The retail productivity agenda
Paving the path for a productive store network

Stores have always been at the centre of the retail world. It is where consumers go to get to know brands, discover products, touch, feel and try different options, and, ultimately, make purchases. Whilst there is no doubt that stores will continue to be of crucial importance to consumers going forwards, the emergence of new channels has had significant impacts on the role that stores must play as part of a productive retail go-to-market strategy. This article will provide an overview of the key industry trends impacting stores and PwC’s point of view on how retailers can take action now in order to pave the path for more productive store networks.

The Changing Retail Landscape:
The retail industry, both in Australia and globally, is rapidly evolving on the back of three key trends:

Trend 1: Growth of the online channel
Online sales in Australia are expected to continue to rapidly grow, increasing from $18.4 billion in 2013 to $26.9 billion by 2016 as consumers take advantage of the online value proposition. The transition from in-store to online shopping is being driven by:

- The search for value: Improved search engine functionality, price comparison tools and online shopping sites are making it easier for consumers to find the products they want at the cheapest possible price. The quest for the best value is therefore driving Australian consumers away from stores and, instead, to the websites of international retailers and pure online players.
- Eroding barriers to online shopping: Improvements to the online proposition have had the effect of slowly eroding the barriers to online shopping and diminishing the comparative advantage of bricks-and-mortar stores. Indeed, fast internet speeds combined with the emergence of new creative ways of allowing consumers to virtually interact and try on products is resulting in greater online purchasing confidence. This is supplemented by greater convenience through fast delivery speeds (e.g. some international retailers are able to deliver to Australia within a week) and simple return policies.

Trend 2: Increasing pressure on margins
Australian retailers are experiencing simultaneous revenue and cost pressures that are resulting in tightening margins across store networks. These pressures are driven by:

- Rent and Wages: Store rental costs, particularly in high foot traffic locations, and employee wages have been increasing over the past decade (e.g. clothing retailing wages grew 3.5% in FY13) and are expected to continue to do so into the future.
- Competition: Competition within the Australian retail industry is increasing as a result of new international players entering the market (e.g. Aldi, Uniqlo, Zara etc.), the growth of low-cost pure online players (e.g. Alibaba and eBay), and greater rivalry amongst traditional players (e.g. Coles and Woolworths). The result of this competition is that prices are going down while costs are not.
- Consumer Confidence: Consumer savings rates are remaining high as a result of economic uncertainty, resulting in a trend of trading down and staying down. Consequently, some retailers are seeing fewer sales of their higher price, higher margin premium products and more sales of their lower margin, basic products.
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Trend 3: Evolving consumer shopping behaviours

The breadth of information and choice available to today’s empowered consumers has resulted in changes to the way they shop and, along with it, the role of stores across each stage of the shopping journey:

- ‘Discover’: Consumers are increasingly viewing shopping as less of a transaction and more of an experience. They are therefore demanding greater fun and excitement from retailers when they go shopping in stores. Retailers must therefore explore new ways of using their stores to deliver a differentiated experience while effectively promoting their brand and products.

- ‘Research’: The ‘Research’ stage is continuing to move towards the domain of online as the breadth of available information grows. The challenge for retailers, therefore, is to effectively facilitate consumer research from within the walls of their stores.

- ‘Select & Try’ through to ‘Post-Sale’: Stores will continue to play a crucial role during these stages. Providing high levels of in-store convenience and service will therefore be essential for retailers to win over and maintain the loyalty of today’s empowered consumers during these stages.

These trends are having two key impacts on the way that retailers operate their store networks. Firstly, a significant investment is required to ensure that stores provide the service and experience elements that today’s consumers expect. Secondly, this investment is unlikely to be funded by profit growth from store operations; instead, retailers need to look at how they can improve productivity across their network to get more bang for their proverbial buck.

Driving Store Network Productivity

To remain competitive in this environment, PwC believes that retailers must review their store strategies, formats, and footprints in order to drive greater productivity and profitability. Four main activities are required as part of this review:

1. Develop a forward looking multi-channel strategy and explore new store formats

   The first, and most important step, is for retailers to clearly define a long-term strategy that articulates the role that stores will play as part of their multi-channel offering. This strategy must reflect the needs of target customers and must also anticipate likely changes to the industry. Once the future role of stores is clearly defined, retailers can look to develop new store formats that cost effectively deliver a strong value proposition to consumers in order to entice them into stores, showcase brands and products, and, ultimately, drive sales. New smaller format stores should also be considered as an avenue for cost effectively accessing new customers through more targeted product offerings.
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2. Optimise existing store footprint profitability
Retailers have the opportunity to quickly drive productivity across their store network by analysing profitability on a store-by-store basis. This analysis should include considerations of historic store sales (overall and at the category level), store performance results (e.g. mystery shopper surveys), catchment area demographics, and competitor data in order to understand the drivers of performance. Through this analysis, retailers can create detailed action plans to either cost effectively turn around unprofitable stores, renegotiate lower cost lease agreements, or exit stores at the earliest available opportunity. By addressing poor performing stores, retailers can alleviate the margin pressures resulting from growing costs while also freeing up resources for reinvestment into new, more profitable store locations, service and experience elements, and other parts of their business.

