Retail Network Strategies: Insight vs Intuition

PREPARED FOR
PINZ ANNUAL CONFERENCE

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Here Comes Costco…

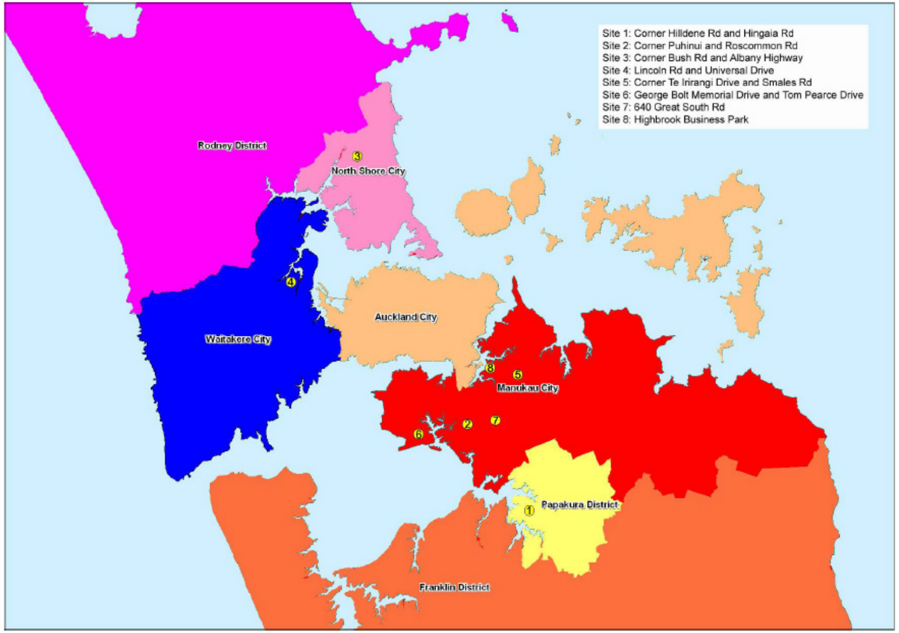
Source: Getty Images

… And Ikea…

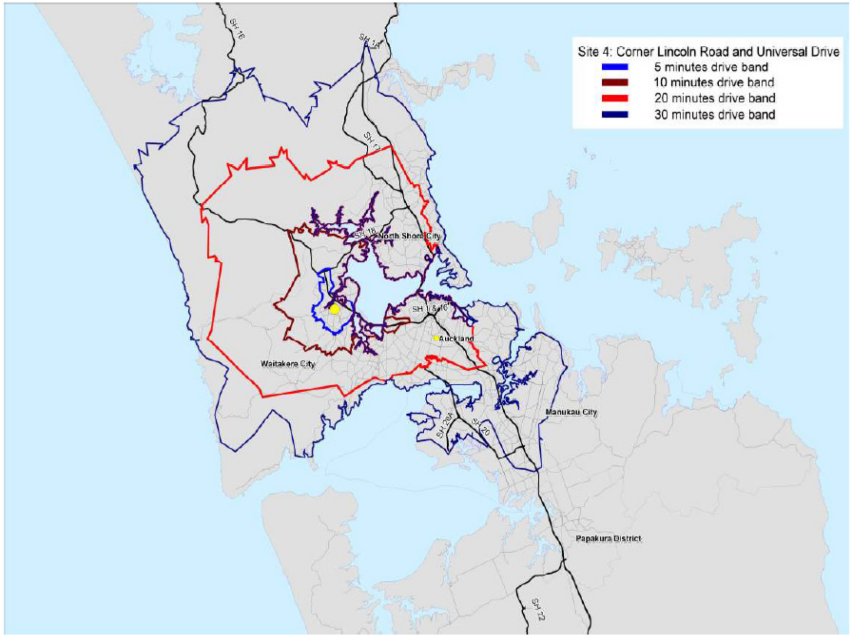
… And Nido?!

What are Mega Retailers Looking For?

Map1.1.1: Potential Location Areas by Territorial Authority



Map 4.4.1: Site 4's Location and Drive Time Bands



Major and Mini-Major Retailers (1,000 sqm+)

- Kmart is expanding, David Jones is opening their 2nd store. These ‘major’ retailers anchor shopping centres.
- Supermarkets, Bunnings, Mitre 10 often develop standalone stores.
- Most other retailers above 1,000 sqm go into LFR centres or shopping malls (H&M, Zara).

