

The importance of data in transforming a traditional company to a digital thinking company

Interview with Fabrizio Viacava, chief digital officer of Etro

Francesca Checchinato

Introduction

Etro was founded in 1968 in Milan by Gerolamo Etro. It is an Italian fashion label famous for the Paisley pattern. Etro is a family-run company, where family members have been involved in management and design. In particular, Veronica Etro designed the ready-to-wear line of the women's collection and Kean Etro designed menswear.

The company is present in over 70 countries and its turnover was nearly 300 million euros. Etro operates 150 monobrand stores all over the world.

The company did not embrace technology until 2014 and four years later decided to hire a chief digital officer (CDO), Fabrizio Viacava. Thus, to understand the company's digital transformation Fabrizio was interviewed.

The interview discusses the digital transformation process in Etro and highlights the challenges and success of this company, an example of an Italian family-run company in the luxury fashion market.

Some final remarks summarise the key points emerging from the interview.

Francesca Checchinato: How do you define “digital transformation”?

Fabrizio Viacava: First of all, digital transformation does not deal with technology, it is a change made by people. It is a new framework, a new mindset. Thinking digital is different from thinking in a traditional way. Unfortunately, the latter is no longer effective in our context. To create a digital transformation, firms need digital thinking people, because they are the key to success. It is not a soft vs hard skills issue, both are required. As far as the tools of the digital transformation are concerned, it is important to highlight that they are not just social networks and e-commerce. These are only two of the main features. Digital transformation is more than this. It also means digitalising the performance review and compiling the expense ledger online, not just using Excel or other time-consuming software. The basic assumptions of our digital transformation are to give time back to people, to shorten the value chain, and to make the procedure easier. The point is that behind an easy reality, there is a great complexity: this is digital transformation. Usability is vital.

Moreover, digital transformation is not unique, it depends on the aim, on the business, and on the moment in which the company starts to embrace it. The most important element is the vision – who, where and what the company wants to be in five years or more. To answer these questions, the company needs to think digitally, all the structures

must think digitally: from HR to finance, from the supply chain to logistics. My role and my function will disappear in a few years, I hope.

Francesca Checchinato: So, in a few years we will not speak about digital transformation anymore?

Fabrizio Viacava: I hope so. My work is to help Etro to implement the next five-year strategy. If digital exists in this vertical way in five years, I did not do a good job. In a traditional company, the digital transformation office should be not permanent work, it should have a deadline. For a digital company it is different, there is not a digital function, everything is digital. They start their business with the idea of exploiting digital.

Francesca Checchinato: You have a lot of experience in digital transformation; what did you learn from your past experiences?

Fabrizio Viacava: Companies must evolve their digital approach. I worked for Tod's and when I suggested opening Facebook and Twitter accounts it was a revolution; luxury was not consistent with the mass market. Now it is quite normal to have a presence on the main social networks.

Data are important: this is the big deal. I think that one must try to be a pioneer and work on data; developing the strategy on data and learning from data. In this way, measuring the strategy's success is possible. Moreover, digital is an evolving field; managers cannot think "what's done is done". He/she must continuously update their projects and make mistakes. It is necessary to grow. In our culture (Europe and Italy), people want to (and must) avoid mistakes, but on the digital field mistakes happen every day, it is normal. Maybe this is the reason why Silicon Valley is in the US and not in Europe – their culture is more tolerant. If a company does not test and try different solutions, it cannot understand what works and what does not work, it is too complicated.

Francesca Checchinato: Can you tell us something about Etro to understand the context?

Fabrizio Viacava: Etro is a luxury Italian family-run company. For 52 years, the company has performed very well, but a few years ago the general manager and the family understood that the world is changing and if they want to continue to succeed, they have to embrace a digital transformation. Etro is different from the other major fashion luxury companies; their turnover depends on apparel instead of accessories. The producing process is also different: the iconic Paisley pattern, prints and jacquard weave features are the starting points of their collections.

Francesca Checchinato: Can you describe your path to the actual Etro transformation?

