Q. Logistics is often quoted as a key factor in why Amazon will not come to Australia. While they are constantly making changes to their systems and bringing innovative delivery options, they have concentrated on high density regions. Similarly Walmart has bought into the China online market, again based on population density.

Is density a valid defence for these decisions? What other issues would preclude the online giants from approaching the Australian market? Does Australia have, with innovations of its own, the ability to overcome the perceived issues? Is Ali Baba likely to beat the others to the local market and why?

Entrant Number: JBA-17-030

Rory Gilbert

Employed by: Wrigley

Location: Asquith, NSW

Length of time employed in the industry: 6 years

Word Count: 2,500 words
Executive Summary

This essay provides an evaluation of 3 key potential barriers to entry in the Australian market for the global e-commerce retailers Ali Baba and Amazon. The barriers analysed are: population density, cost of entry and shopper attitudes to online shopping. To investigate each barrier, the essay references global case studies, financial reports and literary sources to understand whether an expansion into the Australian market is financially or strategically viable and if so, which retailer will likely enter the market first.

Findings suggest that widely assumed barriers to entry such as low population density and high cost of entry could be overcome by both retailers. Instead, it is limited potential scale within the market which means that Australia has been a lower priority for expansion vs other markets globally such as India. The essay finds that the opportunity in Australia does remain attractive and although Ali Baba are likely to enter first, Amazon also have potential to drive long term scale.

The essay concludes that despite low total population, Australia’s high smartphone penetration and headroom for growth in mobile commerce provide a great opportunity for both new retailers and market incumbents to innovate and drive growth online. Key recommendations:

- Development of ‘On the Go’ mobile ordering
- Expansion of prompt delivery concepts

The entry of these global retailers will begin an exciting new era for Australian retail.
Introduction

In 2011, the global retail environment was led by well established ‘bricks and mortar’ retailers: Walmart, Carrefour, Tesco\(^1\). Their model seemed to resonate with shoppers and growth was consistent in markets around the world. Just 5 years later, two of the top global retailers are now primarily online based marketplaces: Ali Baba and Amazon. Both groups have posted strong and consistent growth as they expand into new geographies, often at the expense of market incumbents\(^2\).

Despite global success, neither Ali Baba nor Amazon have yet entered the Australian market – Why? The common theory is that population density has been the key driver behind global expansion strategies, and therefore Australia’s vast landscape has presented an unattractive, expensive logistical challenge. This essay will argue that although somewhat true, population density and cost have not been the primary barriers to entry into the Australian market. Instead, it will argue that low total population, slow uptake of online shopping and therefore limited potential scale have been the most significant barriers. Both new and existing retailers will play a key role in step changing the growth of online retail in Australia.

To investigate this, we will first explore the potential barriers to entry and how they may be tackled, then evaluate which retailer will likely enter the market first, before concluding with a brief vision of how e-commerce innovation could come to life in Australia.

1. What barriers may exist for new entrants?

“A brand for a company is like a reputation for a person. You earn reputation by doing hard things well.” \(\text{Jeff Bezos, CEO & Founder, Amazon.}\)

1.1 Population density

It is true that Australia is one of the most sparsely populated countries in the world, with an average of 3.1 people living per square kilometre\(^3\). On the face of

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\(^1\) http://www.rediff.com/business/slide-show/slide-show-1-worlds-top-10-retail-giants/20111130.htm
\(^3\) Australian Bureau of Statistics, Regional Population Growth, 2015
it, it seems that an online B2C distribution model would be challenging to set up profitably, particularly when absorbing additional shipping costs to Western Australia or Northern Territory.

**Could Ali Baba & Amazon overcome this?**

In Canada, population density and distribution is not dissimilar to Australia, with 3.7 Canadians living per square kilometre\(^4\). Ali Baba and Amazon both operate in Canada, with Amazon in particular thriving in the market. Total Amazon revenue in Canada is estimated to be worth $1.5bn\(^5\), with the business running 6 distribution centres to cover the widely dispersed 35 million population. In Canada, similarly to Australia, c.70% of population live in urban areas spread across the full width of the continent\(^6\). To drive efficiency and maintain margins, Amazon tailors shipping options and costs depending on location of the shopper.

![Figure 1: Amazon.ca panel, displaying differences in Amazon prime shipping costs by city in Canada.](image)

This suggests that although population density may limit DC efficiency and cause higher costs to be passed on to the shopper, it is possible to run a successful Amazon business in a large, less densely populated country. In other words, it is a barrier to entry which both businesses have experience in overcoming in the past.

Looking at the challenge through a different lens, Australia would be one of the lowest population nations which either Amazon or Ali Baba would operate in

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\(^4\) Statistics Canada, Census data, 2016


\(^6\) Statistics Canada, The City/Suburb Contrast, 2014
globally - at circa 23 million total\(^7\). This means that assuming both could overcome the logistical challenge of a large geography; maximum potential scale would still be low and therefore less immediately attractive versus other strategic priorities globally.

### 1.2 – Cost of entry

Neither Ali Baba nor Amazon currently have any recorded assets in Australia. This means that infrastructure to begin trading will likely take significant time and money to build.

**Could Ali Baba & Amazon overcome this?**

Ali Baba’s cost of entry into any market is low by nature of the business. Ali Baba operates a number of e-commerce platforms such as Taobao, Tmall and Alibaba.com, none of which require physical retail outlets or distribution centres. The online platforms focus on connecting independent buyers and sellers who ultimately arrange logistics themselves. Upfront launch investment would be required in marketing and business development resource to develop a thriving marketplace and drive site traffic to justify advertising income. Assuming Ali Baba’s existing e-commerce platforms could easily retrofit for the Australian market, as they have done elsewhere, launch investment should be relatively low.

Amazon also operate a number of existing online services which could be used to build brand presence in the immediate term such as ‘Prime Video’. Profit from such services could then be re-invested to build necessary distribution infrastructure, whilst leading with an initial supplier fulfilled distribution model only. In the UK, by the end of 2017 Amazon will operate 16 Distribution centres to cover a population of 64 million and generating over £6bn revenue per year\(^8\). Assuming that Amazon would be comfortable with a similar coverage of population per DC in Australia, this would mean that establishing 6 DCs would likely be optimal. This is also in line with the Canadian example quoted earlier in

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\(^7\) Australian Bureau of Statistics, Australian Demographic Statistics,2016

\(^8\) [http://www.campaignlive.co.uk/article/amazon-uks-annual-sales-hit-63-billion/1381647](http://www.campaignlive.co.uk/article/amazon-uks-annual-sales-hit-63-billion/1381647)
the essay, suggesting that 6 DCs can effectively cover a similar geography. Based on Woolworths $90m investment into setting up a DC in Wodonga\(^9\), Amazon would require a total investment c.$500m to set up or purchase adequate distribution facilities in Australia. This would take time and significant investment to establish, but certainly not beyond the realms of possibility for Amazon. In 2015, they invested $5bn in launching into the Indian market\(^10\) and the total business recorded a $2.1bn net profit globally in 2016; the first significant profit after many years of heavy investment into geographical expansion\(^11\).

Therefore, cost of entry into the Australian market is unlikely to be an insurmountable barrier for either Ali Baba or Amazon, although it may delay launch of certain services.

### 1.3– Attitudes to online shopping

Across almost all sectors, Australian retailers under-index in online sales versus their peers in other markets globally such as the UK or US. Wesfarmers and Woolworths both generate c.3% of sales value via online platforms, compared to Tesco UK who generate c.5%\(^12\). This is also seen across other retail channels such as electronics where JB HiFi generate 2.5% of revenue online and Harvey Norman just 1%\(^13\). This suggests that Australian shoppers may not be as open to purchasing goods online compared to other markets due to concerns such as security and ease of returns\(^14\).

Could Ali Baba & Amazon overcome this?

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\(^10\) [http://www.reuters.com/article/us-amazon-india-idUSKCN0YU01M](http://www.reuters.com/article/us-amazon-india-idUSKCN0YU01M)
Although domestic retailers under-index in online sales value, online retail spend of the average Australian shopper is actually significantly higher, at 11%\textsuperscript{15}. Offshore websites such as ASOS.com have begun to change shopping behaviours within Australia and unlock sales growth.

Both Amazon and Ali Baba have played key roles in developing online penetration in their home markets, and have also done similar in multiple markets globally. Although it may take time to reverse the under-index in Australia, both retailers are seemingly capable of doing so over time.

To summarise, it seems that neither Ali Baba nor Amazon would be permanently precluded from entering the Australian market due to these factors. Instead, given low total population and slow uptake of online shopping with domestic retailers, it’s likely been a strategic decision to focus their growth elsewhere until the time is right.

\textbf{2. Which business is likely to enter the Australian market first?}

“Our long-term strategic goal is to serve two billion consumers around the world and support 10 million businesses to operate profitably”. Jack Ma, CEO & Founder, Ali Baba.

From the challenges and opportunities discussed earlier in the essay, it seems more likely that Ali Baba will enter the Australian market ahead of Amazon. Ali Baba have fewer barriers to entry and the historical logistics cost challenges may actually pose an opportunity for Ali Baba to begin solving. Australia’s 2.2 million registered businesses\textsuperscript{16} also pose an attractive opportunity for Ali Baba to achieve their strategic goals, referenced above.

Amazon will more likely proceed with a staged launch, introducing their brand through lower resource platforms such as Prime Video before a full roll out of their Marketplace. They may also look to follow the ‘tried and tested’ Eastern

\textsuperscript{16} http://www.abs.gov.au/ausstats/abs@.nsf/mf/8165.0
Seaboard launch model used previously by Aldi and Costco to build scale and domestic market knowledge before expanding into South & Western Australia. This model took ALDI nearly 15 years to achieve national coverage\(^7\).