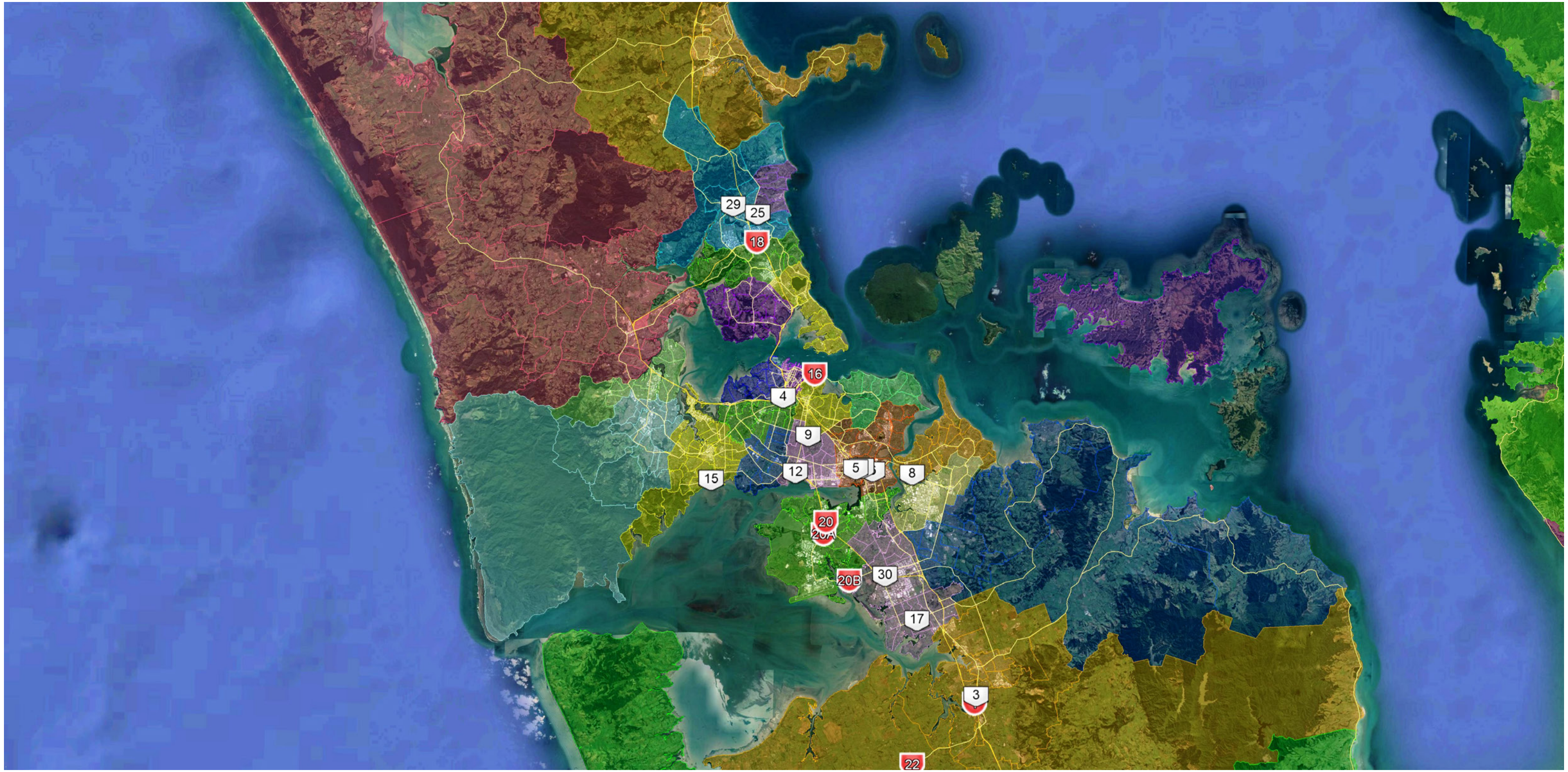
Capex and Risk

- Year 0: fitout cost in the $millions (landlord contributes?)
- Years 1-20: lease cost, also in the $millions
- How long before the store matures?
- How long to turn a profit, or to recoup capex?
- How many stores needed to achieve scale?
- How to balance bricks-and-mortar vs online investment?
- The danger of getting it wrong (FCO, Good Guys)

Smaller Retailers (<1,000 sqm)

