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ALDO'S GLOBAL OMNICHANNEL IMPERATIVE

Research Associate Shih-Han Huang prepared this case under the supervision of Professor Omar Toulan as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

LATE 2015. Heavy on CEO Patrick Frisk's mind was how to make the ALDO Group, a Canadian shoe retailer with a global presence, e-commerce ready. The global shoe market was getting increasingly crowded and competition ever stiffer as fast fashion apparel companies such as Zara and H&M and online retailers such as Zappos.com and Amazon.com expanded their shoe offerings. Increasingly, consumers were going online to be inspired and make their purchases. Over the past few years, ALDO, a predominantly mall-based retailer, was steadily seeing foot traffic fall in North American malls.

Since becoming CEO of the privately-held business a year earlier, Frisk had made drastic moves. At a company known for its long-serving head office staff, Frisk shrank headquarters by a tenth while hiring key personnel from competitors to bring in new skillsets. The firm also planned to spend CAD 500 million on new systems, renovations and staff development over the next five years. In addition, it planned to close or relocate nearly one-third of ALDO's 800 North American shops, rethink ALDO's relationship with large retailers, reduce ALDO's shoe offerings, increase prices and, last but not least, expand online and overseas sales. As Frisk explained:

> We needed to get on with [these changes]." "The market place is evolving very rapidly. … I live by: "If you don't grow, you die."[1]

E-commerce was changing the face of retailing, and ALDO was not immune. The effects of e-commerce were felt not just in the sales channels, but in the whole customer experience and customer journey. To successfully execute a compelling online and overseas strategy, there were a few things that ALDO needed to consider:

1. How could it build its online presence overseas given its historical expansion via a franchise model?

2. Given the rise of e-commerce, should ALDO reconsider its internationalization business model?

3. What does a truly omnichannel business look like for ALDO, and what does ALDO need to do to make it succeed?

Company Overview

The ALDO Group, founded by Albert "ALDO" Bensadoun, started as a shoe concession at Montreal-based fashion specialist Le Chateau in 1972. Moroccan-born Bensadoun, fondly referred to as Mr. B in the company, first fell in love with Montreal on a weekend escape from a US college and was charmed enough with the city to stay for good.

Inspired by clogs he saw in Italy, Bensadoun fashioned his first shoes by grafting a leather upper part, similar to what was used on Swedish clogs, onto the soles of the traditional Japanese wooden sandals called geta.[2] This was the birth of the shoes he sold at the Le Chateau concession. In 1978, the first free standing ALDO shop was established.

The flagship ALDO brand targeted 18- to 30-year-old men and women with some disposable income,[3] and provided "on-trend fashion footwear and accessories at accessible prices."[4] While shoes were the focus of ALDO stores, the stores also carried accessories, such as bags, sunglasses and jewelry.

ALDO was vertically integrated with end-to-end operations ranging from shoe design to shop floor sales. What differentiated ALDO was that it had its finger on the pulse of trends and it was able to bring new designs to market quickly. It changed 500 or so models every three months. Its speed to market was exceptional – 12 months from concept to shop floor; for "fast injection" models that were sure bets, ALDO could shorten the time to 60 days.[5] Since its early days, ALDO generated savings by bypassing middlemen and directly sourcing materials from European shoemakers. After a period of using third-party go-betweens, in 2015, ALDO once again interacted directly with factories located mostly in Asia.

To better target different audiences, the ALDO Group also operated other banners under its umbrella. This allowed the company to adapt quickly to new trends and test new designs. In 2015, ALDO Group operated ALDO, its flagship banner; Call It Spring, its budget range which targeted younger audiences; and Globo, which offered various brands of fashion footwear for families.

Despite being well over 70 years old, ALDO Bensadoun continued to play an active role in ALDO as the executive chairman of the family-owned company. His two sons, David and Douglas, were the president of ALDO Group North America and chief creative officer respectively.

ALDO's Overseas Expansion

In 1993 ALDO began its cross-border rollout into the United States. Prior to opening its first store, ALDO began building its brand by outfitting guests on US television shows such as *Entertainment Tonight*. Advised by McKinsey to either "go big or go home,"[6] ALDO soon spread to many cities within the United States. To build awareness, the company's minimum marketing budget was directed toward billboard space – one in each city it entered. It also invested in modern and trendy storefronts. ALDO Group's international president, Norman Jaskolka, recalled this experience: "We were a very conservatively financed company. We were able to go to the U.S. and say, 'We're going to do this right, we have time."[7]

In 1995 ALDO entered Israel, its first overseas market, using a franchise model. Its success soon led to further franchises across the Gulf States including the United Arab Emirates and Saudi Arabia. In 2002, ALDO opened a company-owned store in Great Britain; its success soon drew the attention from other interested parties overseas. In 2003, it expanded into Asia with its stores opening in Singapore. By 2009, ALDO had stores across all continents except for Antarctica, and by 2015, ALDO had over 1,655 stores in 98 countries.