3. What can we innovate domestically to drive online sales?

“A more competitive environment will result in lower margins as we invest to improve all aspects of the customer experience.” Brad Banducci, CEO, Woolworths.

3.1 – Development of ‘On-the-Go’ mobile ordering

Globally, Australia has the highest percentage of adults owning Smartphones at 77% versus a global average of just 43%\(^8\).

![Figure 2: Map displaying percentage of adults owning smartphones globally. Pew Research Centre, 2015.](https://corporate.aldi.com.au/en/about-aldi/aldi-history/)

Recent research by Paypal shows that although 82% of Australian mobile owners report to make purchases via mobile at home, less than 50% report making purchases whilst engaging in activities ‘on-the-go’ such as commuting\(^9\).


Australian retailers have the opportunity to invest in new technologies to unlock the potential in these untapped mobile shopping occasions. One example of this is an App currently under development in Japan, named Primo. Primo allows shoppers to immediately purchase any product in a store by scanning its QR code. Alternatively, they can purchase the product before they even arrive at the store by scanning an image placed in a public location, then they simply walk in to the store, pick it up and walk out\(^\text{20}\).

![Image of Primo App and example of Primo boards placed in a public location.](image)

**Figure 3:** Images showing Primo App and example of Primo boards placed in a public location.

By investing in technologies like Primo, Australian retailers could increase penetration of ‘on-the-go’ mobile purchasing, and reduce their exposure once Ali Baba and Amazon arrive in the market – both of which have strong mobile commerce credentials. For reference, Ali Baba sold an estimated $14bn USD via mobile devices on Singles Day (November 11\(^{\text{th}}\)) in 2016, that represented 82% of their total sales for the day\(^\text{21}\).

### 3.2 – Expansion of prompt delivery concepts

Australian market incumbents have the opportunity to leverage their existing real estate to create a true “bricks and clicks” strategy. Breakthrough online services such as Uber and Foodora have provided Australians with ‘instant gratification’


in the transport and food service sectors, which is yet to be replicated in traditional retail.

Amazon UK recently partnered with leading supermarket chain, Morrisons, to provide delivery of groceries to any location in London or Hertfordshire within one hour for just £6.99\textsuperscript{22}. This model could be replicated in Australia through the network of 1,400 IGA stores across the nation, using gig-economy couriers (for instance, UberEats or Deliveroo) to promptly fulfil small deliveries which are picked and packed in-store or at local Metcash DCs. IGA’s local presence in communities throughout Australia gives them a strategic advantage over larger competitors, although it would likely require additional complexity and investment in store to unlock.

Coles are already trialling this concept via Deliveroo in Melbourne, with specific stores providing occasion based (BBQ, Brunch, Entertainment) packs for delivery in the local area.

Figure 4: Screenshots of Coles Deliveroo trial in Melbourne, 2017.

\textsuperscript{22} https://www.technobuffalo.com/2016/11/16/amazon-now-delivers-morrisons-groceries-in-1-hour-in-the-u-k/
Conclusion

To conclude, population density does not seem to have been the defining reason for expansion into particular geographies for global retailers; and consequently Ali Baba and Amazon will likely both enter the Australian market in future. Key barriers to entering the market are surmountable for both retailers, and total potential scale within Australia has only caused a delay in terms of focusing on other strategic expansion priorities thus far.

Both new and existing retailers have an opportunity to tap into clear opportunities for mobile commerce by innovating to leverage the over index of smartphone ownership in Australia. Market incumbents should also focus on leveraging their strengths in ‘bricks and mortar’ coverage to provide unique ‘on-demand’ services which are difficult to replicate by any new entrants. From this, it seems clear that the eventual entry of Amazon and Ali Baba will begin an exciting new era for retail in Australia.
Topic 1 – EDLP and Price Discounting Growth

Q. Whilst this (EDLP and Price Discounting Growth) may be good from a consumer perspective, where does it leave the shareholder? Are the current behaviours sustainable, and can you offer any perspective as to how we trade out of this and move prices up?

Entrant Number: JBA-17-125

Catherine Eyre-Walker

Employed by: Woolworths
Location: NSW
Length of time in the industry: 1 year

Word Count: 2,495 words
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**Executive Summary**

This paper offers a perspective on price and discounting practices in the increasingly competitive Australian grocery market. To provide context, it portrays the transition the industry has undergone: from a highly-concentrated market controlled by the major supermarket chains (MSCs) Woolworths and Coles; to Aldi’s disruption on the back of its no-frills discount model; to the brink of a price war.

The UK’s on-going price war sheds light on Australia’s present market dynamic, foreshadowing a negative outlook for Australian shareholders and cheaper groceries for consumers. Game theory – and specifically the prisoner’s dilemma – assists in rationalising the UK retailers’ uncooperative activities in the form of continued price competition.

The paper recommends actions the Australian MSCs can take to restore prices and avert a price war. These recommendations include:

- creating and communicating differentiated value;
- developing a well-structured above-the-line (ATL) promotional program;
- expanding below-the-line (BTL) promotions; and,
- cooperating with one another on price.
Introduction: The Australian Grocery Market from 2000 to Today

A concentrated market

In the 2000s, the Australian grocery market was highly concentrated with Woolworths and Coles holding a significant share of the market (77.3% in 2006). During this time, the market could be characterised as an effective “duopsony and duopoly” leading to “lower prices paid to producers and higher prices for consumers.” The high grocery prices facing consumers led to a 2008 inquiry by the ACCC into the competitiveness of grocery prices. The inquiry noted Woolworths’ and Coles’ disinterest to compete strongly on price, with “little incentive to … upset the existing balance.” On the back of this market dynamic, the two companies’ combined Food and Liquor sales grew from $29 billion in 2000 to $48 billion in 2007. Additionally, Australian grocery EBIT margins were 50 basis points higher than the global average in 2010. Shareholders reaped the rewards as evidenced by Woolworths’ share price growing by ~450% between 2000 and 2010 (Figure 1).

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25 Australian Competition and Consumer Commission, Report of the ACCC Inquiry into the Competitiveness of Retail Prices for Standard Groceries (Canberra, 2008), XVI.  
26 ACCC, ACCC Inquiry into the Competitiveness of Retail Prices, 107, chart 6.1. These figures were estimated based on the sales revenue in Chart 6.1.  
Aldi’s disruption

Aldi’s emergence has disrupted this ‘balance’ by lowering prices, changing behaviours and grabbing market share. Aldi’s model is predicated on creating cost efficiencies through a scalable, globally tested operation. This model has given Aldi a competitive advantage with a 9% lower cost of doing business when compared to the MSCs (Figure 2). The operational efficiencies allow Aldi to “keep costs low and pass these savings on to customers in the form of everyday low prices.” Customers have taken notice, as the downward pressure the discounter has placed on prices has “driven [a] change in consumer shopping habits and value expectations.” Aldi’s distinctive value proposition has led to strong top-line growth relative to its competitors: between 2006 and 2016 the retailer’s market share grew by 9.4 percentage points, while the MSCs combined market share decreased by 7.5 percentage points.

29 Submission to the Competition Policy Review made by ALDI Stores (June, 2014), 2.
30 Ben Gilbert, Craig Stafford and Apoorv Sehgal, “Aldi – An Unstoppable Force? We think so, but Coles is Doing a Good Job Slowing Aldi’s Growth,” UBS Investment Research Report (May 2, 2016): 34, Figure 61.
31 Public Submission to the ACCC Grocery Inquiry made by ALDI Stores (March, 2008), 2.
Competing on price

Aldi’s success has led to a competitive response from the MSCs in the form of a higher prevalence of everyday low prices (EDLP) and price discounts (Hi-Lo and multiple buys). In 2010, Coles moved to partial EDLP with its ‘Down Down’ campaign and at the end of FY16 had ~3,100 products on EDLP, a 50% increase from the prior year.\(^\text{34}\) Over the last 18 months, Woolworths has invested $1 billion into price reductions.\(^\text{35}\) In addition, both retailers are aggressively using discounts to drive foot-traffic, with Australian promotional intensity currently greater than 40%.\(^\text{36}\) Consumers have stood to benefit the most from this activity as shopping at the MSCs has become cheaper.\(^\text{37}\)

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\(^{36}\) Megan Treston, Director of Retail Services at Nielsen, email correspondence (February 15, 2017).

Shrinking margins

While consumers are realising the benefit of cheaper baskets, shareholders are losing out. The MSCs’ push towards EDLP and aggressive promotional pricing will continue to reduce EBIT margins (Figure 3), requiring an increasingly higher hurdle rate for sales volume to offset unit price reductions. Put simply, the price cuts the MSCs are implementing will need to drive more consumers and/or larger baskets if revenue and profits are to be maintained. This is no easy task, as discounting does not necessarily drive shopper loyalty and can “[sacrifice] profitability without necessarily encouraging the desired long-term customer behavior.” Woolworths in particular experienced this effect in FY16 with a 1.3% decrease in comparable sales, “primarily driven by significant price investment”, coupled with a reduction in EBIT margins. Overall, the past two years of aggressive pricing behaviour has negatively impacted shareholders as Woolworths’ and Wesfarmers’ share prices have dropped by 23% and 9%, respectively.

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39 Profits can technically be maintained without attracting more consumers, however cost of goods sold and cost of doing business reductions are unlikely to offset price discounts in the absence of increased sales volume.
On the brink of a price war

In addition to shrinking margins, price cuts have stunted the growth of the Australian grocery market. From 1983 to today, the food retail market’s compound annual growth rate was 6.4%; in 2016, the market grew just 3% (Figure 4).43 These practices appear to be unsustainable and, taken to the extreme, may begin to shrink the industry. Over the past three years, the UK experienced this phenomenon in the form of a price war that disrupted, and ultimately shrunk, the market.