- Bayleys in the NZ Herald: "global retail brands are… adopting a highly-sophisticated approach to understanding the local consumer base and optimising locations". Orangetheory, Krispy Kreme
- Auckland CBD: Superdry, Sephora, Tiffanys, Dangerfield
- Auckland Airport: Kate Spade, Victoria's Secret, Wondertree
- Sylvia Park: Mi, Miniso
- Westfield Newmarket: Archie Brothers Cirque Electriq, Coco Republic

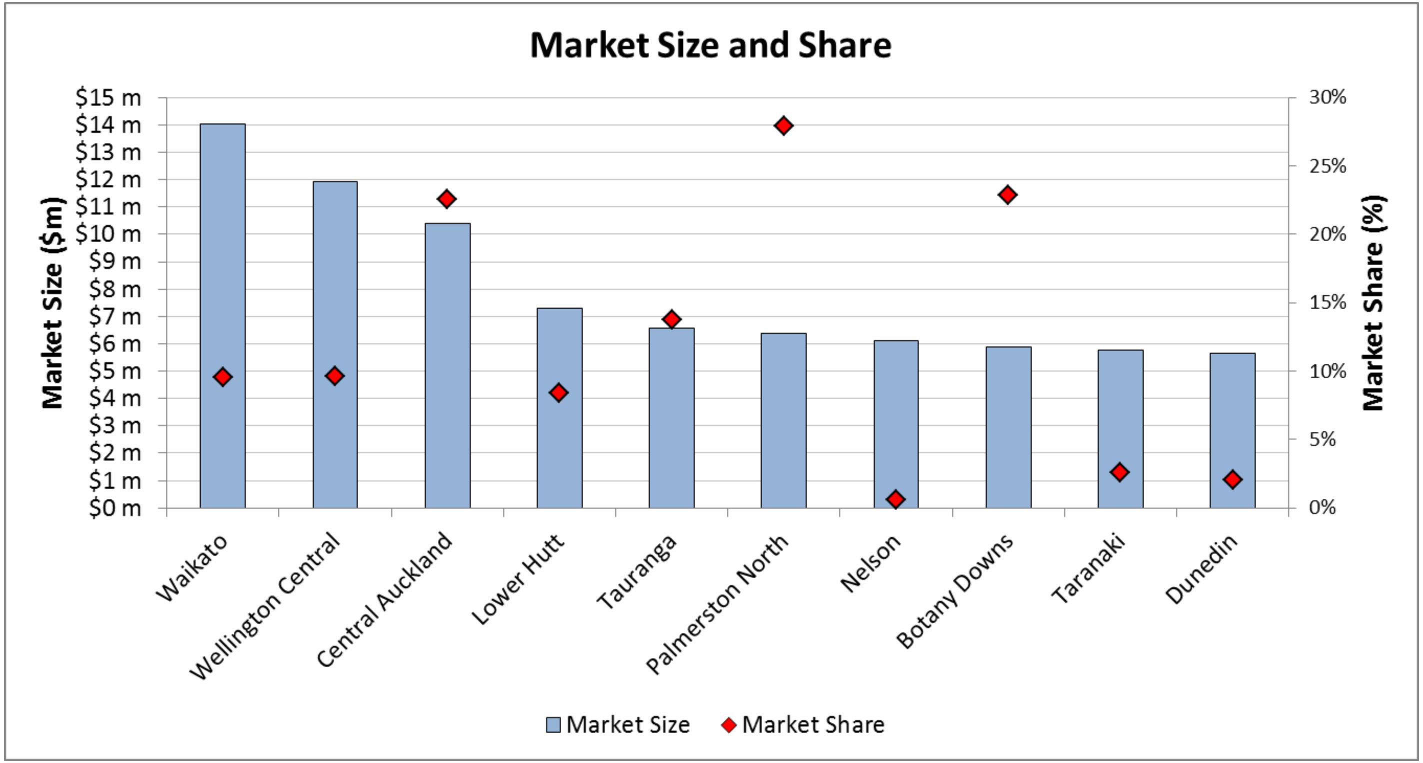
From Zero to Sixty (Catchments)



