

THE RETAIL REVIVAL SERIES

SUCCEEDING WITH A STORE-LED STRATEGY

A STORE-LEVEL FOCUS CAN TRANSFORM RETAIL CHAINS FASTER AND YIELD REAL RESULTS

By Gavin Parker, John Bayliss, Bill Urda, Gavin Marley, and Kate Cormack

IAN MCLEOD SPENT HIS first day as managing director of Coles visiting the stores. Calling on the stores discreetly, without the knowledge of staff or his executive team, McLeod was able to see firsthand the challenges that the Australian grocery chain was facing. And his visits were a signal to the organization that the stores should come first and that the job of nonstore employees was to support the stores—not the other way around.

McLeod made other early changes to signal his commitment to the “store-led” approach. Coles’s headquarters was renamed the store support center, and management privileges such as reserved parking were eliminated. The new managing director set out to foster a culture in which all team members supported each other in their efforts to get things done.

McLeod stressed the importance of leadership, emphasizing that leaders should create and communicate a vision of the organization’s end goal. Early on, he sought feedback from store managers and Coles

executives on how things had been done previously, and he met with all store managers to articulate a consistent message of what was required to transform the retailer.

Tactically, he established weekly calls during which store managers provided his top team with prior-week performance reports—reports that the executives were expected to act on. Five years into his leadership, McLeod was still participating in those calls, highlighting their considerable importance. He also set up an e-mail hotline through which associates from stores could contact him to provide feedback that he would act on promptly and decisively.

Coles exemplifies one of the most successful grocery turnarounds of the last decade, and McLeod has been a fierce proponent of store-led change—initiatives that are designed to spur growth, not simply capture cost savings. This approach frees store managers to focus on customers, with senior managers held accountable for addressing the specific issues that prevent their store managers from running the most efficient operations.

A bottom-up approach is entirely appropriate for retailers that find themselves struggling to make meaningful performance gains. Unlike what's typical in many other industries, symptoms of subpar performance in retail are readily detectible by both retail experts and customers, and those customers are able to provide immediate feedback.

Of course, retail transformation is not simply a matter of “walking the store floor.” Although the physical demonstration of engagement is important, it is insufficient to effect lasting change. The Boston Consulting Group has found that big performance gains are possible when executives are ready and willing to drive an integrated store-first change program that fits within the existing business model: that is, there are no additional capex requirements and no major changes to infrastructure.

Significant Results Within Months

The results can be impressive. In BCG's work with retailers worldwide, we have seen noticeable increases in store traffic that have, in just a few months, translated into a 5 percent lift in like-for-like sales and consistent profitability. Customers will almost certainly see cleaner and tidier stores with neat, well-stocked shelves, up-to-date price tags, fresher fruit and vegetables, and cheerier, more helpful employees.

Such results can be seen in a large Asian retail chain that successfully piloted and rolled out new operating practices. Guided by a store-led initiative, the chain boosted sales per square foot by more than 14 percent inside nine months, and it showed a profit for the first time in five years. We have observed comparable results in Europe and North America. One large European grocer gained a full percentage point in market share in its hotly contested market within six months.

The essence of such change initiatives lies in the deliberate, choreographed coordination of three concepts that previously had been used only selectively, in isolation, or

outside the framework of a sustainable, system-wide change effort. Anchoring the effort is the “transformation SWAT team”—a carefully selected group whose job is to lead and embed sustainable change. Unlike typical change-management teams, these SWAT teams include high-potential middle managers who have a deep understanding of commercial and operational realities.

The second element is “stores of learning”—a small selection of representative stores that serve as centers of excellence. The goal is to rapidly pilot new operational and commercial practices, provide a visual look-and-feel trigger point to improve team culture, and to educate, inform, and excite senior store operators. The third element is fast rollout across the chain, spearheaded by the store operators themselves.

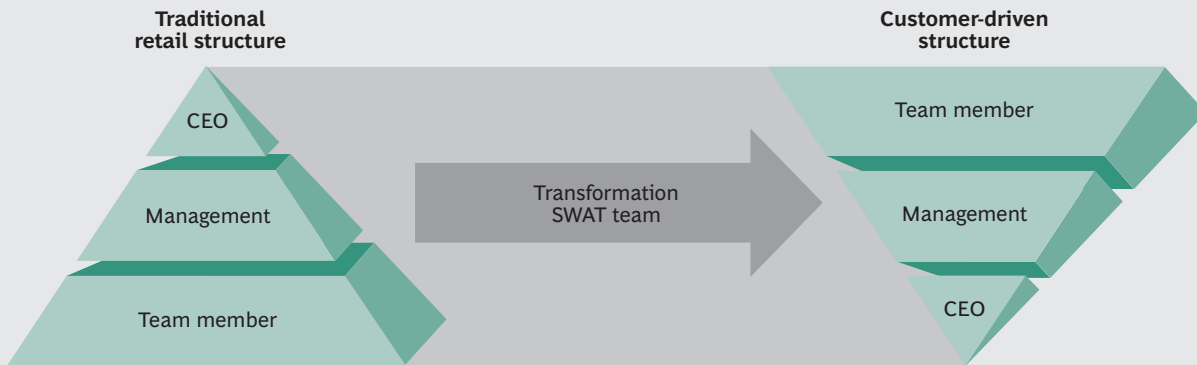
We'll examine each of those transformation levers after a brief look at the context of retail challenges today.