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The UK Price War

The Big 4 go to war
Australian grocery retail now finds itself in a similar position to the one the UK faced three years ago; on the brink of a price war. The economic downturn felt throughout Europe in the late 2000s resulted in increasingly price-conscious UK shoppers. In this economic climate, UK Discounters, Aldi and Lidl’s, combined market share grew from 3.7% in 2007 to 4.9% in 2011. After the economy rebounded, customers continued to flock to Aldi and Lidl, leading to sustained sales growth for the Discounters at the expense of the Big 4 (Tesco, Sainbury’s, Asda and Morrisons). In an effort to curb the Discounters’ rapid advance, the Big 4 began to shift their pricing strategies towards EDLP. By 2015, every Big-4 retailer had announced significant investments aimed at reducing prices, thereby kicking off a price war. The price war led the Big 4 to largely focus external communications on price (Figure 5), which served to reinforce shoppers’ price consciousness.


45 Company press releases and news articles.
The Discounters have won

Focusing on price in an attempt to drive foot-traffic and maintain market share has negatively impacted the Big 4, as well as the health of the UK grocery market. From July 2013 to January 2017, Aldi and Lidl’s combined market share increased by 3.7 percentage points, while the Big 4’s combined market share fell 4.0 percentage points. Not only are the Big 4 leaking customers to the Discounters, the price war has reduced unit prices to the point that the industry has begun to shrink, something that has not happened since at least 1986 when the Office of National Statistics began recording this data (Figure 6).

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In June 2016, the CEO of Walmart announced that Asda would cut prices to prioritise sales volume over profit, indicating that the assault on grocery prices will continue.  

The shareholders have lost
For shareholders, the net result of price reductions has been sustained losses. Over the last three and a half years, share prices for Tesco, Morrisons and Sainsbury’s have fallen by 38%, 11% and 31%, respectively (Figure 7). The Big 4 have broken a key tenant of retailing; “compete on price only in the short-term unless you are the low-cost operator.” This seems obvious in hindsight, yet game theory suggests that a price war was inevitable. The situation the Big-
4 faced in 2013 was similar to the classic prisoner’s dilemma. All four players would have been collectively better off had they cooperated – but not colluded – by resisting the temptation to lower prices. However, because collusion is illegal, imperfect information about their competitors’ actions made it difficult to cooperate and ensured that each player’s dominant strategy was to act in its own self-interest and lower prices. Although it may not provide solace to shareholders, game theory helps explain the actions of the Big 4 in competing on price to their detriment.

Restoring Prices
There are four primary measures the MSCs should take to drive prices up: focus on creating and communicating differentiated value; develop a well-structured above-the-line (ATL) promotional program; introduce more below-the-line (BTL) promotions; and cooperate with one another on price.

Create and communicate differentiated value
For consumers, ‘value’ in grocery retail consists of a combination of quality and range of products, convenience (including customer experience) and price.

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51 A dominant strategy in game theory exists when a player is incentivised to opt for a given strategy regardless of the actions of the opposing player.
Recently, the pendulum has swung towards price, with Aldi’s strengthening presence in Australia leading the MSCs to focus the majority of their marketing and announcements on price. From a consumer perspective, this has served to reinforce price as the primary factor when comparing retailers and, as the low-cost operator, Aldi has stood to benefit the most from the price-centric rhetoric. To trade out of a price war, the MSCs must clarify their own value propositions and distil why consumers should shop with them. Put another way, Woolworths and Coles need to give consumers a reason to pay a higher price for their groceries.

In the short-term, the MSCs should de-emphasise price and refocus their consumer messaging towards their own strengths of quality and range (e.g. bakery, deli) and convenience (e.g. home delivery, express checkout, store format). Long-term, Woolworths and Coles must innovate and continue to create value customers are willing to pay for. Recent examples of innovation on quality include Woolworths’ sushi offering and US retailer Wholefoods’ wine and cheese tastings. Innovating on convenience can be achieved via expanded and cheaper home delivery or exciting new store formats (e.g. Amazon’s new checkout-free Amazon Go stores). Innovation that leads to long-term value creation may require significant investment and time but is necessary to keep prices healthy in an increasingly competitive market.

**Develop a structured above-the-line program**

Promotional intensity is increasing and currently accounts for more than 40% of sales in Australia.\(^{52}\) Although promotions reduce prices, ATL campaigns that are rolled-out responsibly can assist in boosting profit, driving foot-traffic and creating customer loyalty. However, promotions that are reactionary, sweeping and frequent, such as those conducted by the MSCs, undermine these benefits in the long-term and confuse customers’ expectations towards price and value.

To achieve a more sustainable ATL promotional program, the MSCs must be more analytical, disciplined and forward-thinking. Before a campaign is kicked

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\(^{52}\) Treston, *email correspondence*. 
off, the MSCs should anticipate consumers’ reactions and calculate the expected revenue-EBIT trade-off. In an article espousing the benefits of data-analytics on promotions, consulting firm BCG noted that, “many retailers can’t accurately gauge the performance of promotions, or predict their performance in advance.” In addition, Woolworths and Coles should exercise more discipline when it comes to their promotional activity by implementing guidelines or rules for when to proceed with, or forego, a given campaign. These guidelines should be governed by measurable targets, including expected revenue, sales volume, profit and margins. Finally, the promotions should be consistent with the MSCs longer-term strategy to avoid confusing consumer expectations. By incorporating these principles into their ATL promotions, the MSCs can reduce promotional intensity – thereby driving up prices – while also influencing the desired customer response.

**Introduce more below-the-line promotions**

Another method the MSCs can employ to restore prices is micro-targeted BTL promotions. Every time a customer purchases a product on an ATL promotion that they would have bought without the discount, the retailer is effectively giving away revenue. Retailers can remedy this problem by increasing their use of targeted BTL discounts to customers who would only purchase the product on promotion, while leaving the shelf price unchanged. BTL promotions help optimise revenue by extracting the full price from customers who are happy to pay it, while capturing the sale from customers that will only purchase at a lower price. Woolworths and Coles are well-placed to offer more micro-targeted promotions through their rich loyalty program data.54

**Cooperate on price**

Cooperation is a cynical tactic Woolworths and Coles can employ to halt the attack on grocery prices. The Australian MSCs are faced with a prisoner’s

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54 It is worth noting that Aldi is unable to offer micro-targeted BTL promotions, as the retailer does not have a loyalty program.
dilemma akin to the one the UK faced three years ago. However, because they were able to observe the UK’s price war, the MSCs understand the consequences of uncooperative actions in the form of continued price reductions. As an initial measure, the MSCs can stop adding to the ever-increasing list of EDLP items, while also curbing the breadth and depth of price promotions. Over time, the retailers can look to restore prices on selected items to drive revenue. These changes should be introduced gradually in the absence of external communications. Cooperation is easier to achieve in theory than in reality and there is significant legal risk involved if the MSCs are found to fall afoul of anti-competitive legislation.

**Conclusion**

Aldi will continue to gain share in Australia as they attract customers and open more stores. The MSCs have a choice: continue to compete aggressively on price, or differentiate and identify opportunities to truly add value to the grocery market and its consumers.

A full-blown price war is unlikely as Woolworths and Coles simply have too much to lose. However, pressure to defend market share may push the MSCs towards near-sighted decisions to continue to compete head-on on price. Competing in this way without lowering revenue and margins is nearly impossible for the MSCs as currently structured. If a price war were to eventuate, the consumer would win and the shareholder would lose. But it does not have to be a zero-sum game; there are ways for both parties to win. By communicating differentiated value, innovating for the future, and developing an improved ATL and BTL promotional program, the MSCs can regain their footing while restoring price. These methods may require considerable investment and patience but the retailer forbearing and brave enough to take this road is more likely to deliver value to the Australian shareholder and consumer.

Strategy was less important in the concentrated market of the 2000s. Now – with Aldi growing, Coles maintaining, Woolworths regrouping, Metcash struggling, Costco expanding, Lidl entering at the bottom and David Jones entering at the
top – strategy will separate the winners from the losers. The strategies these retailers sow now will shape the industry in the years to come. May the best retailer win.
Joe Berry Australian Retail Industry Executive Awards 2017

Topic 3 – Attracting Talent to the Industry

Attracting and retaining talent in the retail industry continues to prove a big challenge for employers. These issues apply equally to staffing in all parts of the industry but particularly those employed in stores. Retail is becoming a high-profile career industry but still has issues.

What metrics motivate store staff the best? Explore models of success including profit share and the choice of permanent versus casual labour. Does a move from permanent to casual (or casual to permanent) change the motivational metrics? There are the challenges around pay-loadings that may affect talent retention. Can these challenges be resolved amicably and can the resolution further influence attraction and retention?

Entrant Number: JB-17-167

Name: Jon Stokes

Employer: Coca-Cola Amatil

Location: North Sydney

Employed in the industry: 10 years

Word Count: 2,500
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Executive Summary

Our Australian retail industry is facing increased competition and rising complexity. To be successful in this environment, attracting and retaining talent will prove critical.

However, due to stagnant revenue growth and shrinking margins, businesses are under increasing pressure to manage the cost base. This has caused many to replace permanent staff with either casual labour or implement technology solutions, particularly across store level roles.

I believe this could cause both short term and long term problems for our industry, and I propose three possible solutions to address these problems.

Ultimately, this paper aims to provoke discussion and debate amongst our industry leaders around their responsibility to attract and develop talent from store level roles to provide a pipeline of future leaders for our industry.

Note: Based on my experience on supply side FMCG I have chosen to expand the focus to include both retail employees and sales teams within the supplier base.
1. Introduction

I believe it is the responsibility of senior leaders within our industry to reshape their thinking regarding workforce management.