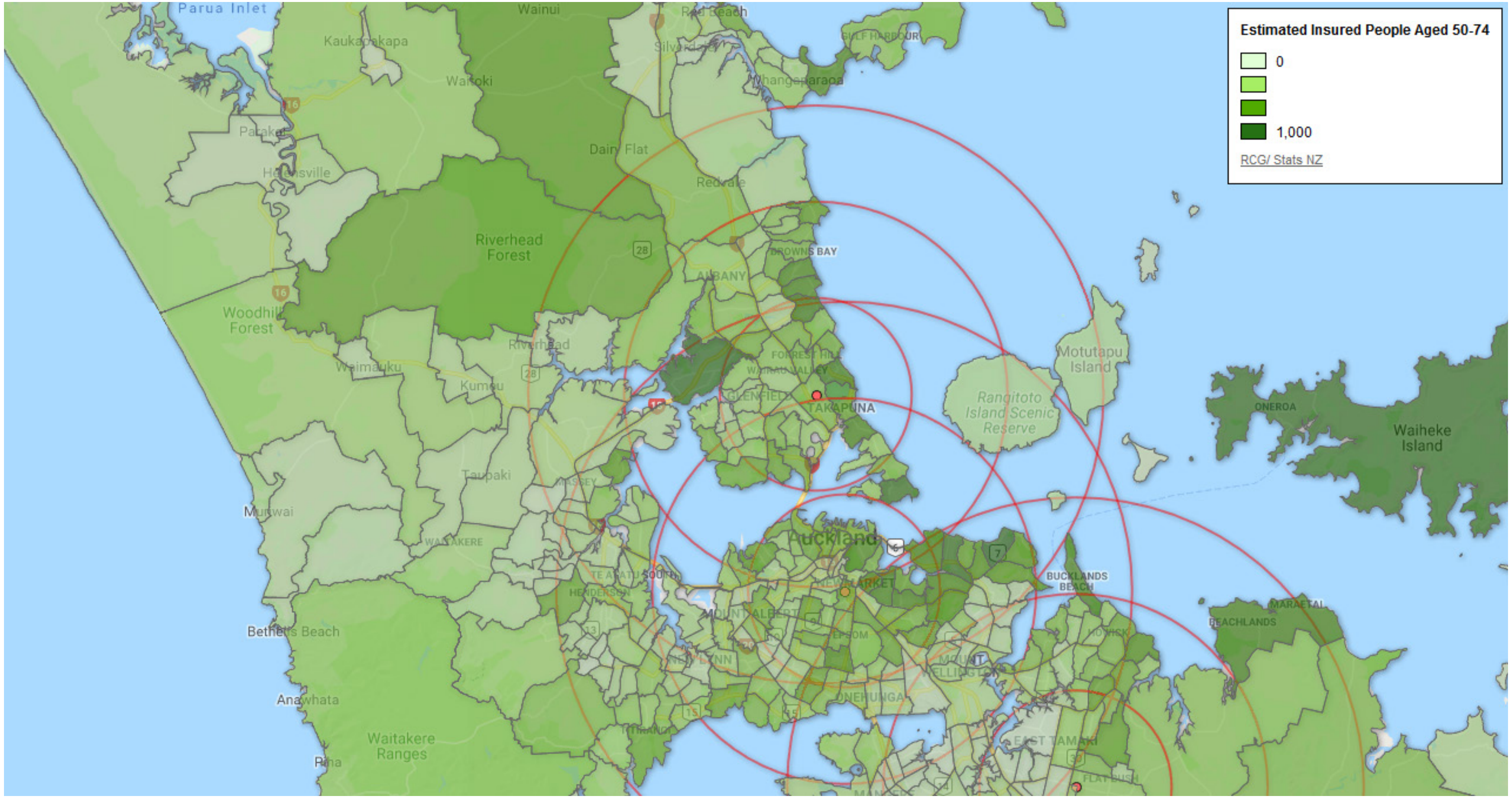
Collecting Data, and Key Metrics

- Define 20-100 catchments
- Analyse demographics, market info, competitors, key shopping destinations
- Key metrics: population size and growth, incomes
- Niche offerings: ‘insured’ population, local workforce, homeowners, investors…
- The “holy grail”: consistent foot traffic data, transparent rent/ incentives data, consistent store footprints, flagship vs local markets