As a privately held company with limited resources, ALDO chose to franchise in markets outside of North America and the United Kingdom. "Using the franchise model allowed us to preserve our capital structure," Jaskolka explained.[8] In Canada, the United States and the United Kingdom, ALDO still operated its own stores.

In a franchise model, the franchisor (in this case ALDO) granted franchisees (the local company) the right to use its trademark or trade name and business system in return for royalties and oftentimes an initial fee. In many instances, an area representative would be given the right to operate all franchises within a country or region. This model allowed the franchisor to speed up its expansion by using the franchisee's capital for store openings and modernizations. The franchise model also allowed the franchisor to build upon the knowledge of local staff.

In return, franchisors provided knowhow, training and support to its franchisees. In ALDO's case, its headquarters (HQ) provided all store plans. The store plans prepared for the franchisees underwent the same design and development process as the company's corporate stores. ALDO also supplied store fixtures to its franchisees at a reduced cost and with shorter transport times. Four times a year, ALDO hosted Market Weeks where franchisee buyers could examine the newest collection and consult with HQ advisors on the latest trends. In some instances, ALDO also worked with the franchisees to develop products for specific markets. It also filtered and supported various marketing collateral and activities to provide a consistent message across all markets.

In 2015 ALDO's North American business made up two-thirds of total sales and its international business the remaining one-third. Wholesaling, which provided private label and brand management partnerships to third parties, contributed 15% of total revenues. The direct-to-customer business made up the remaining 85%. ALDO, which started its transactional websites in Canada and the US in 2005, saw 10% of its North American sales coming from e-commerce, and expected this to grow around 15% annually.[9] Frisk predicted North American and international sales would be roughly equal in the next five years and that the wholesale business would grow to 35% of total revenue.

E-commerce Disrupts

The retail landscape was rapidly changing, and the shoe industry was not unaffected. One of the greatest disruptors was the growing presence of e-commerce. Most directly, ALDO was feeling the lower foot traffic in its stores as consumers shopped more online.

E-commerce was also altering the customer experience and forcing companies to reconsider their sales channels. Take a typical customer journey before e-commerce entered the picture. A customer looking for shoes would enter a mall. She would browse around the various shoe shops, try on a few pairs, find one (or two) she liked, pay and take the merchandise home. Perhaps a magazine spread, a billboard advertisement or a friend had influenced her decision to check out a certain store or try on a particular model.

With e-commerce, the shoe-purchase journey was no longer as straightforward. Perhaps, the customer would see a pair of shoes she liked on a blog she followed. She would then be led via an affiliated link to purchase the item. She would put the item in her shopping cart, browse a few more options, but then forget to complete the order. On her way back from work, she would remember her half-completed purchase and decide to drop by the physical shop to try on the shoes. By pulling out her nearly completed cart information, the sales staff would immediately be able to provide her the right shoes and another pair she might be interested in. (This other pair looks suspiciously like a pair she had previously browsed). She hesitated over the second pair, but the first pair was everything she expected, so she took it to the counter to check out. She opted for a digital receipt (her proof of purchase for a two-year guarantee) and agreed to receive newsletters and promotion offers. On her way back home, she saw the digital receipt in her email inbox … and a 25% discount code for her next purchase. Perhaps, she should buy that second pair online – after all, there was free home delivery and a 30-day return policy.

Indeed, ALDO was finding their customers extremely tech savvy. Its core customers, the Millennials, were also known as the Digital Natives – they were a generation that had grown up with computers and mobile phone. Generation Z, the next generation, which Call It Spring targeted, was social media savvy and often multi-tasked across different devices simultaneously. Traditional media no longer held much interest – instead, these generations looked at influencers who had millions of followers on their Instagram accounts or blog posts.