I felt compelled to write this paper as I’ve observed an alarming contraction of industry investment in entry level operational staff since I joined the FMCG industry in 2006. This has played out through stagnating employment and increased casualisation of the workforce. In my opinion, this makes it more challenging for junior employees to build meaningful careers through our industry.

There is no doubt that our industry is becoming increasingly more complex based on macro-economic trends, disruption from global retailers, the growth of e-commerce and increased shopper empowerment. If we are to navigate this complexity we need a step change in talent management all the way from customer facing, store level roles right up to the board room.

I propose a new perspective is necessary. I believe we can learn from the tried and tested behaviours of more traditional professions including Law, Health, Education and Accounting as retail and FCMG employment growth is falling behind.

Figure 1 – Employment Projections by Industry and Position Type\textsuperscript{55}

According to David Gonski (Lawyer and Chairman of Coca-Cola Amatil), a great profession involves the following commitments:

1. Willingness to help younger members learn and achieve
2. Thirst to keep abreast of the latest techniques, writing and knowledge
3. Commitment to working with clients or customers, assisting them in an ethical way
4. Desire to give back to both the profession and the community
5. Pride in what the profession does and what you do in its name

The opposite, according to Mr Gonski, is commodification, which occurs when “time management, efficient use of resources and hourly rates” take priority. He says “I am sure that working as a commodity is not nearly as fulfilling as working in a profession.”

I encourage our industry leaders to consider themselves leaders of our profession, and instigate strategies to attract and nurture the most junior of our “retail professionals”.

2. Industry Challenges and Impacts on Employment

Our industry employs more than 1.2 million Australians, and is the largest private sector employer. However, due to volatile consumer sentiment, increased competition and price deflation, the industry has been under pressure from constrained revenue growth and shrinking margins.

Figure 2 – Retail channel context relative to other industries

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56 David Gonski, 2015, “I gave a Gonski”, Penguin Group, Australia
57 Ibid.
58 Nathan Cloutman, 2017, Supermarkets and Grocery Stores in Australia, IBISWorld Industry Report G4111
59 Lauren Magner, 2016, Department Stores in Australia, IBISWorld Industry Report G4260
There has been massive pressure on management of the cost base of retailers and suppliers. To remain competitive, businesses have increased focus on innovation, flexibility and cost efficiency through embracing technology.

Further, Australia’s relatively high minimum wage and increased protectionism have, ironically, made permanent positions less attractive for employers. Consequently, by 2012, Australia had the 2nd highest rate of casual employment in the world.

**Figures 3 & 4 – Australia’s minimum wage**\(^{60}\) and Casualisation of the Workforce in a Global context\(^{61}\)

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\(^{60}\) Australian Retailers Association, 2016, “Submission to Minimum Wage Review”

As well as cost efficiency, there are other compelling justifications of a casual labour force:

- Increased flexibility (for both business and employee)
- Alignment with seasonal demand
- Ability to quickly shift focus and resources
- Risk mitigation through shift from fixed cost to variable cost

Consequently, more and more retailers and suppliers are increasing the proportion of casual roles in stores, or outsourcing operational tasks to third party labour providers.

While I understand the justification for this casualisation trend within today’s challenging environment, I am concerned about the impact on customer value creation in the short term and the looming talent shortage over the long term.

2a. Short Term Impact of Customer Value Creation

A major challenge for Australian retailers and suppliers is how to differentiate their offering, particularly as it is becoming more difficult to differentiate on price. Shopping experience and customer service have become a key point of difference.

Many retailers have increased investment in store refurbishments and suppliers have increase spend on shopper marketing. However, there doesn’t appear to be the same investment aimed at attracting and developing permanent employees.

From my research, I’ve found little data which quantifies a difference in capability between casual and permanent employees. However, from my own experience, managing field sales teams across multiple retail channels, I passionately believe that staff employed on a permanent basis deliver considerably higher value than those on casual contracts.

From my experience, this value is delivered through:

- Increased tenure and loyalty
- Lower turnover (lower costs of recruitment and training)
- Higher product/category expertise
- Greater propensity to discretionary effort (going the extra mile)
- Potential to build long term strategic relationships with customers

I believe the shift away from permanent roles at operational levels is leading us towards David Gonski’s concept of staff commodification and will lead to the commodification of customer service. Casual labour can be easily replicated across competitors whereas a motivated permanent employee with tenure and category specific expertise can represent a massive competitive advantage.

To illustrate, I can share an example from my own experience. In the lead up to the Clipsal 500 race in Adelaide, sales reps were challenged to build racing themed displays to drive sales. A young sales rep, who had built strategic relationships with stores, discovered one store manager was concerned with declining foot traffic. To address this, the rep negotiated with a Timezone arcade to borrow a set of Daytona machines for two weeks (free of charge). These were installed amongst the display of promoted SKUs and programmed for “Free Play”. This delivered the strongest sales uplift of our products across the state, and also drove higher foot traffic into the store.

Consider the revenue growth opportunities for our industry if this creative thinking could be (in some shape or form) replicated across every retail store across the country.

2b. Long Term Impact on Industry Talent Pipeline

According to a survey by AFGC, attracting and retaining talented sales personnel is a critical issue in FMCG\(^62\). In fact, 80% of Senior Sales Executives expect this will have an impact on business performance and 62% suggest it is becoming more difficult than ever before.

This suggests our industry talent pipeline is weakening. The overwhelming majority of respondents favour recruiting from other FMCG businesses rather than developing talent from within. Businesses “Never / Very Seldom” pursue talent through programs that nurture junior-level employees\(^63\). While this approach may be effective for some businesses in isolation, it poses a risk to industry

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\(^{63}\) Ibid.
sustainability when considered at a macro level. This could create a talent vacuum.

**Figure 5 – Avenues actively pursued when recruiting Sales personnel**

On the employee side, the primary reason given for leaving a business was a “lack of career development and progression”.

**Figure 6 – Reasons provided by employees when leaving FMCG businesses**

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64 Ibid.
65 Ibid.
Interestingly, FMCG Businesses Leaders rated themselves high in terms of “Identifying high calibre personnel and potential future leaders”. However, they scored themselves poorly at “Implementing formal talent retention programs”.

3. Three steps for Addressing this Challenge

3a. Reverse the trend of Casualisation

Coles is one example of a business that moved against the tide of casualisation. Prior to the Wesfarmers acquisition, 70% of staff were casual. Turnover was high and development programs were deprioritised. The business was losing experienced staff and also losing market share.

In 2008, Stuart Machin was credited with a major cultural shift in operations across 100,000 employees in 750 stores. Coles realised that significant cultural change would not be possible when a high portion of team members were casual employees. They also identified that the casual workforce could not deliver the quality and service that the businesses aspired to. Coles instigated a shift back to permanent employment in stores and now only 30% of their team are casual. Coles report that customer service has improved significantly, while absenteeism has reduced and staff turnover has halved.

Importantly, this did not come at the expense of shareholder returns. Instead, combined with store refurbishments and improved price communications, Coles consistently outperformed Woolworths in the years to follow. By 2013 Coles’ sales doubled to $36B and profit tripled to $1.5B.

3b. Embrace New Technology that supports staff to Add Value

It is undeniable that technology is changing the way we work, particularly in stores where a high proportion of work involves repetitive processes. The most impactful (and most polarising) example is the introduction of self-serve checkouts in supermarkets.

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67 Ibid.
Despite a high rate of adoption by shoppers in store, they have provoked a lot of negative press coverage. One article suggests “Coles says that self-serve checkouts are convenient for customers. But isn’t the real point to boost profits by cutting the wage bill…and shifting work back onto the customer. (Retailers) have made themselves faceless by taking away the faces at the checkouts.”\textsuperscript{69}

Rather than replacing staff with technology solutions, I believe lessons can be learned from the banking industry, where the introduction of ATMs had surprising effects on employment and customer service. As one would expect, ATMs replaced a lot of routine tasks previously conducted by employees. However, as those employees’ repetitive, cash-handling tasks reduced, they were retained and upskilled to perform value adding functions such as customer relations and selling products like credit cards or loans\textsuperscript{70}.

This demonstrates that automating elements of employee tasks doesn't make the employee redundant. In fact, it makes the employee more valuable by leveraging their expertise, problem-solving skills and their relationships with customers.

\textbf{3c. Attract and Retain Staff through Intrinsic Motivators}

Newspapers and Social Media are littered with stories about poor working conditions and under-paid junior employees.

This is particularly relevant now, given the heated public debate following the Fair Work Commission’s ruling on Penalty Rates.

High profile stories include:

- “\textit{Outlook Gloomy for underpaid 7-Eleven employees}” – SMH, 12\textsuperscript{th} May 2016
- “\textit{Hamburgled: McDonald’s, Coles, Woolworths workers lose in union pay deals}” – SMH, 19\textsuperscript{th} May 2016

\textsuperscript{69} Matt Holdern, “It’s no wonder we view Coles as a faceless food factory that it’s OK to rip off”, Sydney Morning Herald, 12\textsuperscript{th} Feb 2017
\textsuperscript{70} David Autor, 2016, “Will automation take our jobs away?”, TED Talk, www.ted.com/talks/david_autor
In the face of this criticism, it is important to understand and address employee motivations. While these news stories are damaging the perception of our industry, it is widely recognised that extrinsic financial incentives such as wages are basic hygiene factors for employees. Intrinsic motivations such as a sense of pride or purpose are increasingly more important\textsuperscript{71}.

This is particularly true for Millennials, who make up one third of the total retail workforce\textsuperscript{72}. In a recent Deloitte survey, this group echo the sentiments of David Gonski. They place high expectations on businesses to demonstrate greater purpose outside of profitability. In fact, 88\% suggested that a sense of purpose was an important factor in their decision to stay with a business for over 5 years\textsuperscript{73}.