3. Optimise store size and merchandising
Retailers should leverage the masses of data available to them to tailor their in-store merchandising to meet the demands of consumers while minimising size and cost. This requires considerations of what categories and products to stock in each store, the optimal space to allocate to each category, and the best use of online.

• Online vs. stores: Consumers shopping activities and the importance of online versus stores can vary significantly between categories. In the case of books and music, consumers are happy to do most of their shopping online given the ease with which they can sample products and the certainty they have in relation to what they will receive. Conversely, in the case of furniture, consumers value the ability to touch, feel and try products while researching and buying – the role of stores for these categories is therefore far more significant.

• Variances between stores:
  Demographics and competitors can have a significant impact on category sales within a store. There can therefore be large variances in the performance of categories with the same products across a store network. Understanding the variances in category performance across the network will therefore allow retailers to optimise store size and space in order to meet the needs of consumers within each store’s catchment areas.

Retailers also have the ability, through effective integration of online and stores, to provide consumers with their entire product offering without having full sized stores (e.g. see John Lewis case study).

4. Develop enabling processes & technologies
To achieve a more productive store network, retailers must invest in developing the supporting processes and technologies. Three key areas of investment are required.

• Supply Chain: As channels proliferate and the role of stores evolves, retailers must revisit their supply chain strategies and infrastructure to ensure that they are still fit for purpose. Developing an effective supply chain will require moving away from the bulk transport of stock to stores, to a more agile model capable of accurately and quickly fulfilling individual online orders as well as lower volume, higher frequency store deliveries. Constant stock visibility will also be essential to ensuring minimal out of stocks across all stores and channels.

 DC locations and operations, pick, pack and dispatch processes, inventory management systems, and transport/logistics activities must all be reviewed and optimised to enable a productive store network.

• Data Analytics: Retailers should develop their analytics capabilities in order to extract valuable insights from the masses of consumer data available to them. These analytics can be used to inform decisions in relation to assortment planning, stock flow optimisation, and marketing and promotions.

• Productive Technology: Retail technology is constantly evolving and has the potential to significantly increase productivity, improve service levels, and enhance the customer shopping experience in stores. An example of such technology is self-checkouts and mobile point of sale systems that allow stores to more effectively deal with peak customer periods while minimising queuing times and checkout space required in stores.
In summary, the retail industry is currently undergoing a major transformation driven by the growth of the online realm, increasing competition and costs, and the empowerment of consumers. As a result, the profitability of traditional store networks is under threat as the omni-channel consumer shopping journey evolves. This transformation, however, also presents retailers with an opportunity to significantly improve productivity and differentiate the services and experiences offered to customers across their store networks.

To achieve this, retailers must look at their go-to-market strategy and their stores in order to assess where they are on the adoption curve. For retailers who are well on their way to creating a productive store network, the focus should be on refining their value proposition, driving differentiation across all channels, and improving operational efficiencies. For retailers who are just beginning the journey, significant momentum can be generated by addressing unprofitable stores, determining which product categories should be sold in-store versus online, and developing the internal analytics capabilities to drive future insights. Taking action now to improve store network productivity will help retailers set the foundations for their future success.

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**Case study**

John Lewis, an upmarket UK department store, introduced new full-line, flexible-format stores in 2012. These stores are almost half the size of their full sized department store counterparts (12,000 square metres compared to 6,000 square metres for flexible-format stores) however they offer the full John Lewis assortment by making the most of the opportunities for multi-channel shopping. Flexible-format stores include features such as:

- In-store terminals that are merchandised to reflect specific departments and encourage customers to browse and make purchases online
- Online order collection desks near the entrance of stores to allow for easy and convenient in-store collection journeys
- Interactive information screens that take customers through a series of questions to assist them in finding the right product for their needs
- Digital store guides to assist customers in navigating the store and finding products

These smaller format stores have allowed John Lewis to cost effectively access new customers and open up stores in locations that would not otherwise have been financially feasible.

Australian retailers are starting to move in the same direction with David Jones opening its third ‘village style’ store in September 2013 and Rebel Sport commencing the journey in 2014.
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