Fabrizio Viacava: When the company understood they needed a digital transformation, they decided to create a director role devoted to digitalisation. They needed a CDO because Etro is a traditional company, and it needed to define a new strategy that exploits digital technologies. When I started working for Etro, they created the digital function. Before my arrival, digital was not a function; there were people working on digital in different functions such as retail (for the e-commerce part) or communication, but they

did not share a common strategy. We created a function and an organigram that evolves continuously. They decided to create the digital division; I decided how to manage it.

In the beginning, I studied both the internal and external landscape a lot. The company's aim was to enhance the turnover, to implement customer relationship management (CRM) and to plan an effective digital strategy. I interviewed Etro's people to understand the management. I studied what Etro already did and what it was doing – the processes, the business areas, channels and markets, where margin is created and where the potential value could be. I did not suggest changing everything on principle because I needed the people's support; they could not hate me. Digital transformation only works if people are engaged, otherwise even if we have the technology we will fail. To be honest, before starting I had an idea, but these analyses changed my mind.

As far as the external analysis, we studied the competitors and what they were doing.

Starting from these findings, we created a five-year plan, even though I know it is not usual to have a five-year plan; it is an old approach.

Francesca Checchinato: Can you give us some examples about elements that you decided to not implement after your analysis phase?

Fabrizio Viacava: I would have created an e-commerce with a different business model, but it was not possible due to logistics issues and internal processes related to the supply chain. Sometimes you must accept that a company has its logistics and it is not fair to change them. During the first phase of digital transformation, Etro must fill the gap with the market. Nowadays, I think there are two keywords for succeeding: growth and scalability. We must do those things. We have to grow and become scalable faster. Some of our competitors started their digitalisation process eight or nine years ago; we cannot wait anymore. The way companies approach digital is changing and continues to change over and over.

As far as scalability is concerned, it is an important concept that is also applied to data management. If we think about the old model, small retailers know their customers, their preferences and habits. Now, we can replicate the same approach but with thousands or millions of customers, thanks to data. Technology allows us to scale all these data.

Francesca Checchinato: Can you mention any benchmark in the market?

Fabrizio Viacava: Burberry and Gucci for our niche, but they are so different from us. We cannot take them as a real benchmark because of their size and organisational models.

Another benchmark is Zara. It is not exactly in our industry, but it is creating an effective business model. It is important to analyse other industries and the big players, such as Airbnb or Amazon, because our direct competitors are all adopting the same services, applications and so on. Sometimes a company wants to create something just because competitors are doing that and not for a strategic reason. For example, when I arrived, Etro was working on developing an application. I blocked it because it was not a priority and because an application must be different from the website, it must have a specific "reason why", a different value proposition. We will create an Etro app when we can offer to our clients or our VIP clients something more, for example tickets for exclusive events such as Formula 1 or the opera. It is not just creating an app; it is deciding what you want to offer. It is a strategic choice, not a technological problem.

Companies must know who they are and where they want to go. This is the reason why many digital transformations exist; they depend on the company.

Francesca Checchinato: What has changed in the business in the last years due to the digital transformation?

Fabrizio Viacava: The e-commerce area was strengthened. I introduced an important element of our model: fluid stock. We must stop thinking about stocks as silos. There is just one main stock and not the stock of store A or country X. From which country or store we sell the product is just a problem that concerns marginality; consumers should not be involved in this issue.

Wherever a product is based, it is inserted in a platform, an OMS (order management system). Therefore, we know exactly the available number and types of items. The next step is to include the wholesale stocks too. It remains a wholesale property, but it can be used to respond to customers' requests faster than in the past. Our clients are not interested in who the deliverer will be (our boutique, third party boutique, our e-commerce). It is just an internal problem. To maximise our marginality, we have some routing rules that consider both where the item and the client are located. Of course, marginality is the main issue in this system, but we also take into account other elements. If we do not have any other option, we can also ship an item from Japan to Italy. In some cases, we do that to satisfy our customers. The transaction is not convenient, but we can lose marginality today to guarantee it tomorrow.