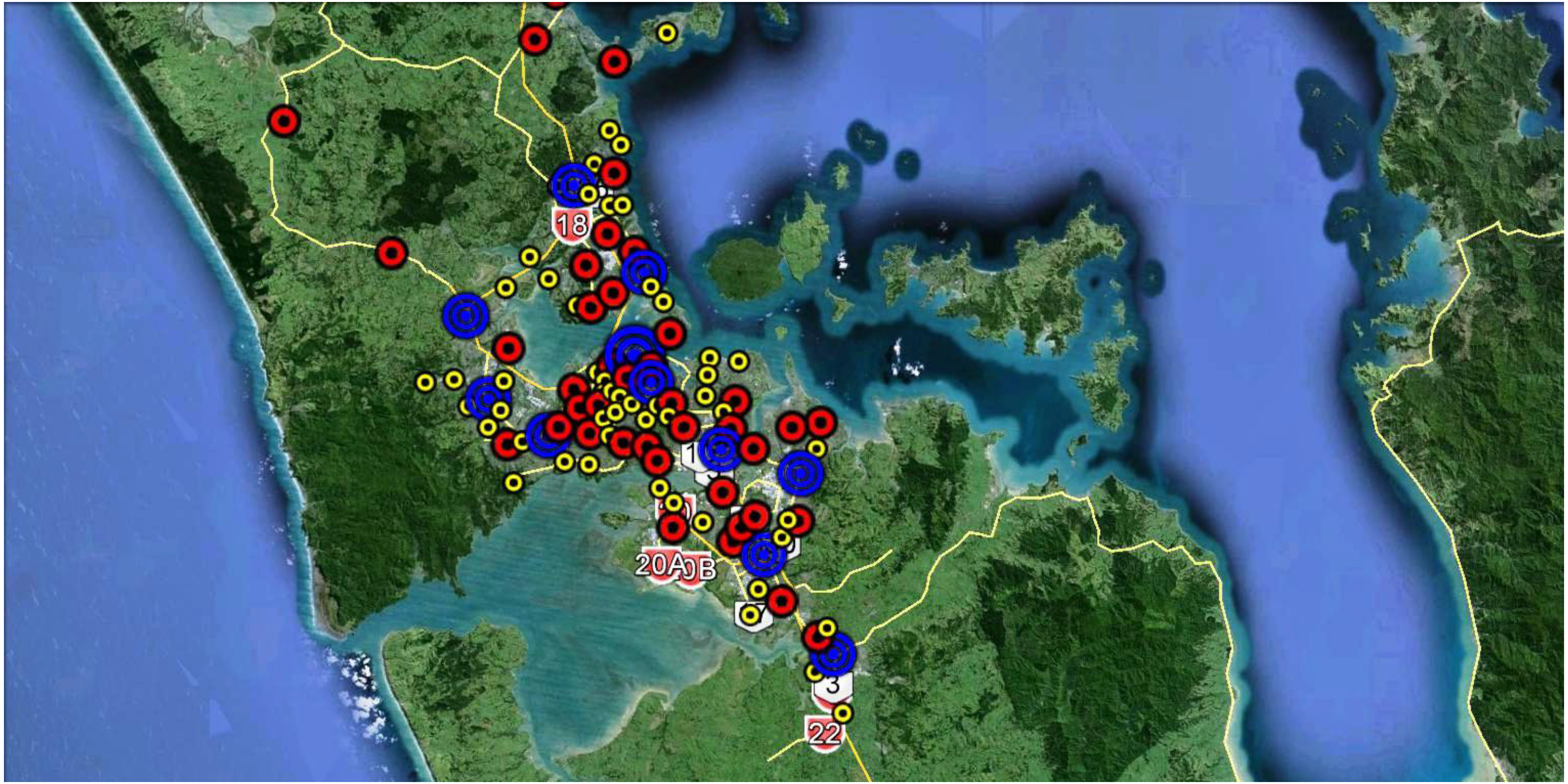
From Zero to Sixty (Market Information)



From Zero to Sixty (Key Metrics for ‘Niche’ Offerings)



From Zero to Sixty (Catchment Layering)



Emerging Data vs 'Tried and True' Metrics

New Store Rollout

- Prioritise catchments for expansion
- If a franchisor, expansion is less risky, but need partners across NZ. Define territories…
- If a centrally controlled brand, each new store is a major investment.
- Have to weigh up speed vs best location, resources, etc…

NZ Chains: Growing, Maturing or Consolidating?

- Lotto partners with almost 1,500 retailers
- NZ Post partners with 880 retailers
- Banks have 150-200 branches
- Supermarket brands have 100-150 stores
- Most other ‘NZ-wide brands’ have 20-100 stores.
- Expanding: food, lifestyle
- Mature/ tweaking/ infill: The Warehouse, Briscoe Group
- Shrinking: banks, entertainment media, independent fashion

NZ Chains: Where to Grow, or Consolidate?

- Growth opportunities: find the gaps, rank them
- Demographics, competition, growth prospects, site availability/ cost…
- Achieving scale in metro areas (e.g. Auckland)
- The largest markets aren’t always the most profitable!
- New stores vs reinvesting in existing ones? Relocating for operational efficiency?