Clearly, there is more work to be done by businesses looking to attract Millennials as the majority of this generation (64\%) believe that businesses “focus on their own agenda rather than wider society” and 54\% say businesses have “no ambition beyond making money.”

\textbf{Figure 7 – Millennial perception of business}\textsuperscript{74}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{millennial-perception.png}
\caption{Millennial perception of business}
\end{figure}

\begin{itemize}
  \item “H&M penalty rates trade-off refused amid retail expansion” – AFR, 17\textsuperscript{th} Jan 2017
\end{itemize}

\textsuperscript{72} Nathan Cloutman, 2017, Supermarkets and Grocery Stores in Australia, IBISWorld Industry Report G4111
\textsuperscript{74} Ibid.
4. CONCLUSION

The challenge of attracting and retaining talent is complex but clearly has significant implications for the future performance of our industry. I hope this paper will encourage industry leaders to engage in robust debate about the trend of casualisation and potential commodification of store level operational staff.

I also hope that, collectively, we can recognise the increasing professionalism required in our industry, and adopt the behaviours of a great profession as suggested by David Gonski to step change the attraction and retention of talent. This is necessary to navigate the increasing complexity that lies ahead and return to a position of long term, sustainable industry growth.
Joe Berry Australian Retail Industry Executive Awards

2017

Topic 3: Attracting and retaining talent in the retail industry continues to prove a big challenge for employers. These issues apply equally to staffing in all parts of the industry but particularly those employed in stores. Retail is becoming a high-profile career industry but it still has issues. What metrics motivate store staff the best?

Entrant Number: JB-17-132

Shah Ali Riyad

Employed by: The Nielsen Company Pty Ltd.

Location: Melbourne

Employed for 3 years

Word Count: 2498
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Executive Summary

The retail sector of Australia has experienced a growth momentum in the last five years despite consumer’s stagnating purchasing power. With tough economic conditions looming, consumers have become careful spenders and suppliers have tapped into innovation to be more attuned to consumer-needs. This resulted in ever-changing and multiplying shelves in retail shops, while consumers have expanded in multiple commodities and become more frequent to stores. On top of that, the retail landscape experienced an expansion of e-commerce. This created new challenges to the retail workers’ jobs that the workforce didn’t experience before. In this fast-changing environment, retail firms are considering profit-sharing and increasing full-time employment to motivate the retail workers and manage costs more effectively. However, they must take into account the intrinsic motivational factors of the retail workers before applying these external motivational tools. The retail firms must provide their workforce guidance to take on the new challenges, while increasing firm-to-employee engagement to inspire the workforce to grow in their jobs. This would include investment in training and development, while pushing the workforce from casual to full-time as much as realistically possible. Increasing employee motivation and retention through training and engagement would possibly make retail sector a benchmark for workforce-management in Australia.
Introduction: How is the retail sector evolving in the Australian Economy?

The retail industry in Australia has been experiencing over 2% growth since 2012 despite tough macroeconomic conditions slowing down the consumer income-growth (Figure 1).

![Figure 1: Consumer Income vs. Retail Industry Growth](image)

This growth traction despite people’s stagnating purchasing power is coming due to some unique intervening changes regarding consumer-behaviour and strategies by suppliers and retailers that they have not applied before.

For retail workers, the wage disparity presents struggles on financial security, while the changes in retail business are raising the complexity and challenges of their jobs. Therefore, it is important to understand what exactly these changes are to understand how to motivate and drive the workforce.

The Value-Seeking culture

While the $300-billion The Australian retail sector is in growth, stagnation of consumers' purchasing power means that while they are spending more overall, they are looking to maximize value from their purchase. This is demonstrated by their interest in cheaper retailer-brands and promotion.

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Retailer-brands are growing 3 times faster than supplier-brands, with consumer-confidence on retailer-brands’ quality going from 32% to 58% since 2011\textsuperscript{77}. At the same time, promotions accounted for 40% of retail sales in 2016, growing 7% since 2014. This growing price-consciousness, squeezes retailers off margins, which makes it tough for them to offer better wages.

The Innovation Churn and Assortment Frenzy

As consumers have become careful spenders, suppliers had to make their product-repertoire more compelling to the consumers’ changing needs – resulting in an influx of innovation. 53% of sales in 2016 come from new products launched in the last 5 years\textsuperscript{3}. As a result, retail sector is notably tilted towards the tendency of purchasing higher variety of products (Figure 2). Today, about three-fourth of consumers buy at least 81 different types of products.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{value_contribution_of_consumer_groups_year_2016.png}
\caption{Value contribution of Consumer Groups (Year 2016)}
\end{figure}

However, only a fraction of the new products actually end up driving growth. Within 2016, around one-fourth of the shelf-space got replenished every quarter\textsuperscript{3}. To buy more products, consumers are visiting shops more frequently. In 2016, about 58% consumers visited retail shops more than 100 times – growing from 54% in 2014\textsuperscript{3}.

Innovation has also spread into online space as e-commerce – growing about 20% per year since 2014\textsuperscript{3}, adding more complexity to retail jobs.

\textsuperscript{77} Nielsen Australia Pty Ltd. (2017). \textit{Nielsen Homescan – Year 2014-2016}. Melbourne, Australia
Do retail workers have the right skillset to do their job at current context?

“The new recruits here lack the skills to understand their job. ... The job is not easy. The shelving changes frequently and so does the planogram. You need to be alert of these things (changes) or you would direct customers wrongly. ... Aside from these problems, I feel that they also lack aspiration and drive to take their job seriously.”

This is a quote from an experienced store manager in one of the busiest and ethnically diverse areas in Sydney. It really resonates with a number of studies that have found that new retail workers are getting overwhelmed by the growing job-challenges at current times. Pressure for value, expanding assortment and Innovation-Cycle resulting in constantly changing and multiplying shelves to service an ever-growing and ever-diversifying consumer-base requires a level of intellectual and emotional intelligence that retail workers in the past did not require. This is not helped by the quality of workers that are recruited. Figure 3 shows that retail workforce scores lower in terms of basic job-skills than all other jobs across Australia:

![Figure 3: Literacy and numeracy skills of retail workers vs. total workforce](image)

---

Another concern regards to understanding consumers as an experienced store manager in South Australia expressed:

“To work over a long term in retail, you need proficient product knowledge. But more than product knowledge, what we really look for while recruiting people is personality. You need to be able to communicate with people and make them relate to your product. … Without that capability, I do not see how you can build a career in retail” 

Therefore, guidance is necessary to help the new retail workers to become intellectually and emotionally capable to cope with the current challenges of the job, for which retail firms are considering applying a few motivational tools as follows.

Profit-sharing

Profit-sharing is believed to increase motivation and engagement of the workers by inducing proactive motivation. However, proactive motivation only works when employees are confident in their capability and significance to the business, which is not the case for retail workers.

It is vital that profit-sharing, if applied, gives good results since it would reduce margin for retailers in the context of an already stagnated economy and consumer’s price-sensitivity. One tool that increases the effectiveness of profit-sharing is training and development by improving skill and giving clarity of objectives to help workers perform and grow in their role. Therefore, training

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83 James, J. B., Mckechnie, S. & Awanberg, J. (2010). *Predicting employee engagement in an age-diverse retail workforce*. MDRC, USA
and development is an important tool for motivating retail workers before applying profit-sharing.

**Changing job-structure**

Another action retail firms are considering is restructuring the way they have designed the job. The Australian workforce has been historically known to have a large and growing portion of casual workers\(^87\) \(^88\), which is even larger for retail (Figure 4).

![Figure 4: Percentage of part time and casual labour](image)

Casual workers are higher in proportion in retail due to the advantage of earning 25% more per hour over full-time workers\(^89\). This is not ideal for retail firms since they are essentially sacrificing profitability to have workers who are not as motivated as full-time workers\(^90\). Due to the nature of the business, retail firms do need a large portion of casual workforce that offers flexible working hours and availability\(^91\).

However, retail firms must assess realistically how much they can increase the portion of full-time workforce\(^13\) \(^92\).

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92 Marks, G. (2006). The transition to full-time work of young people who do not go to university.
Discussion & Implication: The intrinsic factors behind retail workforce motivation

While different retail organizations are considering a number of tools to motivate their workforce, they must first understand what intrinsic factors impact retail workers’ motivation. Scholars have identified two such interconnected factors:

- Employee engagement: How dedicated the employees are
- Employee Aspiration: How driven the employees are to grow in their jobs

For both of the factors employees’ confidence in their capabilities and priorities is quite important, which vary quite a bit with age. This is quite relevant for retail workforce where age-gap is higher than expected among managers and sales assistants (Figure 5).

![Figure 5: Age demographics of retail workers vs. total Australian workforce](image)

A study focusing on these differences published in the *Journal of Organizational Behaviour*, found 4 factors that varies with age:

1. Recognition and guidance from supervisor/organization
2. Schedule-satisfaction
3. Career Development

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95 Australian Bureau of Statistics. (2013). *4228.0 - Programme for the International Assessment of Adult Competencies*. Australia
4. Job-Clarity

In terms of job-satisfaction, the younger workers scored higher in career development, while older workers scored higher in job-clarity and schedule-satisfaction. However, all workers scored significantly high in terms of recognition and guidance, which, as the study concludes, is vital in achieving loyalty and engagement\textsuperscript{96 97}.

However, retail firms have a gap in understanding the kind of guidance the workforce needs from them. National Retail Association (NRA), in one of their studies found that about 84% of retail businesses believe that their retail workforce is fully capable of conducting their jobs, which is not the case in reality\textsuperscript{5}. This gap is a barrier to engaging with the retail workforce.