Another change in the business model was to open the door to the marketplace. We must be there to increase the brand awareness. Just an example: we started collaborating with Farfetch – 92 million clients per month, we cannot even think about losing this opportunity. Suppose we did not sell anything: we should be there anyway to achieve that visibility. This is more important in the Chinese market, where consumers have a completely different purchasing behaviour. Sometimes we think that our model is “the” model, but it is not. Chinese people do not use desktops; they use mobile devices to buy too. In Italy, there are a lot of applications; in China there are just a few, with all of the services included. Entering that market means having a different digital strategy. Opening an e-commerce is not effective and it means losing time as well as resources. We are developing a hard integration with some Chinese marketplaces, but stock is the key element; Etro must guarantee that items will be available.

We will also open an e-commerce in Japan, which is our main retail market, 30% of our direct turnover. This good performance depends on the presence of 48 stores and on the mark up, which is higher than in other countries. Moreover, considering the website traffic, Japan is our second country. Why did we not yet have an e-commerce there? Nobody had an answer because Etro did not have any international digital strategy until few years ago. There were some people that work on international e-commerce but as back office, uploading information without defining a strategy.

Now thanks to our new vision and the availability of data, we have a strategy, and these are questions to ask ourselves – we want to know what is working and how to improve our sales. Moreover, the person involved in the back-office activities now has time to develop strategic activities.

Francesca Checchinato: To sum up: the main business model changes are the fluid stock and the presence in the marketplaces. Any other elements?

Fabrizio Viacava: Yes, omnichannel services. We are working on the “find in store”, to check if an item is available in a store. Before the digital transformation, it was not even possible. However, Zara has had it for years. We know that people look for services that they are used to finding on other websites. Then, we are implementing “reserve and collect”, “pay and collect” and the already launched “notify me”. “Reserve and collect” means that you can book an item seen online because you need to wear it before purchasing it. “Pay and collect” means a customer can buy online but collect in store. It is useful if a customer is travelling. “Notify me” is an alert to inform that a product is available again. These are simple services, but they were impossible to implement with the old structure, before the digitalisation.

Moreover, we changed the categorisation of items to better respond to customer searching behaviour. We used to categorise them by seasons, but consumers search by item categories (jackets, trousers, bags, etc.). Now consumers can find products based on this classification. They do not want waste their time looking season by season. These are simple changes, but they have a great impact on sales. We have also simplified the check-out phase.

Francesca Checchinato: Are products available on the digital channels different from what customers can find in the physical stores?

Fabrizio Viacava: As far as the apparel is concerned, we tried to make the assortment as complete as we can. Instead, concerning home items, it is different; we decided based on data.

We are trying to reduce the number of items, enhancing the assortment depth. Nowadays, we are dealing with 5000 SKU (stock-keeping unit), maybe more. To compare our assortment with a benchmark: Gucci has 900 SKUs. Their turnover is 10 billion; our turnover is 300 million. We need to polarise our offer, to give more visibility to our bestsellers. There are two other reasons for this difference. (1) Apparel provides 70% of our turnover. On average, in the luxury industry, this percentage is close to 30%. (2) Our creative and then productive process is different; it is based on our textile, our Paisley pattern. The decision of the pattern determines every other creative decision, so how we deal with the supply chain is different from the competitors.

We also created some items just for the online channel. Last year, the new communication director decided to insert the invitation for the women’s fashion show in a small pochette, created with our texture. Looking at the success and the reaction of the fashion world (PR, influencers, etc.), in three hours we decided to sell them through our e-commerce. We asked the production to produce 200 units. In the end, we sold 392 units, and thus new production was required. The price was 148 euro; it was a tactical decision. No item in our stores has such a low price. Moreover, customers can personalise the pochette by writing their names. This is new for us, even though our competitors started doing it a long time ago. It performed very well. Then, for the new website launch, we tried to do the same with some personalised shirts in a limited edition. It worked very well for the visibility, less so concerning sales.

In the near future, we would like to develop a configurator. It is not a priority, but we are exploring this idea. It is not a front-end problem; it is a process issue. First, we must analyse them because now personalisation is an artisan process, then we can develop a configurator.

Francesca Checchinato: Next steps?

