaged everything. We completely rethought the concept of "try before you buy": You can test-drive any product, loaded with the applications and types of content you're actually going to use, and get someone to show you how to use it. If you buy it, we'll set it up for you before you leave the store. If you need help after that, you can come back for personal training. If there's a problem, you can usually get it fixed faster than a dry cleaner can launder your shirt. We also reinvented the sales associates' job. Until the Apple Store launched, customers went to a technology store to acquire a product, and it was often an awful experience driven by a salesperson on commission whose main interest was in emptying your wallet. Apple Store associates are not on commission, and they don't try to sell you anything. They have one job: to

help you find the product that's right for you, even if it's not an Apple product. All those things create value beyond the transaction.

#### **You've just taken the helm at J.C. Penney. Isn't it a pretty risky proposition to completely reinvent a department store?**

The opposite is what's risky. Over the past 30 years the department store has become a less relevant part of the retail infrastructure, largely because of decisions the stores have made. As America exploded with big box and specialty stores and new shopping formats, department stores abdicated their unique role instead of engaging the competition. They retreated from categories and assortments that made them distinctive. They didn't think about the future so much as try to protect the past.

There's no reason department stores can't flourish. They can be people's favorite place to shop. They've got all these strategic advantages—the lowest cost of real estate, exceptional access to merchandise, scale to create enormous marketing power, colocation with specialty stores. And people like stores with huge assortments and one-stop shopping. They love Walmart. They love Target. So it's not department stores' size or location or physical capabilities that are their problem. It's their lack of imagination—about the products they carry, their store environments, the way they engage customers, how they embrace the digital future. There's nothing wrong with the capability. There's a problem with the execution.

#### **So you foresee the resurgence of the department store?**

Every decade there are one or two retailers that change the game and profoundly influence the entire industry. The 1980s were the Walmart decade, with its new use of IT, supply chain innovation, and



pricing. And the Gap reinvented the specialty store in the 1990s with a narrow assortment of private-label goods and a novel presentation and store experience. It's the model that every specialty store has followed since. You could argue that Amazon on the e-commerce front and the Apple Store with the customer experience are the major influences in the industry from 2000 to the present. It remains to be seen what's going to happen in the next decade. I think there will be one leader in the retail space. The question is who. There are good reasons to think it could be a department store.

**Maybe it will be the retailer that best integrates the virtual and physical experience.**

That will be a very big part of it, I would say. Certainly it will be about the integration of the mobile internet and the in-store experience. But more broadly I think the leaders will be the ones that figure out how to do integration in ways that create value. Think about the online experience today. What online does best is compete on price and, depending on your circumstances, convenience. That doesn't create new value. It's a race to the bottom—the lowest cost and fastest fulfillment.

**Can you describe what that integration might look like?**

I don't want to get into it, because I think it would give away a lot of potential competitive advantage.

**Apple's physical and virtual stores are pretty well integrated, but they're separate organizations in the company. Why do it that way?**

On the one hand you have to make sure customers see Apple as one company—common pricing and messaging and so on across all channels. So obviously you want tight integration. But physical retailing is extremely complicated. It takes a lot of time

and focused effort to pick the right real estate, design stores, build teams, and so on. Steve Jobs and I talked about that a lot, and we realized that for the stores to work well I had to be 100% focused on them. And I was. I was personally involved in every store design. I interviewed every manager who ever worked in an Apple Store. Every employee at an Apple Store knows someone well who knows me well. To have that kind of tight retail strategy, I had to be solely responsible for the stores and not be distracted.

“What online does best is compete on price....That doesn't create new value. It's a race to the bottom.”

**You have a great reputation for recruiting people and building teams. What's your approach?**

I mentioned that I personally interviewed every Apple Store manager. Why do that? Because I wanted to build relationships with all of them. They came to understand who I am and what I value. I don't know if I'm a great selector, but I'm a great connector. The people I hire trust me because of this personal connection. You also need a clear vision of what kind of people you want. You want to make sure that someone is right for the team, and that the team is right for him or her. Everyone has a passion or mission in life that if matched with the right job will allow them to flourish. To find people for whom retail is the right match requires a very thorough interview and

selection process. Getting a job on the sales floor at Apple today requires six to eight interviews, including with the person who runs the entire local market. One result of that intensive process is that when people are hired, they feel honored to be on the team, and the team respects them from day one because they've made it through the gauntlet. That's very different from trying to find somebody at the lowest cost who's available on Saturdays from 8 to 12.

