Consuming passions

By Susan S. Mann, Jeffrey R. Smith and Olivier Trouvé

Having rewritten the rules of traditional retailing, a small group of large and increasingly global mass merchandisers is locked in a heated competitive battle. The key to high performance in this sector? A high level of mastery in six core competencies.

Grocery shopping isn't what it used to be. Take a trip to the store these days, and along with your bread and milk, you could easily come home with a pair of designer pants, your prescription medicine or a homeowner's insurance policy. That's not just because these diverse items all happen to be available at the same place. If it's a bargain you seek (and consumers everywhere increasingly do), you'll probably find it hard to beat the offers at Wal-Mart, Costco or Loblaws in North America, or if you live in Europe, at Tesco.

These companies are among a small group of large and increasingly global mass merchandisers known in the trade as retail hypermarkets. The French company Carrefour is generally recognized as the inventor of the hypermarket, which it introduced in 1963. (The word *hypermarket* comes from the French *hypermarché*.) But these retail giants are now located across the globe and all share the same basic characteristics. Their selling areas are often large (the average Wal-Mart, for example, boasts nearly 190,000 square feet); and although groceries remain their principal offering, accounting for at least a third of annual sales for most, hypermarkets sell an astonishing array of other products (as well as services), all at competitive prices and in a variety of formats.

Hypermarkets carry more products than traditional supermarkets while also offering merchandise usually found in department stores. But even if the stores offer time-pressed consumers more convenience, variety and value for their money under one roof, these same customers are getting ever harder to please. Today, they take for granted the choice, convenience and bargains that are the hallmarks of hypermarkets; they expect innovations and better service as well. As a result, a heated competitive battle to satisfy consumers has broken out within the industry.

Product and retail saturation in mature markets, ever-increasing competition on price and shorter lifecycles for innovation have driven commoditization right across the $8 trillion global retail industry. The hypermarkets, a $1 trillion segment of that industry, have not escaped its effects, and most of these companies are expanding outside their traditional categories or home markets in their quest for profitable growth. The name of the winning game is differentiation that is meaningful and relevant to the customer base. But this isn't just a matter of offering new products and services; those products and services must also be highly distinctive, relevant to target customers, and in the right stores, with the right price and promotion combination, and at the right time.

With Sam Walton's edict to "lower the cost of living for everyone," US giant Wal-Mart has set an industry standard. But the so-called Wal-Mart Effect has also put a painful squeeze on revenue growth and margins at many of the company's competitors. Kmart Corporation's 2002 bankruptcy is only the most obvious example; staying the course has become a struggle for survival for plenty of others.

Achieving high performance in this industry is plainly no easy accom-

(*Continued on page 22*)

About the research

Accenture started with a global competitor set of the 16 largest publicly held retail hypermarkets, ranked according to annual sales. Seven of the companies analyzed were North American, and there were two each from the United Kingdom and France. There was one apiece from Australia, Japan, Germany, the Netherlands and Belgium.

We then applied the five standard Accenture performance metrics to these companies. First and foremost, we looked at longevity, measured as sustained total return to shareholders, experienced over three, five, seven and 10 years. We also evaluated growth, measured by revenue expansion; profitability, measured by the spread between the return on capital and the cost of capital; positioning for the future, represented by change in market value not explained by current earnings; and consistency, measured by the volatility or dispersion of market returns over time.

Because hypermarket retailing has a fairly long investment-to-returns cycle, we placed greater emphasis on the longevity of returns. Profitability can come at the cost of underinvesting for future needs; growth may look good at first, but it may ultimately destroy long-term value if a company becomes overextended.

From our analysis, we identified five companies as high performers.

Only a select group of hypermarket retailers demonstrated sustained TRS performance over multiple time frames.

Total return to shareholders, seven- and five-year CAGR

Three-year TRS	
Company A	12.74%
Company B	12.72%
*Company C	7.70%
Company D	5.93%
Company E	5.26%
Company F	3.39%
Company G	1.15%
Company H	-3.72%
Company I	-4.37%
Company J	-4.77%
Company K	-4.98%
Company L	-6.02%
Company M	-9.43%
Company N	-9.65%
Company O	-22.47%
Company P	-34.97%
Median	-3.72%
S&P	1.48%