Fabrizio Viacava: As I mentioned before, an e-commerce for the Japanese market. Then, an enlargement of CRM: new functions, new regions. Today, all data are collected and shared among the company, but we want to involve stores because stores are one of the keys of our business. It is important they understand the value of the tool. To collect data from stores, we implemented a digital card. Before the digital transformation, Etro had a paper card, but mistakes are uncountable. Now all the data are certified. The digital card works online too, so all the data are implemented in the CRM; there are no other platforms. Data should be shared with everyone in the company.

We will work on the customer journey creation. For these reasons, we introduced a marketing automation platform. Before my arrival, direct marketing and newsletters were outsourced, both as a platform and people. Now we have a person that works on it; we created an editorial calendar. To create the customer journeys, we introduced a platform – marketing cloud by salesforce. One of the main changes is that the marketing cloud is a one-to-one contact platform. Transaction emails, e-commerce related, are sent by marketing cloud too. This will help us to create simple as well as complicated customer journeys. We also want to work on artificial intelligence. Salesforce provided Einstein and we activated this function for our e-commerce and for our CRM too.

We are also working on a digital intelligence project. I want to define it because it is different from the so-called digital intelligence. Usually companies have business intelligence to track sales. Our digital intelligence project aims at creating a more evolved data warehouse, where data does not come from sales only but from unstructured data too. Website traffic, social media data, stores visits, etc. The more data, the better. The aim is to use data visualisation to explain the connection between different types of data. The digital team has the leading role, but it is clear that it is a huge problem; all the company's functions are involved. It is a project specifically supported by our team, finance and IT.

Another project to develop during 2020 is digital asset management (DAM/PIM), a big container for all our digital assets. All functions must upload all digital files onto this container, from communication to retail, from store to style office. We want to link all the assets, associating single items with all the related contents. For example, if Etro created an advertising campaign for a jacket, a store window, etc., people will have this information all together, in a bidirectional way. All the company's employees, and thus communication, knows what retail is doing. Data sharing is a key factor in the digital transformation. Product knowledge is available for everyone.

Francesca Checchinato: Can you also measure the effectiveness of all the communication tools?

Fabrizio Viacava: This is an objective for the future, related to our digital intelligence project. DAM just has the aim of sharing information about products or activities. If one needs information about an item (colours, sizes, different models, etc.) or about advertising campaigns, he/she just has to make a query.

Francesca Checchinato: It seems that the digital function takes many marketing decisions. Could you better explain this point to us?

Fabrizio Viacava: I can confirm your impression. In Etro, like in other fashion companies, the marketing function is not a real one like in other industries. The communication is

more involved in branding, rather than classical marketing. This is the reason why the digital function develops the editorial calendar and it will create the customer journey. We created the editorial calendar – the communication (function) provides images. Prices are decided by finance and market is defined by the sales function, sometimes in collaboration with retail.

Francesca Checchinato: Another important topic is people. You mentioned the importance of engaging the team and the role of people in transforming the company; how does digital transformation impact on employees?

Fabrizio Viacava: It is important to improve people's capabilities and to motivate people. I have two rules to manage my team. (1) They must think, we are paid to think. Since people are paid to think, they must tell us what they think, share ideas even if they can be wrong. (2) We must be a team. This means that people must defend the team vision and ideas outside the team itself, even if they do not agree with them. This is really hard, but it is necessary to grow as managers and for the company's culture.

Moreover, HR focus a lot on soft skills; those are important but only if the hard ones are taken for granted. Employees must have capabilities to complete their tasks.

Francesca Checchinato: Your team: who works in the digital team and how are you organised?

Fabrizio Viacava: As far as cross function is concerned, my team is composed by a digital architect manager and a digital development manager. The architect designs the digital architecture, defines priorities and the tools to implement them. The development manager ensures that the architect's design is implemented in an appropriate manner.

Then, there is an e-commerce team, where we can also find customer care. There is a CRM team, a person devoted to the online media (and online advertising plans), one person for the analytics and intelligence (who manages SEO and translations, among others), a campaign specialist (that manages the marketing cloud and will help me to create journeys), and two content editors that write content and manage the SEO related to them.