Inverting the Business Pyramid

Successful retail leaders are all “fluent in floor.” They can discuss, with authority, stockout rates in each store. They have a good sense of how customers are helped in stores. They're likely to have ridden in a supplier's truck, so they've seen how products are sorted, packed, and loaded at the distribution center—and how efficiently products are unloaded, unpacked and stocked at the stores.

That kind of store-led approach is needed to resuscitate grocery and mass-retail chains whose performance is sagging and that face tough online competition and upstart specialists. Yes, top-down approaches are entirely appropriate for macrostructure decisions—how many stores are needed in the region, say—but increasingly, executives need to be directly in touch with employees and shoppers. They need to see stockouts and untidy shelves for themselves and to understand the root causes of those problems. Put simply: it's necessary to turn the traditional business pyramid on its end. (See Exhibit 1.) This inverted model isn't simply about a change in operation;

EXHIBIT 1 | The Transformation SWAT Team Makes the Shift to a Customer-Driven Retail Structure



Source: BCG analysis.

it involves a new cultural paradigm that motivates employees to deliver results because they want to—not because they're told to.

Why Store-Led Change Is the Way to Go

Store-led change involves testing and fine-tuning a series of interventions in a select group of trial stores with an eye toward immediate impact. Senior managers can see the potential of the interventions and be confident that they will work. After that test phase, the interventions with the most impact are rolled out rapidly, in disciplined, systematic ways, to the whole chain. Each performance gain supports the funding of the next stage in the rollout, funding the transformation through its early stages and eliminating the need to “go back to the well” for financing.

Store-led change also means developing a cross-functional approach, improving and building capabilities for the long term. This approach enlists not only the executives from commercial and operational leadership but also the store managers, along with representatives from support functions such as finance, IT, and human resources.

The Three Cornerstones of Store-Led Change

Let's examine what makes this approach work well.

A transformation SWAT team must lead the necessary changes. This group's primary responsibility is to align the business structurally with the interface to the shopper; the SWAT team's charter makes it accountable for achieving that objective and for piloting the necessary commercial and operational processes. The team is the spark and the propulsive power behind the store-led transformation effort.

To explain what the SWAT team is and does, it helps to explain what it is *not*. It's not a group of “the usual suspects” from the executive team—talented but extremely busy leaders who would have to find time to lead the change initiative as yet another in a long list of projects. Instead, the SWAT team comprises motivated, proactive managers hand-picked for the duration of the change effort. It is critical that they be drawn from many operations and functions. Unlike many conventional top-down change teams, which often splinter quickly into functional hammers seeking nails, the SWAT team assumes and retains a function-agnostic stance that better serves the stores' needs.

The approach also means that the SWAT team members can bear down fully on the change tasks. It is the perfect crucible for learning and leadership development: top managers soon see which team members are set for stardom.

The team's members—high-potential middle managers, together with senior manag-

ers who are, in most cases, three levels below the CEO and are proxies for each top-management role—are tasked with selecting the test stores and deciding on the duration of the tests. Then, with input from the stores, the team develops a series of operational and commercial interventions that are designed to stimulate and sustain growth in sales and profitability. The team also liaises with the retailer’s regional and central teams to make sure that they are on board and to seek specific technical input and support as required.

It’s the SWAT team’s job to validate and approve the interventions using a proven business case or strong recommendation, and to design, develop, and secure approval of a detailed rollout proposal. The team also oversees the chain-wide implications of the program and remains accountable for the successful implementation of the transformation and for its financial success.

Stores of learning allow for safe experimentation. The stores-of-learning idea is essentially an incubator model in which a select few stores are designated as centers for experimentation and learning. With this approach, the proposed change levers—or interventions—are less likely to be caught in organizational treacle. This type of activity creates short-term value and provides the required funding for the more significant structural changes that will be needed to win in the medium term.

The fundamental concept isn’t brand-new, but it is new for retailers to run individual interventions in specific stores, measure the results, and then aggregate those results back in the stores of learning. And it is novel to ask the store teams to determine the priorities for change and to involve high-potential managers in the effort. Their involvement almost always accelerates the change effort.