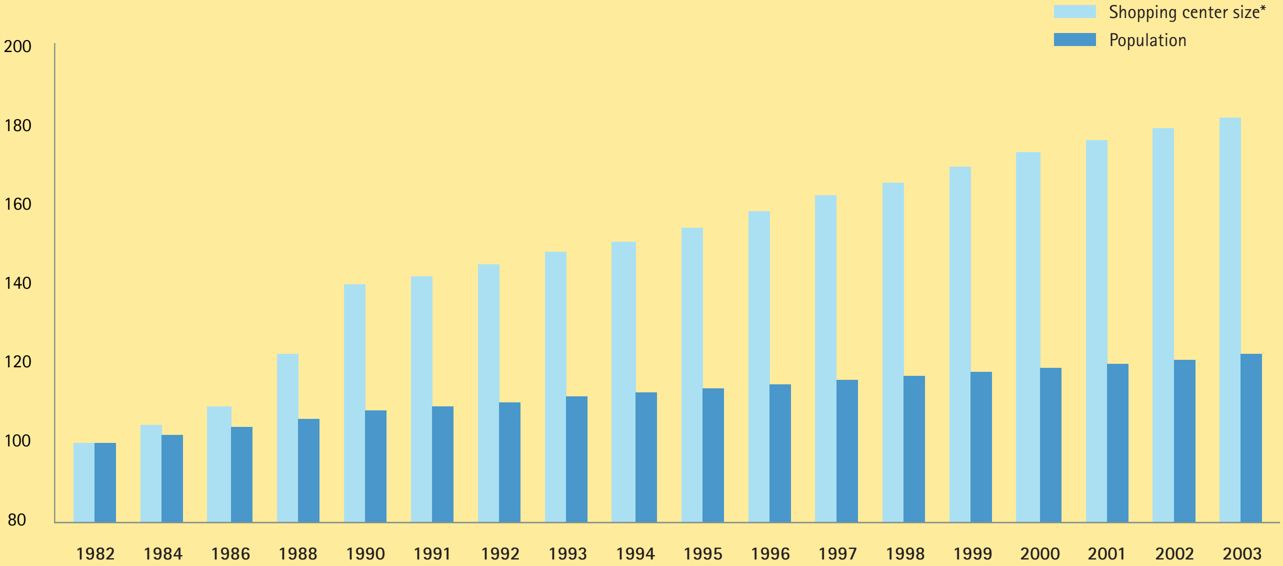
Total shareholder return includes stock appreciation (with splits) plus dividends. Data points are at end of month.
*Company C was not categorized as a high performer due to low profitability and low revenue growth compared to peers.

SOURCE: COMPUSTAT; ANNUAL REPORTS; ACCENTURE ANALYSIS

A tougher, more complex market . . .

Rising retail saturation in mature markets

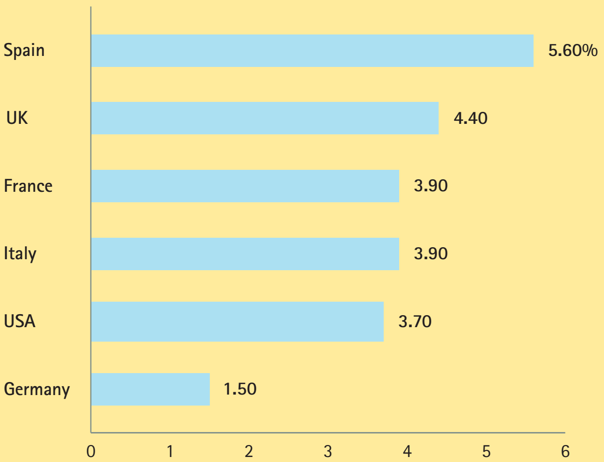
Growth of shopping centers outstrips US population increases (1982 = 100)



*Based on total gross leasable square footage
SOURCE: US CENSUS BUREAU; INTERNATIONAL COUNCIL OF SHOPPING CENTERS

Single-digit growth in food retailing

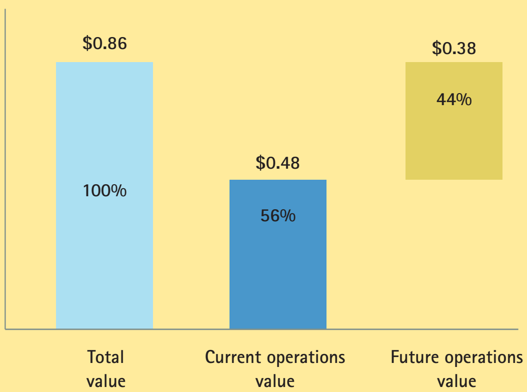
Food retail sales growth 1999-2004* CAGR



*Note: Germany, Italy, UK 1999-2003 data
SOURCE: MINTEL, CIBS, BANQUE DE FRANCE

Higher shareholder expectations

Retail industry current value versus future value
(2003, $ trillions)



44% of retail industry value is based on investor expectations of future growth

SOURCE: "FUTURE VALUE: THE $7 TRILLION CHALLENGE," *OUTLOOK* 2004, NO. 1; RUSSELL 3000; ACCENTURE ANALYSIS

. . . with savvier, more demanding consumers

Consumers are . . .