Frisk noted the changes ALDO had been seeing with its customers and understood ALDO's imperative to adjust. "Consumers are still coming in to our stores to shop, but more and more, they're coming in to return things, or to do research so they can order online later." He added, "The end consumer is completely channel agnostic. We need to look at our key performance indicators going forward." David Bensadoun also noted, "We used to have our salespeople talk about the shoes. Not so much today. The consumer comes in and knows what they want. So we're focusing on product development and innovation, and building it into our DNA and our culture."[10]

Outside America, e-commerce was also changing the global retail landscape. In 2015, total global e-commerce of goods and services grew 20% from the year before and accounted for 3.11% of total gross domestic product (GDP). The bulk of e-commerce came from Asia-Pacific, which made up 47% of global e-commerce turnover. China, with its 413 million e-shoppers, led the pack, topping the world e-commerce ranking with e-commerce sales of US$766.5 billion. E-commerce accounted for 7.05% of its GDP. In comparison, the US, the second largest e-commerce market, had 174 million e-shoppers and e-commerce related sales of $595 billion and Canada had 18 million e-shoppers and $36 billion in sales.[11]

The European market, if taken as a whole, boasted the second largest population of e-shoppers at 295.6 million; e-commerce as a percentage of GDP was 2.59%, slightly lower than the global average. However, some countries such as the UK and France stood out with their high per capita average e-spend of $4,018 and $1,944 respectively.

Lagging the pack was the MENA market, where e-commerce only consisted of 0.71% of GDP. By one estimate, only 15% of businesses in the Middle East had an online presence,[12] but retailers were seeing its potential and starting to provide online offerings and customizing websites for the region as well. (For the state of e-commerce in the various regions and select countries, please refer to ***Exhibit 1.***)

Clearly, e-commerce was a global phenomenon and it was here to stay. It was important for ALDO to have a globally consistent e-commerce strategy. However, as it had expanded by franchising overseas, it meant that its franchisees had rights to all sales proceeds in their markets. How should ALDO set up its global e-commerce model given this legacy arrangement with its franchisees?

Reviewing Its Omnichannel Strategy

ALDO also needed to make sure its online strategy was relevant and provided maximum benefits – for both customers and the company. In 2005 ALDO had already developed its first transactional website for ALDO Canada and the US.[13] But technology and users' familiarity and expectations of technology had advanced leaps and bounds since then. Having an online presence was not enough. To capture customers who expected to interact with brands seamlessly across channels, the new keyword was omnichannel.

To this end, in 2014 ALDO announced it would be spending CAD 363 million, of which CAD 52 million came from the Quebec government, on modernizing its headquarters and strengthening the company's digital infrastructure. It also planned to hire 400 people to focus on e-commerce, social media and interactive marketing.[14] Another 400 employees would be retrained to adapt to its new multi-channel commercial strategy. In the works was another total website revamp scheduled for 2017.[15]

As ALDO developed its plan to expand its online presence and develop an omnichannel strategy, it had to consider many questions. How should it manage the integration between its different channels? How could ALDO grow its international e-commerce sales given the limitation of the franchise model? What could ALDO do to integrate its online and offline customer experience? What digital and physical tools could ALDO leverage to increase and improve touchpoints with customers? And, also, what did the physical store mean now?

There were many questions for ALDO to consider, but in the face of increased competition and changing customer shopping preferences, these were crucial decisions ALDO needed to make.

Exhibit 1
The State of E-commerce in 2015

	B2C e-commerce sales 2015		% of Global e-commerce	Share of e-commerce in GDP	Number of e-shoppers	Average spend per shopper
Country/ Region	**$bn**	**%YoY**	**%**	**%**	**mn**	**$**
Asia-Pacific	**1,057**	**28%**	**25%**	**4.48%**	**711**	**1,486**
China	*767*	*33%*	*18%*	*7.05%*	*413*	*1,855*
Japan	*114*	*8%*	*3%*	*2.77%*	*77*	*1,488*
South Korea	*65*	*11%*	*2%*	*4.70%*	*25*	*2,591*
North America	**644**	**13%**	**15%**	**3.12%**	**208**	**3,099**
US	*595*	*12%*	*14%*	*3.32%*	*174*	*3,428*
Canada	*36*	*13%*	*1%*	*2.30%*	*18*	*1,982*
Europe	**505**	**13%**	**12%**	**2.59%**	**296**	**1,708**
UK	*174*	*11%*	*4%*	*6.12%*	*43*	*4,018*
France	*72*	*14%*	*2%*	*2.97%*	*37*	*1,944*
Germany	*66*	*13%*	*2%*	*1.97%*	*52*	*1,208*
Latin America	**33**	**28%**	**1%**	**0.77%**	**94**	**352**
MENA	**26**	**19%**	**1%**	**0.17%**	**82**	**313**
Others	**8**	**23%**	**0%**		**46**	**174**
Global	**4,162**	**20%**		**3.11%**	**2,276**	**1,582**

Source: Ecommerce Foundation

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