

MEASURING THE TRUE CONTRIBUTION OF STORES IN A DIGITAL RETAIL WORLD





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Many retailers are failing to assess the true contribution their stores make as part of the multi-channel business model and customer journey, which in turn can result in poorly informed store closure programmes, resulting in sub-optimal formats and further decline.

Traditional measurement of store profitability tended to be much more straightforward. It required deducting costs from in-store sales and potentially adding an allocation for supplier contributions. Digital has completely transformed how retailers function, and a new way of thinking and operating is required that takes into account how stores support the full customer journey.

In some cases, it may be appropriate to consider stores as predominantly showrooms for products, with fulfilment either by home delivery or via a collection point. As well as helping the customer to make a more informed purchase, this approach would also assist in better understanding demand.

A new set of metrics and measurement of profitability is needed if store contribution is to be accurately assessed in this new digital retail world. This must include quantifying the traffic locally generated by stores to digital channels.

A STORE IS NO LONGER JUST A STORE

Many retailers are focussed on how to capitalise on physical and digital convergence in-store and what is required to support digitally enabled consumers. However, what is often overlooked is how these changes actually impact the way an individual store assess profitability. To do so, we believe it is necessary to consider the various customer missions a store can support and how the role of the store now fits in the wider multi-channel operations of retailing.

In this new retail digital world, we envisage several roles for stores:

1. Showrooms for a subset of the retailer's products:

- a. Retailers should offer assortments that compare with online specialists but do not need to hold an equivalent range in stock.
- b. The in-store experience must include the ability to build a basket of stocked and non-stocked products.
- c. Showcasing a product must include the physical look and feel of the item, augmented by any additional detail that can be accessed via digital means such as the customers' mobile phone or a staff member's digital device.
- d. Provide customers with a 'fluid' but deliberate customer journey and experience, where appropriate such as theatre, excitement, WOW! Try before you buy, touch and feel.

2. Means of paying for a basket of products:

- a. Payment for non-stocked products bought for later fulfilment.
- b. Payment for online orders by cash even if being delivered to a home.
- c. Up-selling and cross-selling at the time of payment via digital and store associates informed by digital.



- 3. A stocking location where a customer can:**
 - a. Buy a product from the shelf.
 - b. Remotely reserve a product physically in the store, for later collection or delivery to a location of their choice (including a different store).
- 4. A collection point where a customer can pick up orders.**
- 5. A returns point where a customer can return any product free of charge, even if it wasn't purchased or ranged in that store.**
- 6. A customer service centre where a customer can get the same level of information they can online or from the call centre.**
- 7. Means to build brand presence for online ordering. Most retailers report that online sales are higher in an area that has a physical store.**
- 8. Away of building a stronger relationship with a customer. Some customers will value stores even if they don't necessarily use them to transact, the presence of the store can increase customer loyalty and frequency of purchase.**

MEASURING STORE PROFITABILITY – A&M: A DIFFERENT APPROACH

The costs for an individual store can be quite easy to calculate based on stock, staff, real estate, facilities management etc. It is revenue that requires more detailed consideration and that should be based on the wider role of the store as part of the multi-channel journey. In the new retail digital world we should consider the following for stores in order to ensure a seamless multi-channel solution for all customers:

- 1. Sales credit for any online sales generated as a result of a customer's visit. There are a number of ways this can be calculated:**
 - a. Comparing online sales within a given radius of a store with a similar population centre without a store and allocating the difference to the store.
 - b. Crediting a store with any sales to a customer who has recently visited. In order to establish if a customer has visited store retailers can encourage digital engagement in-store; provide free Wi-Fi and/ or provide a mobile app for product information or price comparison.

- c. Identifying if a member of store staff has placed the order on a customer's behalf.
2. **Given the role of the store in showcasing products, retailers should consider whether suppliers should be more involved in ensuring the optimal showcasing of their product in-store in return for a greater financial contribution. A well-presented product could later be bought from an online specialist, resulting in value for the supplier but not the showcasing retailer.**
3. **In the digital retail world, customer information is vital in the personalisation of offers based on the lifetime value of that customer. Stores should be rewarded for any personal information captured, in the same way that data would be paid for externally.**
4. **A store should be given a credit for every product collected in-store. This way the store generates value as a pick-up point and it becomes possible to understand the economics for stores acting as collection points for other retailers as per the Argos – eBay or DPD Pickup offerings.**
5. **Customer action at any part of their journey in-store should be credited to the store, even if it does not fulfil the product. Doing so will take a cost from other parts of the business and increase customer loyalty. Examples include order queries, payments against delivery orders and processing returns.**
6. **The store should be given a credit for the lifetime value of any customer who visits more than once, as it is a contributing factor to the loyalty of this customer.**

7. **They should be acknowledged for their contribution to customer satisfaction; in particular, managers should be partly incentivised based on customer satisfaction.**

IN CONCLUSION – STORE PROFITABILITY IN THE DIGITAL RETAIL WORLD

Given the complexities in assessing an individual store's profitability, we believe that there is a huge benefit in retailers implementing new and robust processes to ensure their store estate is being optimised. In particular, having the right revenue and cost model for your store will enable you to answer:

- **Where should my stores be located?**
- **What mix of store formats should be deployed geographically, and how will the costs associated with excess space be addressed?**
- **How should I allocate space in my stores, not just for products but also for activities such as collection points, storage and dispatch, digital engagement and customer service?**
- **What resources do I need in-store?**
- **What central support do I need in stores?**
- **What does my supply chain need so it optimises the physical store activities?**

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