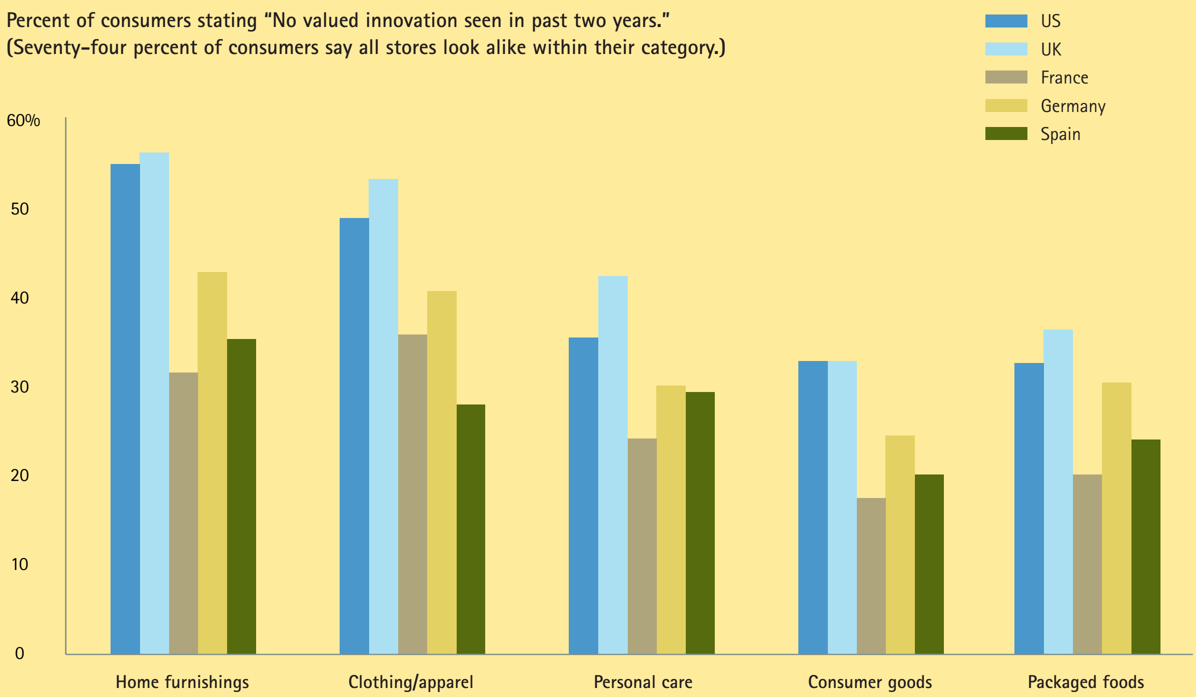
Harder to predict
- Harder to define
- Eclectic shopping behaviors
- More diverse and more segmented

Harder to satisfy
- Shifting from traditional to more experience-based criteria
- Rising expectations and declining brand loyalty
- Stressed and pressed for time

Harder to reach
- New multi-channel shopping
- More complex to target due to media fragmentation
- Bombarded by information and choices

. . . and perceive product and retail commoditization in many categories

Percent of consumers stating "No valued innovation seen in past two years."
(Seventy-four percent of consumers say all stores look alike within their category.)

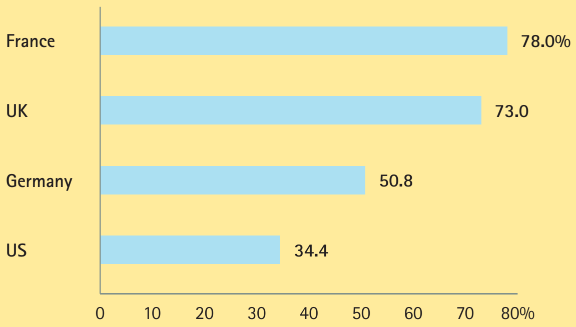


SOURCE: STIMULATING CONSUMER DEMAND THROUGH MEANINGFUL INNOVATION, ACCENTURE INSTITUTE FOR STRATEGIC CHANGE, NOVEMBER 2002

A changing competitive landscape . . .