We also work with partners for online advertising. When I arrived, almost everything was managed by internal; that is a big limitation. Companies must involve external experts. We work with the support of some external agencies that help us to optimise campaigns, define better strategies and we also work with maintenance technicians, etc.

Another characteristic of my working approach is that we adopted new tools. We avoid e-mail; there are too many to be effective for our tasks. For example, we introduced Slack and Trello, and different logistics. We also developed Gantt charts but real Gantt charts.

Working through these tools help us to highlight results. It is important to develop and then implement a lot of small projects and do them well. If you just work for a big project and when you deliver it, it fails, the frustration is huge. If you start with some basic steps and then you improve the project month by month, you can see results in a short time too.

Francesca Checchinato: Work 24/7, do you think it is related to digital jobs? Analytics, social media, e-commerce orders never stop.

Fabrizio Viacava: Yes, it depends on the peculiarities of the digital world, but it also depends on passion. And you cannot stop passionate people. This is a positive situation

until it becomes stressful. In this latter situation, we must intervene, stressful people do not work well.

Francesca Checchinato: How are you measuring the digital transformation success? Any metrics to highlight?

Fabrizio Viacava: In nine months, we have done a lot of work. Last year, turnover enhanced about +74%. In December, Etro.com was the first store in the world. At the end of 2019, Etro grew in terms of EBITDA, and this result is largely thanks to the digital team. Not because we are the best, but because the company has focalised resources and energies here. Logistics, finance and retail have supported us a lot.

Another metric we monitor is the ROI because we must produce results. But economic results are not the only type of indexes to monitor. We also must look at our database, thus new lead generation is another important metric. This is a concrete result; we can measure leads. No less important is the conversion rate.

It is important to evaluate all metrics together. Sometimes one cannot understand the company's performance looking at just one index. If I look to our conversion rate now, comparing it to the last year I can notice a decrease. Is this negative? No, because our traffic increased 140% and thus orders and sales are increasing.

The culture of analysing data and data-driven decisions are extremely distant to the luxury sector, but when a firm embraces this kind of approach, success follows. Yoox is an example. We (as digital people) have the responsibility to make people aware about the importance of reading data; we must teach how to do that. Last year, we worked a lot in explaining how to use digital data to make decisions.

Francesca Checchinato: Who can access all these data?

Fabrizio Viacava: There are three different levels. A group of people can access the raw data, extract and elaborate them. The family receives a weekly report and a monthly report, and finally board members access an interactive dashboard; they make any query they want.

Francesca Checchinato: At the beginning of the digital transformation, how did people deal with this shift?

Fabrizio Viacava: We had to cope with some resistance which is normal. There are some people that love changes, others that hate them, preferring routines and stable situations. But the GM and the family supported and still support me a lot; they believe in the digital transformation and conveyed this message to all the employees. It was easy to convince people that change is necessary. Some people work only if they receive a request from the chief; if a colleague made the same request, they did not respond properly. It is not fair, but this is the real world.

Another thing that helped me a lot was to speak using metaphors. One of the main mistakes of digital people is to think that everybody understands the digital context. It happens during conferences too. If a person does not work in digital, he/she will not understand anything. It is a language, and a digital transformation officer must be sure that everyone understands it, including other departments. The CDO should try to make things seem less complex than they are. It does not mean to dismiss but to make the situation understandable by people with different backgrounds. We cannot think that all people have the same competences, otherwise misunderstandings start occurring.

Just an example to sum up these concepts. When I proposed this project to the Etro family, I spoke for one hour and a half. They understood the importance of the project, but when I illustrated the required investments, they told me that it was a huge amount of money for a company like Etro. Then, in collaboration with the CFO, we analysed data and compared the investment with a new store opening. In that period, Etro was working on a new opening. In a five-year period our project was less expensive than that. We illustrated data comparing these two investments; we trivialised the investment and the reasoning worked. The family gave me the resources I needed because they really understood the point.

Francesca Checchinato: And what about the distribution chain, the retailers? Any problems during the implementation of the omnichannel approach?