We have identified four main categories of intervention that collectively make a difference.

- *A Winning Culture.* This intervention involves listening and learning from the

store teams, helping them by reducing unnecessary work, communicating clearly with recognition and rewards, clarifying accountability and expectations, and creating values that resonate with the store teams and can become part of their everyday jobs. Little things add up: the more that retailers make job duties and expectations crystal clear and consistent, the better. The more that pointless work is minimized, the better employees like it. And the more that they’re listened to—and their ideas acted upon—the more they’ll be vested in the life of “their” stores.

- *Customer-Focused Operations.* This intervention focuses on sales rather than waste, improves visibility of daily and weekly performance, prioritizes product availability, emphasizes cleanliness and queue reduction, and addresses labor scheduling. There is enormous potential here: these are the factors that shoppers notice right away. For instance, one grocery chain reduced the numbers of SKUs in some categories by as much as 30 percent and saw a 20 percent lift in category sales in some cases.
- *The Right Range at the Right Price.* Here, the emphasis is on opportunities to improve merchandising impact; upgrade the quality, freshness, and value of items in departments such as fruit and vegetables and bakery; make progress with price laddering or private-label initiatives; and strengthen and simplify promotions. Another retailer that followed a store-led approach cut its numbers of promotions by almost a third, boosting sales growth and store productivity.
- *A Differentiated Look and Feel.* The goals are for the stores to have open and welcoming entrances, clear sightlines and obvious navigation inside the store, legible communications about value and quality, well-planned category adjacencies, and effective macrospace allocation. At one retailer, a floor-up focus enabled the transformation team to quickly improve sight lines by

lowering shelf heights, using large signage to improve customer navigation, and placing categories in more logical sequences.

The stores-of-learning concept turns the whole organization—not just store operations but everything from merchandising, marketing, and supply chain to IT and HR—into a laboratory.

Rapid rollout has an immediate impact. To deliver top-line sales growth fast, the transformation project must transition rapidly from stores-of-learning pilot status to a scalable rollout across the whole chain. (See Exhibit 2.) Many of the interventions can be activated immediately, delivering quick impact on customer and team morale and yielding sales gains that range from 3 to 12 percent.

The reason why rapid rollout works so well is that it is led by the stores. It is common for retailers to feel that the process should be led by the organization’s center. However, we have consistently observed that a regionally dispersed model—in which stores of learning serve as “universities for change”—results in more accurate, consistent, and sustainable results precisely because it is operator led.

Some interventions are immediately scalable: with product availability, for example, simple interventions in store procedures and in accurate measurement give immediate results. In the case of one retailer, we saw a 1.5 percent improvement in shelf

availability. Other interventions require more fundamental organization design changes: for instance, promotional execution and supply-chain delivery windows can yield strong returns but only after several central functions have rejiggered their operational procedures.

Rollout has to be systematic, led by the stores’ operators and guided by a clearly communicated methodology. Two rollout techniques work well:

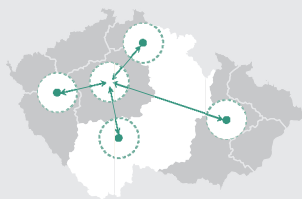
- Keeping the stores of learning close together so that results are seen and best practices can be shared and acted on quickly
- Enabling the first store of learning to support and train a carefully designated group of other stores—perhaps those served by the same distribution center or that are located in the same metropolitan area—so that the rollout requires a very light touch from headquarters

In turn, the first groups of stores that take part in the rollouts train the next groups of stores until the rollout is complete. Done right, the momentum of the rollout is palpable and energizing in itself.

NOW IS THE time to get back to the basics of retail—one store at a time. By tapping the energy, courage, and commitment of a transformation SWAT team—first, in the selected stores of learning—and mapping and rapidly implementing

EXHIBIT 2 | The Three Steps to a Store-Led Rollout

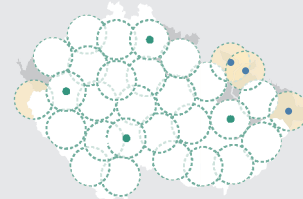
Interventions are piloted in the central “store of learning,” which then engages and trains new regions (one store per region)



Once impact has been established in the new stores, each in turn becomes the store of learning for its region



In the final rollout phase, all remaining regions are trained using the same approach



Source: BCG analysis.

rigorous rollout strategies, retailers can look forward to the kinds of performance gains that their shareholders have been expecting all along.

If they truly understand the business from the store level upward, retailers can more easily jump-start their transformations. A choreographed approach, featuring the coordination of the three store-led concepts

described in this article, is what is needed to deliver quick, positive impact, creating the breathing room—and generating the funding—needed to galvanize other crucial transformation initiatives.

This is the first in a series of three short articles on retail transformation from a store operations perspective.

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