Consolidation

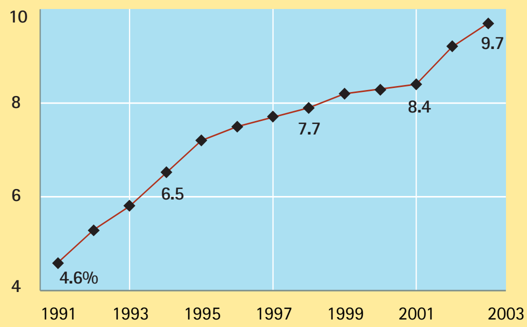
Market share of the Top 5 players in Western countries
2004 data



SOURCE: MINTEL, IGD, CIBS COMPANY DATA; US 2003 DATA; GERMANY 2002 DATA

Hard discounters

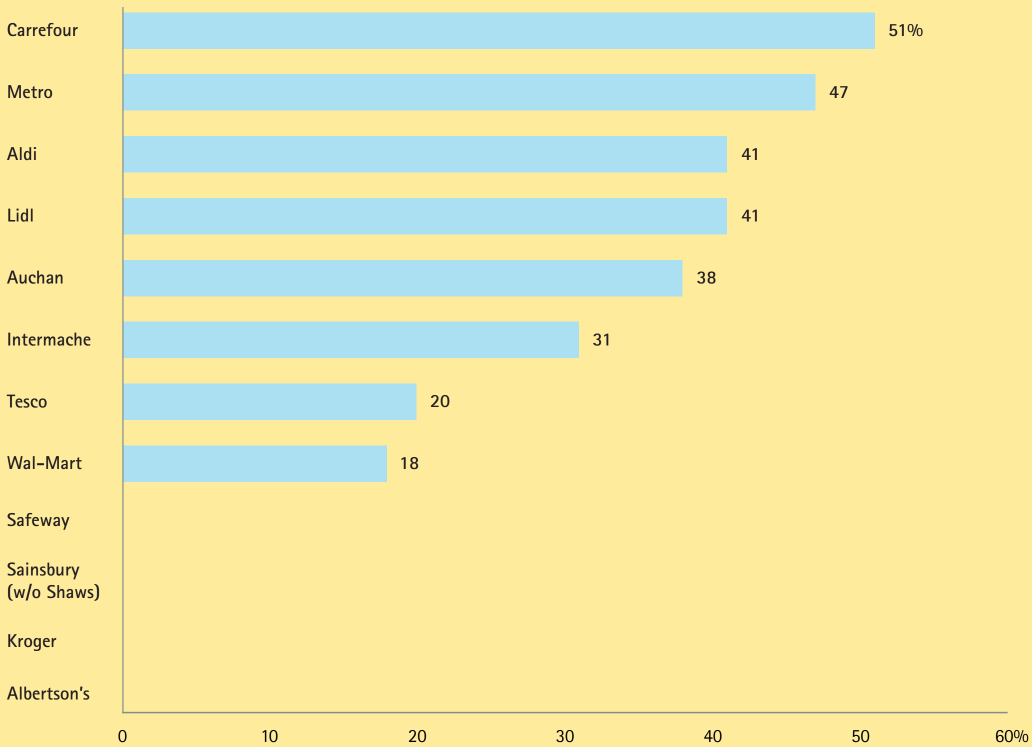
Growth of hard discount in Europe
Share of EU retail sales 1991-2003