Retail firms are considering a few tools to motivate their workforce (profit-sharing, shift from casual to full-time employment etc.). However, they are not sure about why the workforce is not motivated and how the motivational tools can be effective, which is a very fundamental problem businesses quite often find themselves trapped into\textsuperscript{98}. Figure 6 provides a recommended model providing answers to these questions:


The first step in working towards a solution should be to engage the retail workforce in training and development focused on career development⁹⁹:

⁹⁹ Kazis, R. & Molina, F. (2016). Exploring Middle-Skill Training Programs for Employment in the Retail Industry. MDRC, USA
• Quarterly sessions with product specialists and suppliers on new products introduced on shelf over the last quarter
• Sessions with experienced retail managers on how to direct and manage customers
• Optional training-modules that are linked with career development

The next step should be to engage the workforce with the business – making them realise the difference they are making.²⁵

With the workforce more driven for a long-term career, the next step should be to increase the portion of the full-time workforce as much as possible, which would help reprioritise their expenditure more effectively. A good start could be looking at departments that do not require flexibility in terms of working hours, such as, store-cleaning, stock-management etc.

The next step should be to start a two-way communication of how satisfied the retail workers are with their schedules to come to a schedule that improves the job-satisfaction of experienced workers.

Lastly, the retailers should employ profit-sharing, which the workforce can be motivated by as they are confident in their capabilities and satisfied with their expectations.

**Conclusion: Way Forward**

With the economic conditions making it hard to extract growth in both businesses and purchasing-power, it is a time to change how businesses view their workers and understand the requirement of employee-engagement. A good place to start is retail due to its contribution to the workforce, wider age-diversity and large portion of casual workers. Through engagement with training and development, the retail sector can prove itself to be a benchmark for making the workforce an asset for business growth on the back of the current stagnating economy.
TOPIC 2: INNOVATION IN THE AUSTRALIAN RETAIL INDUSTRY

JOE BERRY AUSTRALIAN RETAIL INDUSTRY EXECUTIVE AWARDS

ESSAY SUBMISSION 2017

TOPIC 2
INNOVATION IN THE AUSTRALIAN RETAIL INDUSTRY

QUESTION
WHAT TYPE OF INNOVATION PROVIDES THE HIGHEST RETURNS TO BOTH THE RETAILER AND SUPPLIER. EXAMINE ALL ELEMENTS OF THE VALUE CHAIN IN YOUR RESPONSE AND INVESTIGATE THE OWNERSHIP OF INNOVATION RISK.

Entry Number: JB-17-079

Name: Hattie Crawshaw (Cooper)

Employed by: Campari Australia

Industry Experience: 6 years

Word Count: 2,505
Executive Summary

Innovation, invention, transformation, revolution – businesses strive for it yet research shows less than half-a-percent of launches in the Australian grocery sector are considered ‘breakthrough’, by failing to achieve relevance, endurance or distinction among competition. This essay provides an analysis on the types of innovation that offer the highest returns to the retailer and supplier. While innovation is applicable and valuable to all areas of the business model, the following essay examines the importance and responsibilities of four key stakeholder groups: Consumers, Shoppers, Retailers and Suppliers. This essay investigates the ownership of risk and barriers to innovation and how they can be overcome. A checklist is put forward as a recommended tool to align retailers and suppliers on key priorities when innovating. The discussion highlights the importance of collaboration and the Innovation Collaboration model is introduced as a way to assist retailers and suppliers to work together in implementing successful and exclusive innovations. The paper concludes with a review on the areas of innovation that have a balance of benefits for all parties.

Introduction

In a low-growth market such as Australia, innovation is key for retailer and supplier profitability and longevity. Economic development is changing the balance between retailers, suppliers and consumers. Advancements in technology means shoppers consumers have increasing choices with product substitutes and low-cost alternatives becoming more widely available. These changes highlight the need for businesses to capture value in new product development and innovation while building sustainable competitive advantage.

For innovation to succeed it should provide benefits to four key stakeholder groups (fig 1). Consumers, Shoppers, Retailers and Suppliers all want to be rewarded with solutions or profits. Understanding each group’s needs and developing a successful value-chain model will provide a higher chance of driving category growth, delivering profitability and product longevity. Retailers and suppliers have an opportunity to work closely and play specific roles in mutually beneficial innovation relationships. Innovation should meet all stakeholder needs, sitting in the centre of fig 1.

Figure 1: Relationship between key Stakeholders
Understanding the Shopper and the Consumer

A shopper is an individual who visits a retail store and makes purchase choices but is not always the end-user whereas a consumer is the person who experiences the product and brand. A mother as a shopper wants a convenient healthy snack for a child’s lunch-box however the child as the consumer wants something delicious, exciting, and easy-to-open. The shopper and consumer may have a different needs set and both should be considered. Pouches are a packaging innovation (fig.2) applied to different categories such as yoghurt, fruit, baby food and cocktail mixes. Pouch innovations meet shopper and consumer needs by delivering convenience, ease-of-use, safety, reseal-ability and shelf life.

Answering shopper and consumer needs results in benefits for all stakeholders. Suppliers and retailers can increase returns with the introduction of pouches through premium pricing as well as gaining storage and transportation efficiencies with reduced weights and space requirements. Innovation that provides a solution to a circumstance offers the highest returns to retailer and supplier. Understanding the purchase and consumption occasion is key. Insights into the consumer fuel initiatives where marketers and innovators can challenge habits and learn about new product opportunities.

Figure 2: Pouch packaging innovation

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An innovation might deliver to a consumer need but how do suppliers ensure it reaches the consumer and encourage repeat-purchase? Retailers should be experts on their shoppers, suppliers should be experts on their consumers and insights must be shared collaboratively. Clear insightful feedback can lead to successful innovation.

Figure 3: Insight and Feedback Information Flow

Reyland describes this as Adjunct Innovation; a mind-set shifted from Closed and Open Innovation to formatting an innovation-ecosystem drawing on external and internal parties, such as consumers, to deliver successful ideas to market collaboratively.

Figure 4: Evolution of Approaches to Innovation

Reyland states, "If our customers bring us the solutions and ask us to sell them back those solutions in the form of products, we win". Businesses can understand needs and wants by monitoring and localising global trends but direct demand-driven insights and consumer feedback helps businesses prioritise initiatives. Gaining insight on the desired outcome that shoppers and consumers are seeking through collaboration will direct innovative solutions.

In summary, adjunct innovation suggests retailers and suppliers must increase trust, rely on stakeholder feedback and move towards collaborative cultures. Suppliers and retailers

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acknowledging their roles and responsibilities and identifying needs and limitations can lead to easier collaboration.

**Supplier responsibility in achieving innovation**

Gathering knowledge from the target consumer is the responsibility of the supplier. Coca-Cola realised a demand for convenient and healthier alternatives to soft drinks and innovated with bottled water to provide consumers a product solution. 103

![Figure 5: Australian Grocery Scan Data: Soft Drinks vs. Water 2012 - 2016](https://www.coca-cola.com.au/)

A2 Milk markets a ‘better-for-you’ product in a highly-commoditized category. A2 offers functional benefits, commanding a premium price while driving category growth.

Suppliers must work to understand consumer needs and offer solutions. Heinz ‘Dip & Squeeze’104 offers consumers dual functionality with convenience and an ability to increase consumption. This innovation focuses purely on fulfilling a consumer need resulting in a pull demand strategy. Suppliers and retailers should work collaboratively to utilize consumer and shopper data to fuel innovation.

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While retailers are calling for innovation, suppliers often turn down opportunities to partner with retailers on implementing new product development. Smaller channels such as Global Travel Retail or Petrol and Convenience provide a market to launch and trial new products with lower risk. Volumes in these channels don’t provide economies of scale to suppliers and often the returns cannot justify the investment and businesses stall. Focus shifts to larger channels providing volume and growth. Within Australia’s salty snacks category smaller packs are in market-wide decline as shopper’s trade-up within the major supermarket chains to purchase larger discounted packs. This leads to increased innovation risk, as suppliers must innovate on a larger scale. One way to help manage risk is to trial and test innovation in smaller more profitable channels and, if successful, followed by a rollout to larger chains.

**Retailer responsibility in achieving innovation**

Profitability is often a retailer’s top driver for implementing new innovations. This may be driven by the need to lift shopper numbers or gain market share however the end result of profit is a key success factor for business sustainability. To deliver profit retailers must truly understand shopper needs.

Understanding the shopper objectives and path-to-purchase helps innovators determine ways to make it easier for shoppers to complete their mission. Product features, such as

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packaging design, are potential decision-influencers at shelf. Masterfoods easy-pour salt and pepper products provide point-of-difference to competitors. Determining how unique an innovation might be can be achieved through gaining knowledge on competitors set at shelf.

The introduction of value-model retailers such as Aldi and Costco, the expansion of retailers into new geographic areas and channels and technological improvements in manufacturing add to the increasingly competitive environment in which retailers work. Retailers can respond by reducing prices or rise to the challenge and launch new and innovative products. Those that fail to react quickly and create a point-of-difference, such as Aldi and Costco, will be left behind.

Costco offers an innovative business model with value-pricing and limited offerings creating a sense of urgency and value for shoppers. Costco collaborates closely with suppliers and uses co-branded exclusive products to meet shopper needs while delivering objectives for the retailer and supplier.

**A Checklist for Innovation**

The ‘SILOED’ model illustrated offers a checklist to understand which innovations will succeed in providing profit to the retailer and supplier. This checklist can be utilised in new product development to determine viability of new products and innovations.

| ✓ Simplicity | Reduces (or does not add) complexity through the supply chain |
| ✓ Incremental | Provides additional margin/volume/sales/value and is not a substitute-product |
| ✓ Loyalty | Drives on-going participation and/or spend and is important to the consumer |
| ✓ Occasion | Better meets existing occasions or provides opportunity for new occasions |
Meeting these criteria is not always easy or possible. The purpose of the checklist is to highlight factors that are important to successful innovation in a way that is easy to communicate and implement across business teams, while delivering competitive advantage. Innovation should strive to meet these principles and can be sought from any part of the value-chain, such as product design.