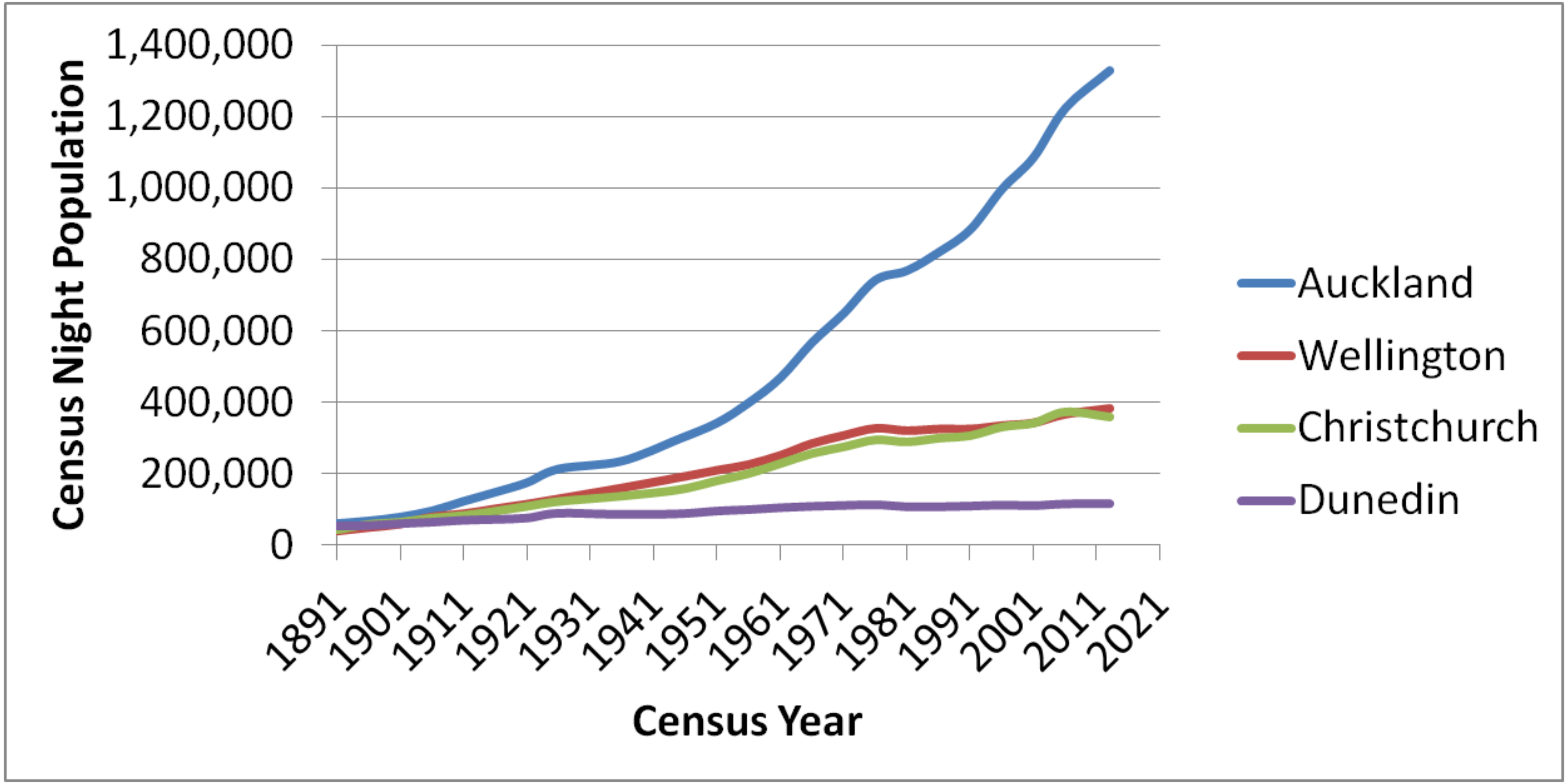
The End Result: A Retail Network Strategy

The strategy should consider:

- Demographics, incomes, growth, market size
- Competition, key retail nodes
- The existing store network: benchmark performance, market share and potential for upside. Formats and relocations
- Identify and rank locations for growth
- Close or consolidate stores where required

Demographics Growth or Decline?

Demographics "Four Chief Towns"



Source: NZ Local Population Database

Demographics 2018 Census Results?