SOURCE: MORGAN STANLEY RESEARCH, AUGUST 2004

Globalization

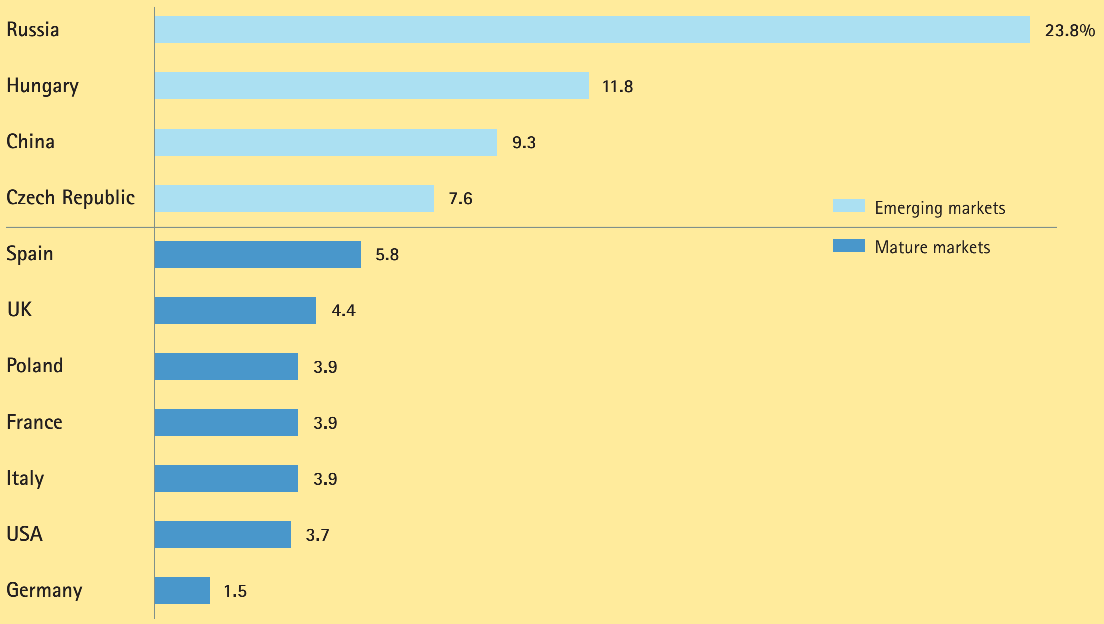
International as a % of total sales



. . . with new avenues for growth

Emerging markets

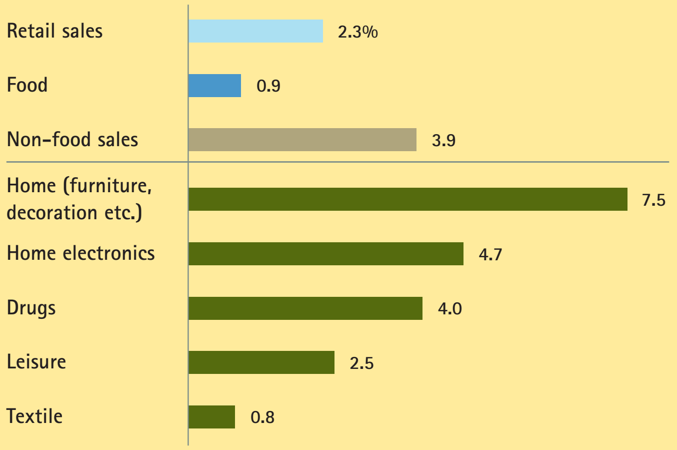
Growth of food retailer sales
1999–2004* CAGR in % current prices



Note: *Germany, Italy, UK, Czech Republic, Hungary 1999–2003 data; Poland 2000–2003 data
SOURCE: MINTEL, CIBS

Non-food

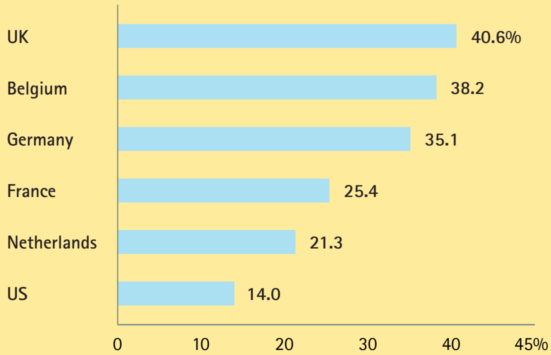
Retail sales in a mature country
France 2003–2004 growth in % current prices



SOURCE: INSEE, 2004 _ IN LSA MARCH, 10TH 2005

Private label

Market share of private labels in Western countries
FY03 data in volume



SOURCE: AC NIELSEN FOR PLMA; CIBS; WORLD MARKETS' DECEMBER 2004 REPORT NORTH AMERICAN SUPERMARKETS 2005

Tesco: A leader in customer loyalty

Tesco has been an innovator in retail formats, including being one of the first big UK food retailers to introduce online shopping and one of the first to use bar codes to automatically update its just-in-time inventory as products were rung up at the register, thus ensuring that customers never encounter empty shelves.