A key trend in product design has been pack-size, providing simplicity through supply chain and offering opportunities to drive incremental growth by targeting different channels and usage occasions. Portion-control packs target immediate consumption and deliver to a consumer need for convenience and health. Globally, 27% of consumers rate portion-control as very important when making purchase decisions. Suppliers have utilised this trend in the breakfast category with ‘on-the-go’ products like Sanitarium Up & Go and BelVita Breakfast Biscuits. New pack-formats and size variety allows for incremental growth through new usage occasions and attracting new consumers.

Figure 7: Pack formats in the breakfast category

While ‘breakthrough’ innovations are exciting and hold potential for future growth, ‘small’ innovations such as range-extensions, flavour-rotations or product flanking are a low-risk strategy to generating revenue, maintaining market share and enabling businesses to support investment in bigger innovations. Innovation does not need to be brand new; it could be new to a market or industry. Value comes from utilising equity of successful brands where existing respect and recognition makes entering new categories easier.

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Technology can be used to deliver innovation, such as the use of QR-codes to connect with shoppers and answer consumer needs.

In summary, the checklist offers a guide of critical success factors. Results can stem from diverse areas of the business value-chain, such as procurement of materials, superior marketing activity or product design. Clear and consistent strategies must be communicated company-wide to build mutual understanding, reduce wasted time and resources, drive group collaboration and allow for a targeted approach to innovation.

**Overcoming Barriers to innovation through Collaboration**

Australia’s Innovation System Report found 16% of Australian businesses have a high-performance innovation-culture. More than a third have a “siloed” innovation culture where businesses are not outwardly orientated.  

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*Figure 8: Innovation Culture Patterns Australia – Innovation Report 2015*
Investment requirements and a willingness to partner are two key barriers to innovation that need to be addressed as important frameworks for success. Retailers demand innovation but without it utilize private-label products and price levers to grow margins and fill market gaps. This is an alternative to partnering with existing suppliers to launch innovative products that expand the category and meet the needs of all stakeholders. By charging fees for new lines and requesting high levels of support for implementation, retailers don’t make it easy for suppliers to launch and drive profitable product development.

Collaborating through adjunct innovation, pooling resources, drawing on external networks such as consumers, universities or partnering with small suppliers can help diminish risk, overcome inconvenience of scale and financial barriers. The Innovation Collaboration Model is introduced to assist in overcoming these barriers. Development costs for new products can quickly erode returns and working collaboratively provides an alternative path to pursuing profit.

The model provides a timeline and visibility tool for suppliers and retailers to work on delivering exclusive innovations. Retailers and suppliers should utilise market-exclusivity as an incentive to collaborate on bringing innovation to life. Higher prices can be charged to the shopper during an agreed period of exclusivity to help recoup initial costs and make a profit. Such strategies provide numerous benefits:

- Reduced risk
- Knowledge sharing
- Increased resources
- Established process
- Market differentiation
- Mutual buy-in
- Long-term focus
- Shared costs/profits

Collaboration offers significant benefits but requires a high-level of trust and a change in ways of working. If well managed, this process can produce innovative exclusive products that deliver profitable growth through reduced costs, speed-to-market, premium pricing and differentiation. Process and responsibilities must be clearly outlined in advance to avoid confusion and to achieve alignment on objectives.
### Innovation Collaboration Model – Timeline for Joint Planning

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Innovation can be achieved with collaboration through other areas of the value-chain, such as forecasting and inventory replenishment. Optimization improves service-levels and on-shelf availability. Utilizing technologies to align operational processes, IT systems and data creates value and efficiencies and higher returns for retailers and suppliers. Wal-Mart innovated through alternative areas of their value-chain with clever supply chain management.108 Synchronised supply chain schemes result in savings and provided the ability for Wal-Mart to offer consumers competitive prices. Collaborative financial agreements with contracts outlining innovation investment or cooperating on implementing a profit-sharing model are alternative ways to overcome barriers to innovation costs.

The continuing growth of online retail cannot be ignored as technology creates new ways for businesses to reach consumers. Online retail is the fastest growing innovation meeting shopper expectations and provides an alternative to traditional retail but accounts for only 2% of total grocery sales in Australia109 with strong growth predicted. The opportunity presented below (fig.9) demonstrates substantial growth-potential for grocery retailers and suppliers to tap into.

![Figure 9: Online Grocery E-Commerce Opportunity Nielsen](image)

**Figure 9: Online Grocery E-Commerce Opportunity Nielsen**

Overall many barriers to innovation can start to be resolved through collaboration. Whether it is achieved through profit sharing, joint planning or supply chain coordination, innovation comes over time with collective equity. Innovation and collaboration should not be mutually exclusive but should build on one another for shared positive results.

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Conclusion

Innovation is key to enabling future success but despite far-reaching developments in technology, data and insight, relatively little has changed in the consumer goods industry. This essay highlights potential to utilise this data collaboratively across all aspects of the value-chain to collaborate and provide the highest returns to both retailer and supplier. Businesses have opportunities to utilise available knowledge and get creative with product-design, idea-generation and e-commerce. What is needed is a new mind-set of collaboration and readiness to challenge traditional methods of product acquisition and expansion and to embrace alternative types of innovation.

Suppliers and retailers must respond to the low-growth economy, reduce reliance on pricing and increase investment in product development and efficiency-gains to aid growth. Increasingly competitive business environments are encouraging businesses on to become innovative. The industry should use its access to technology to improve efficiencies and profitability collectively. Building an innovation-ecosystem through collaboration will help provide lasting competitive advantage through new product volume and variety.

Industries face similar obstacles to innovation and strategies can be applied broadly. However, each company’s available resources and capabilities vary and in reality, innovation challenges differ from firm to firm. No one set of principles will provide a solution to getting it right and when failure is experienced there should be more motivation to create new pathways to innovate. Progressive retailers are open to exploring technology to increase revenue and decrease costs within the value-chains. This is increasingly urgent in markets where suppliers and retailers offer the same product range with range rationalization and more competitive retailing making switching easier. We have never had the benefit of better innovation knowledge or better innovation tools than we do today, and we need to put them all to work right now.110

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Q. What are the key trends globally and locally that are driving retailers to review their current store formats? What do you see as the key success factors for a small format store? What are the potential impacts on large format retail stores?

Entrant Number: JB-17-144

Brooke Shearer

Employed by: API

Location: Camberwell

Length of time employed in the industry: 12 years

Word Count: 2,377
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Executive Summary

The shift away from the traditional format strategy is shaping the retail industry. Retailers are therefore identifying and incorporating optimal success opportunities and competitive trends into their small-format plans.

The purpose of this essay is to provide and explore trends encouraging retailers to incorporate smaller format models into their business. It will outline the extent of the shift and explain the following three key trends currently motivating retailers;

- High-Density Living
- Personalised Shopping
- Quick and Easy Shopping

The key success factors of small-format models will be discussed, along with the current and potential impacts on large-format stores and the retail industry. This paper will conclude with how retailers will be responding to these trends in future, highlighting the importance of optimising consumer and supply chain relationships.
Introduction

Over the past decade, the traditional retail trade model has changed. The idea that bigger-is-better in store format shopping is shifting. While larger stores still contribute to 51% of global sales, some smaller channels are growing 8 times as fast. Initially large-format stores were considered by retailers as a way of building greater market share. More recently, customer shopping behaviours have created a preference for a simpler store, forcing retailers in many sectors to develop their smaller store footprint.

Lifestyle and consumption habits are changing. In Nielsen’s Global Retail-Growth Strategies Survey, 46% of shoppers surveyed in North America try to spend as little time as possible grocery shopping, and just above half believe their grocer understands their preferences and requirements. We are also seeing an increase in shopping frequency. Today’s busy consumer is buying groceries an average of 2.5 times a week for fresh food, focusing on selected products and shopping in easier-to-navigate stores.

Understanding and incorporating consumer trends into store format strategies will prove beneficial for retailers, in the changing environment. Strengthening the customer relationship and integrating improvements in supply chain and technology will assist in the successful implementation.

High-Density Living

Globally we have seen an increase in high-density living, primarily in inner-city locations. Cost of living, easy access to public transport, amenities, and convenience are some of the reasons for this trend. This has resulted in Department stores and Supermarkets incorporating new small-format strategies into these areas.

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114 Ibid.


In the United States, inner-city living has increased by 12.2% from 2000 to 2010, versus a 9.7% overall growth in population.\(^\text{117}\) This equates to reduced living spaces requiring more frequent shopping. The urban consumer therefore needs closely located, customised, convenience stores to pick up what they require on a regular basis.

Target America has responded to the trend and as at September 2016, had opened 23 neighbourhood stores at 50,000-square foot or smaller.\(^\text{118}\) They also endeavour to open more than double this number by the end of 2017.\(^\text{119}\) Target's focus is to ensure each individual store is customised to the local demographic.\(^\text{120}\) For example, their double-storey 45,000-square foot Tribeca store is located near the Financial District.\(^\text{121}\) (Figure 1). There is a big focus on apparel, a tailored selection of home goods for New York City residents, and grab-and-go meal options.\(^\text{122}\)

(Figure 1): Target small urban store in Tribeca, New York.