**You invented the hugely popular Genius Bar, but it didn't go so well at first. What made you think it was the right move?**

Nobody came to the Genius Bars during those first years. I remember going into a store one evening, and no geniuses were on duty. I asked what happened, and the manager told me that there were no customers, and so they sent the genius home. But despite that, I had a belief—a conviction—that face-to-face support was going to be much better for customers than phone and web support, which are often really frustrating and ineffective. So we stuck with it, and gradually customers started coming. Three years later the Genius Bars were so popular that we had to set up a reservation system to manage the demand.

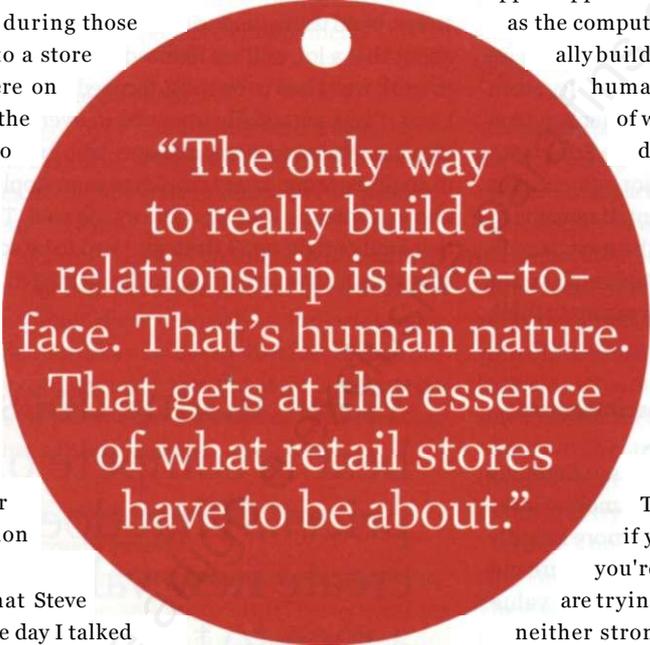
By the way, there's a myth that Steve Jobs hated the idea. I remember the day I talked to Steve about the Genius Bar. I said, "Imagine a friendly place that dispenses advice and is staffed by the smartest Mac person in town. He would be like a genius to the customer, because he knows so much. In fact, we could call it the 'Genius Bar.'" Steve didn't object to the idea but to the name. And it didn't take long for him to embrace that, too. The next day he asked our legal team to trademark the name.

**So despite the early data you and Steve followed your gut, with great success. How do you balance gut and analytics?**

In retailing you've got to trust your intuition much more than you trust the data. There's a tension there, but ultimately if everyone just followed the data, they'd all end up in the same place. And that's part of the problem in retail today. The department stores are redundant. They import the same products, they

price the same way, they carry the same percentage of their private label to national brands. They're also redundant because they're driven by people whose primary strength is data analytics. But to break through the clutter and do things that haven't been done before, you need to trust your intuition.

To go back to the Genius Bar, the intuition there wasn't simply "How do we best help people fix their computers?" It was "How do we restore and enhance customer relationships that may have been damaged by problems with the iPod?" It's not just the product that's broken but also customers' trust in Apple. Apple is in the relationship business as much as the computer business. And the only way to really build a relationship is face-to-face. That's human nature. That gets at the essence of what retail stores have to be about: deepening connections with people.



**"The only way to really build a relationship is face-to-face. That's human nature. That gets at the essence of what retail stores have to be about."**

**If I'm a retailer, why shouldn't I wait to see what Ron is going to do next and then be a fast follower? Let J.C. Penney absorb the risk of inventing the future?**

If you look at the history of retailing, there are two ways to win: Be the low-cost player, like Walmart, or be the differentiator, like Target. The fast-follower strategy works if you're low cost. It doesn't work if you're a differentiator. Lots of retailers are trying to do both, and as a result they're neither strong fast followers nor great innovators. They're the stores you're describing when you say that retail is broken. It's not broken; those types of stores are. You can't follow the customer. You've got to lead your customers—anticipate their needs and meet those needs, even before they know what they want.

**You've been called "the deity of the digerati," "a retailing mastermind," and "the Steve Jobs of the retail industry." So expectations are very high. Everybody in the industry is going to be watching you. What would you say to all those observers?**

I learned long ago not to believe everything you read. I know what my skills and limitations are, and the fact is, whatever is accomplished at J.C. Penney will be a team game. I don't see this as a personal Ron thing. It's not about me.