Fabrizio Viacava: To be honest, when we began opening to the marketplaces and e-commerce was no longer an exception, we encountered some resistance. At that point, we decided to adopt a new model and now it works, even though we are already thinking about another evolution of the model. Why did it work? The sales force and retailers were used to receiving incentives when they sold an item through the store. Now they receive an incentive even if they are able to sell online. As I said before, the channel through which the item is sold has no importance for us; it is just a marginality issue. It should be the same for our distribution chain, otherwise they are not motivated to spend time on the project. Therefore, when an item is not available in the store, sellers use the online channel and receive an incentive. In the case of Farfetch, the incentive is related to the time of fulfilling an order because it impacts on our merit score.

Logistics was also complicated because we had to review the logistic process, but they supported us a lot, thus it was not a real problem.

Francesca Checchinato: Looking at your journey: something that you would do in a different way?

Fabrizio Viacava: I would have managed some phases in a different way, especially as far as the implementation is concerned. Some things did not work exactly as we planned both on technical and setting levels. I would revise some elements of our blueprint, which we are now changing. I would have spent more time in analysing some aspects and developing some activities, we run a lot.

Francesca Checchinato: Can you provide us an example?

Fabrizio Viacava: Yes, I can. We introduced more languages because two were not enough in my opinion. The US is our main market and only referring to this market, we must consider three different languages: English, Spanish and Chinese. Our website was available just in one of these three languages and thus we decided to localise all our digital content. For the website, it is not that hard, we just translated content. However, coping with the CRM was complex. We underestimated this complexity and now we are correcting problems to better manage all the languages. Maybe if we thought more about that, we would not have to make repairs now.

We implemented a lot of different projects at the same time. We need to do that because of the gap Etro had with its competitors. Our project is not common in the luxury industry. We cannot implement e-commerce during the first year, CRM during the next

year and so on. We have to digitalise the firm quickly. Of course, some of the projects are not perfect, but they work enough to compete in the market. Moreover, to work project by project and not within a system can be risky. Sometimes new implementations in an already created digital system require destroying the past, you cannot just add some functions or applications, you have to develop a new system. Permission and resources to do that are not easy to find.

Francesca Checchinato: Can you give some advice to companies that are at the beginning of the digital transformation process?

Fabrizio Viacava: Do not start immediately, think about the vision. Do not run with excitement to develop exactly what other companies in the same industry are doing. Take the time to define priorities and define where the company has to be in the near future.

Moreover, be curious. Who works in the digital field must be curious and not afraid to try and, eventually, get things wrong.

Finally, look at competitors and other industries' firms.

Conclusion and final remarks

The Etro digital transformation success can be summed up in four main decisions. First, Etro prioritised the availability of data and the ability to analyse data, and instituted a culture of data-driven decisions. This approach enhanced Etro's performance and helped it to define an effective strategy. Before the digital transformation, there was just a draft of the path and the strategy, now starting from data Etro defines the steps to follow. Thanks to this new approach, turnover has grown in a few months.

Second, Etro began data sharing within all the functions. To properly exploit data, they must be shared. Etro has created a Digital Asset Management system to eliminate function barriers on data availability. Thanks to this system, everyone involved in activities related to products has a comprehensive knowledge about all the assets linked to them. These digital assets are shared and are not a single function property. This confirms the importance of creating a systematic approach, where all the functions are involved in the analytics and share common platforms.

Third, Etro improved internal communication. Traditional companies are not used to investing in digital projects so they cannot understand them. The CDO was able to explain the investment, thus the board and the family could compare it with investments they are familiar with, such as a store opening.

Fourth, Etro's digital transformation success is a result of the engagement of the sales force in the project. Online engagement mirrors the offline: the incentive models adopted for the physical transaction worked for the online sales too. If the sales force did not participate in the project, the omnichannel strategy would not properly work.

It is interesting to highlight the need for conducting analyses before starting, but at the same time be quick in transforming. By examining the Etro process, we have learned that a trade-off between time to deeply analyse the context and the need to be on air quickly exists and we can conclude that when the gap with the market is too high, it seems better to act immediately with a comprehensive plan. Logistics, e-commerce, CRM and other digital elements should be planned from the beginning, even if the implementation of some projects need to be postponed and the solution is not perfect.