Source: [https://corporate.target.com/about/shopping-experience/New-York-market](https://corporate.target.com/about/shopping-experience/New-York-market)

\(^\text{117} \)Ibid.
\(^\text{119} \)Ibid.
\(^\text{121} \)Ibid.
\(^\text{122} \)Ibid.
UK retailers are also developing in inner-city areas. The convenient food–to–go mission is growing in popularity. Research conducted by IGD predicts the market worth will rise from 16.1 billion pounds to 21.7 billion by 2021.\(^\text{123}\)

To provide optimum ranging, retailers are focusing on the times of the day food-to-go customer’s shop.\(^\text{124}\) In a survey of 2,000 shoppers, 28% are buying breakfast, and 70% are buying lunch on-the-go.\(^\text{125}\) Not only do 20% of shoppers purchase lunch on-the-go more than twice a week, there has been an increase in frequency across all convenience shopping.\(^\text{126}\) Research conducted by IGD shopper-insights has found consumer’s grocery shop 26 times a month on average, not considering food-to-go shopping.\(^\text{127}\) This shows huge opportunities for retailers to develop in this area.

Aldi’s city format stores, in the UK, have developed their food-to-go options focusing on lunchtime, when consumers are most often shopping. Aldi have also created and included their own private label sushi food line, 2GO! (Figure 2).\(^\text{128}\)

(Figure 2): Aldi’s UK Food-To-Go city locations.


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\(^\text{125}\) Ibid.

\(^\text{126}\) Ibid.


This global trend is also evident in Australia with residents favouring apartment and townhouse living in the CBD and surrounding suburbs. In 2015, approved apartment developments had risen to 46% from 32% in 2005.\(^{129}\) Melbourne has seen the most growth, with 70% of apartment construction in the Metropolitan area, and 25% of this in the inner-city.\(^{130}\) 7-Eleven and Woolworths Metro have reacted to this trend recently launching their new urban store structures.

In Melbourne 7-Eleven (Figure 3), has opened its new format store in the CBD. Their focus is on food-to-go ranges, for the shopper short on time.\(^{131}\) Woolworths recently opened its smallest Metro store at 310-square metres in Sydney's CBD (Figure 2).\(^{132}\) The stores focus is being a convenient choice for the local busy worker, providing food on-the-go for every meal of the day. The store also provides a limited range of essential items for consumers to buy goods as needed.\(^{133}\)

These retailers have developed their small footprint considering consumer needs and requirements. They have developed in convenient locations, understanding, and providing tailored ranges for the busy local consumer.


\(^{130}\) Ibid.


\(^{133}\) Ibid.
Personalised Shopping

Department store sales are declining; purely relying on catalogue and instore sales to generate revenue is no longer sustainable. Consumer priorities have changed; they are willing to spend a little more to get a unique experience with good customer service.

Shoppers want specialty stores with knowledgeable staff with whom they can make a connection. Developing a deeper understanding of their consumer’s style preferences, interests, and shopping habits will greatly assist in tailoring individual recommendations and therefore strengthening the relationship with their shoppers. Specialty retailers are providing experienced, knowledgeable staff, in an intimate, personalised setting, that department stores lack.

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(Figure 4): Woolworths Metro in York Street, Sydney. Source: https://www.commercialrealestate.com.au/news/woolworths-takes-convenience-stores/
One-on-One Services
David Jones recently opened its first small-format store in Sydney’s CBD. The two story, 1396-square metre store focuses on the individual customer providing one-on-one services through salon and nail appointments and personalised shopping.\textsuperscript{137}

CEO John Dixon has highlighted the importance of providing an amazing overall VIP shopping experience.\textsuperscript{138} The boutique is focusing on providing world class curated services.\textsuperscript{139} Customers make an appointment with one of their specialised staff in their luxury suites to help tailor their designer outfit.

Trend shows shoppers are paying for experiences. Smaller format stores generate a more personable atmosphere where trained, experienced staff are available to focus on each shopper’s individual needs.

(Figure 5): David Jones’ Sydney Boutique.

Completely Customised Goods
Lowe’s has opened a 38,000-square foot store in Chelsea, America. This centre provides mass customisation services to its customers.\textsuperscript{140}

\textsuperscript{138} Ibid.
\textsuperscript{139} Ibid.
Lowe’s new format store aims to raise the bar and exceed customer expectations. They are achieving this by offering the consumer complete creative control and self-expression in every step of their shopping journey. They are using innovative 3D scanning and printing services to allow the customer to completely personalise their living space. With the assistance of software specialist’s, customers can personalise cabinets, clothing, vases, storage units and more.

The smaller format allows customers to feel confident in their creative process, knowing that specialists are focusing on each individual shopper.

(Figure 6): Lowe’s Chelsea store providing complete customised services.
Source: [https://www.lowesbespokedesigns.com/](https://www.lowesbespokedesigns.com/)

**Quick and Easy Shopping**

Consumers want what they want right now. There is a growing trend for immediate satisfaction. Innovative technological advancements are not only transforming the end-to-end shopping experience; they are also providing opportunities for retailers to downsize. These smaller formats accommodate for customers who can’t get to the larger sites.

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142 Ibid.
Click-and-Collect

The Click-and-Collect service allows customers to purchase goods online and pick them up in-store when it's convenient for them. This saves the customer time shopping in-store and waiting in-line for service. This service has proven successful for Ikea within their newer smaller sized stores. Ikea opened 19 click-and-collect stores within the fiscal year of 2016. The average size is 20,000-square feet, just under half of their larger sized stores. In the same period parent Ikea Group reported a 30% increase in e-commerce sales.

Incorporating this service into smaller stores allows retailers to take advantage of reduced real estate space. Ikea’s stores are quite large and don’t suit all locations, like small towns. Click-and-collect offers an innovative way of developing their small footprint, enabling greater consumer reach, while still offering the complete range of products.

Ikea’s click-and-collect stores source their goods from their larger sites. The promise of fast delivery puts pressure on supply chain. Therefore, logistics management is vital for the effective and accurate delivery of goods.

(Figure 7): Ikea’s Norwich Click-and-Collect Small Format Store.


145 Ibid.
146 Ibid.
No More Lines

Shoppers don’t want long queues; our busy lifestyles create the need for fast, hassle free shopping. Online retail giant Amazon has therefore revealed its next generation small-format store called Amazon Go. The 1,800-square foot location in Seattle will open early 2017. Checkouts are eliminated completely by using a mobile app. The customer scans a QR-code which monitors items picked up off the shelves and charges their credit card when they leave.

The small sized store offers convenient, quick, on-the-go items, allowing the shopper to go in and out. There will be a reduction in customer frustrations, eliminate long-checkout lines, and malfunctioning self-checkout services.

These global trends will continue into 2017, creating more opportunities for retailers to increase their small footprint.

(Figure 5): Customer walking out of Amazon Go site in Seattle.


148 Ibid.

149 Ibid.
Success in Small Formats

Smaller sized stores have proven to be very successful when executed correctly.

Trend shows today’s shoppers are busy and require shopping on-the-go; convenience is therefore one reason for small-format success. Not only this, they are tailored to the local demographic, which creates greater relevance in the market. Small stores offer a range of cost savings including; a reduction in stock holdings, markdowns, and storage costs.\(^{150}\) Not only do they cost less to operate, they give retailers opportunities to develop in reduced real estate space, reaching more consumers.\(^{151}\)

Small-format stores can generate higher levels of profitability, as well as chain expansion and increased market share if executed correctly.\(^{152}\) They can allow for competitive pricing which larger formats might find difficult to compete with.\(^{153}\) The reduction in floor space creates a focus on providing the most lucrative ranges to generate the best possible return. Therefore, having the right product mix could increase foot-traffic, customer loyalty, stock turnover and return on space, while reducing costs of inventory on hand and cost of sales.\(^{154}\) A focus on the customer relationship while providing targeted ranges could create loyalty for their premium brands, which offer a higher margin.

While small-format models are growing in popularity and success, the full growth potential has not yet been reached. This creates opportunities for big-box retailers to develop and incorporate these models into their strategy and gain market share.

Impacts on Large Format Stores

Declining department store sales is expected to continue. Market share will continue to shift, with smaller stores matching, if not exceeding profits over larger retailers.\(^{155}\)


\(^{151}\) Ibid.


\(^{154}\) Ibid.

Potentially we could see retailers reducing their overall size across their store formats. This could create a more niche market. Understanding their customer is vital in the success of any business but imperative when refocusing, redefining, and assessing current business structures. Retailers will specialise and personalise goods and services for deeper consumer reach, while also providing knowledgeable and experienced staff to offer premium service. 156

While current small-format success does suggest larger retail stores should reassess their current strategies to remain competitive, department stores are not being completely abandoned. Department stores are still suitable and favoured in outer rural areas. 157 Not only this, larger stores allow retailers to stock and execute instore a greater variety of brands, offering the consumer greater choice.

Large format stores will not disappear but will become less relevant in the years to come. Incorporating smaller store sizes will provide the retailer with an overall optimal strategy.

**Impacts on Supply Chain**

The relationship with supply chain should not be neglected. Manufacturers, suppliers, and distribution centres will all be affected. Consideration must be taken at all levels to ensure there is complete support in retail model changes.

Orders will change for manufacturers and suppliers. Specialisation will see a reduction in orders for some lines and an increase in others. Total order costs could also change depending on the new tailored ranges.

Small-format stores will have a lack of storage space, potentially creating the need for multiple deliveries in a day. Distribution centres will need to find the most efficient, cost effective way to make these multiple deliveries. For instance, larger format stores will have fewer weekly deliveries with more density. Their deliveries will provide stock required to

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cover sales until the next order. However, a just-in-time approach will be considered for smaller stores requiring more deliveries. This means the stock will arrive just as the sale is about to occur. The retailer and their distribution centre will need to determine the most cost effective way to deliver the stock.

When evaluating and implementing change, alignment in strategy with all parties is extremely important and will assist in a smooth transition.

**Conclusion**

Implementing small-format models into business strategies will assistance in a company staying relevant in the changing markets. To be successful, trends must be identified, explored, and incorporated into small-format plans. The whole supply-chain will need to be considered including; consumer requirements, expectations, and habits. A collaborative relationship will ensure all affected parties are aligned and support the business’s future strategic plans.