The predictions we made in Jan 2018 (before census date):

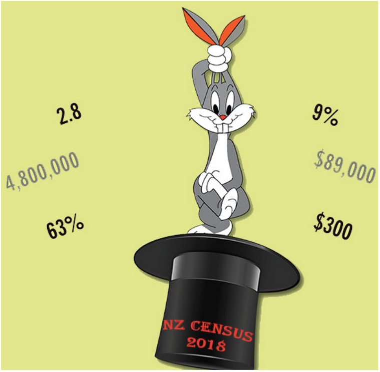
- NZ's population up 9% or 400,000 people. Migration-led
- Half of all growth in Auckland. Most parts of NZ grew
- Waikato, Bay of Plenty buoyed by Auckland exodus
- The housing shortage will bite, especially in Auckland
- The shortage hits low-income households the hardest

Source: https://www.rcg.co.nz/insight/our-predictions-2018-census

Demographics 2018 Census Results?

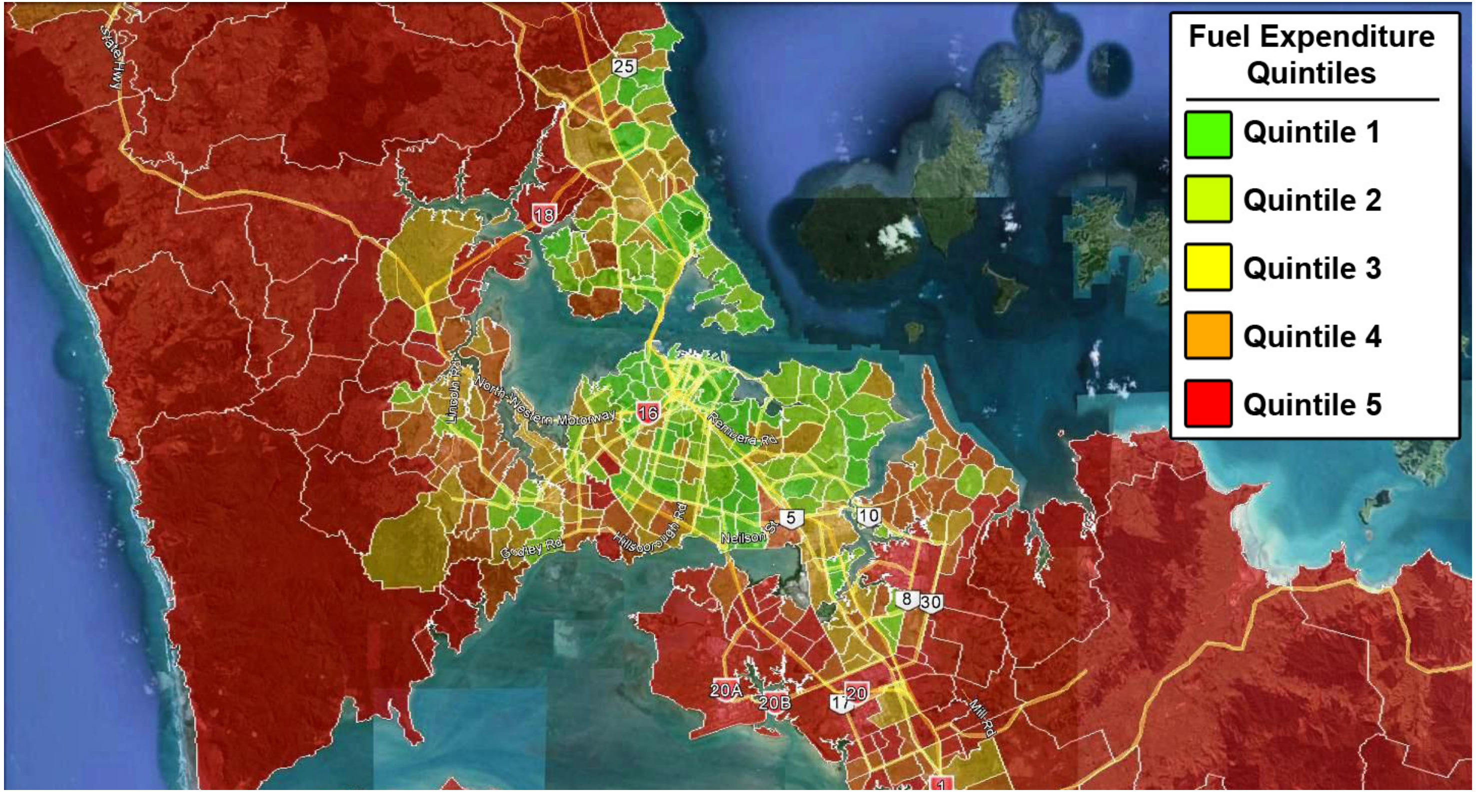
The latest, June 2019:

- Lengthy delays are disappointing, but…
- Key 'retail' metrics should be reliable
- Accurate population counts supplemented with other govt data; income data supplemented with IRD data
- Some qualitative data will be less reliable

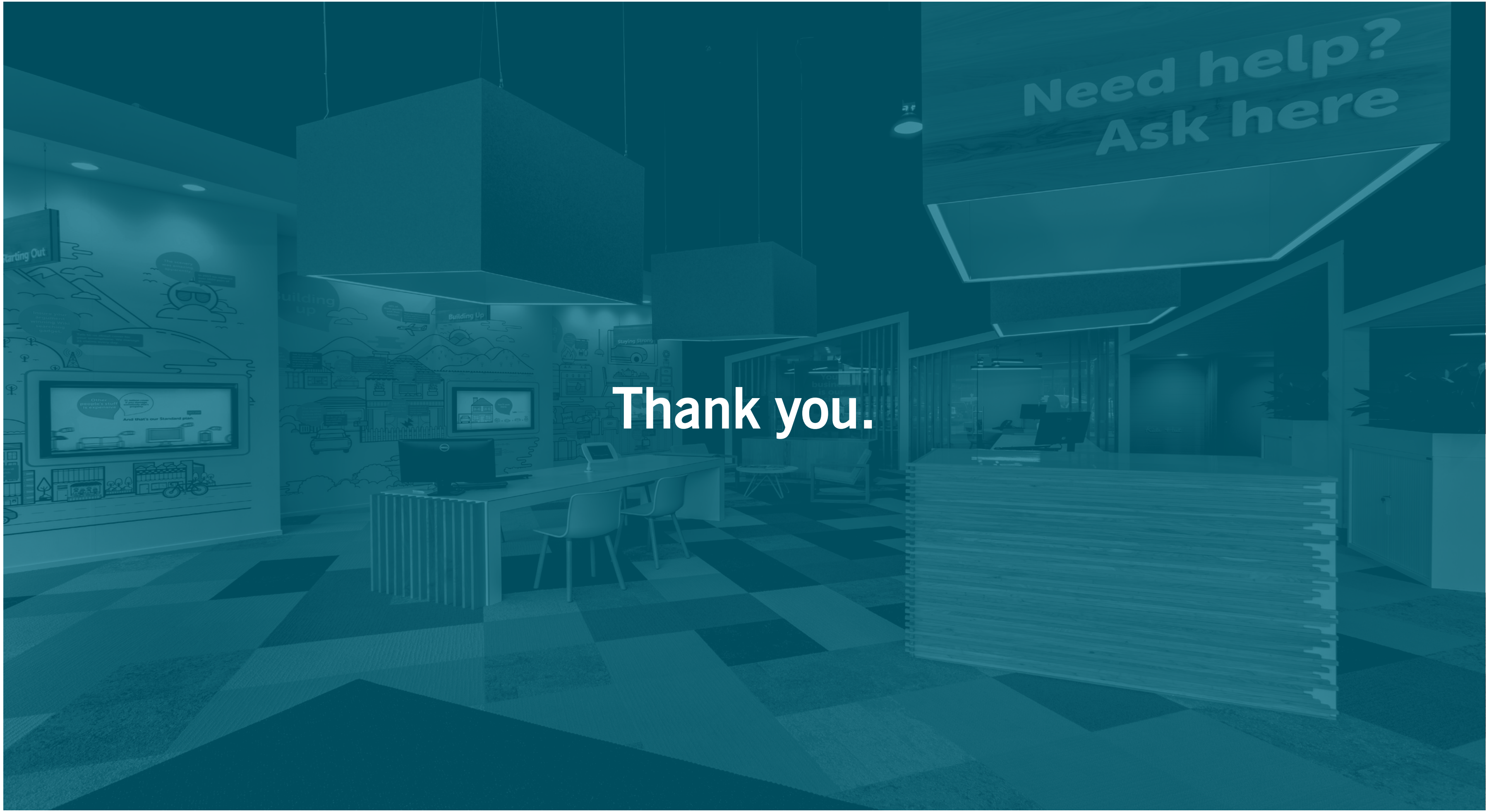


Source: "Pulling a Rabbit Out of the Census Hat", RCG forthcoming

Land and Transport Costs



Source:
John Polkinghorne/
RCG Constructive Thinking



Thank you.