Indeed, of the six core competencies identified as drivers of high performance in this industry (see story), Tesco's key strength is in its obsessive customer focus. The retailer is a leader in the use of so-called loyalty data—the information about customers and markets gathered via customer loyalty cards. Most major US and European food retailers now have loyalty cards, but whereas US programs tend to be little more than two-tiered pricing vehicles (present your card during checkout to get a discount), European programs really are loyalty-based (earn-and-spend points).

Tesco, which launched its Clubcard in February 1995, uses the analyzed data in sourcing, customer communication, site selection, manufacturer support, and promotional and pricing decisions. What's more, Tesco is better than its competitors at turning that raw data into useful information, which it does by leveraging its data mining and analysis capabilities. With 4 million different customized mailings every quarter, Tesco leads the pack in tailoring its offerings to targeted customer segments.

Tesco is a leading supply chain innovator and executor as well. It has implemented a number of initiatives to build a best-in-class supply chain. For example, its automated distribution centers are designed to handle different types of merchandise, from fresh food to apparel, and the company pilots new technology and methods, such as RFID and rail delivery, to explore ways to improve on-time availability and reduce costs. In addition, it works with suppliers to ensure they use standardized merchandise units so that it is easier to pick and store the right merchandise for its stores and keep product on wheels from the supplier through to the shop floor. Tesco is currently working with its loyalty card analysis subsidiary on a predictive tool that will alert store managers via handheld computers if point-of-sale data suggests a product will likely sell out.

Exceptional achievement

High performers in the retail hypermarket sector excel at six core competencies:

1. Strategic intent
2. Customer focus
3. Innovation and commercialization
4. Operational excellence
5. Alliances and collaboration
6. Talent management

(*Continued from page 16*)

plishment. Yet five retail hypermarkets have achieved this distinction as defined by Accenture's criteria for the sector (see "About the research," page 17).

When Accenture set out to discover what exactly distinguishes the high performers from their peers, we identified six core competencies at which they all excel. These competencies help support high performers' well-defined market focus and position, and they include distinctive capabilities that set them apart from peers and contribute to their "secret sauce," which we refer to as high-performance anatomy (see "Marks of distinction," page 26). Not all of our top retail hypermarkets exhibit equal strengths in each of the six competencies. But exceptional achievement—or what we call pioneering mastery—in one area usually hinges on a high level of mastery in each of the others. And each of our high performers does, in fact, exhibit this level of mastery in all six competencies identified.

The first and most fundamental competency for any high-performing retail hypermarket is **strategic intent.** This isn't just a matter of having a strong brand identity and market positioning; it's about defining a clear and compelling strategy that can be conveyed in a strong mission statement. These mission statements vary in their focus—a reflection of the particular customers, markets and positioning each high performer concentrates on. But every one of the high-performing company's employees, from the CEO to the checkout clerk, can explain what it is they do to contribute to achieving the company's mission.

Moreover, the mission statements reflect aspirations rather than accomplishments. For example, Target's mantra says that customers should "Expect More. Pay Less." This motto is based on the company's mission state-

Target: A talent for collaboration

"Expect More. Pay Less." This maxim helped Target become one of the largest discounters in the United States and the store of choice for many Americans who could well afford to shop elsewhere. How? By being exceptionally good at alliances and collaborations that are focused on the fashion-conscious.

The retailer offers a wide range of non-food items, from jeans and toys to sports equipment and consumer electronics. But it's also the only discount retailer to have a "trends" department. Its forte is partnering with prominent designers, including Michael Graves, well-known architect for housewares and home decor, and apparel designers Liz Lange and Isaac Mizrahi for women's wear. Target provides guidelines for what it wants but gives the designers creative freedom to produce the store's private-label items, which are then sold along with the groceries.

Private-label apparel accounts for 80 percent of Target's clothing offering—an unusually high number for a hypermarket. Selling stylish, high-quality clothes and running bold marketing campaigns has been the secret of the company's success. Last summer, Target set up shop in what it dubbed "The Bullseye Inn" (formerly a vacant antiques shop) in upmarket Bridgehampton, New York, to sell discount home goods and decor to well-heeled Manhattanites on vacation.

Target's partnerships go way beyond fashion designers. Its "minute clinics" offer shoppers with minor ailments but no time to visit the doctor access to nurse practitioners authorized to issue prescription medicines. Target has partnered with Andrea Immer, dean of wine studies at the French Culinary Institute in Manhattan, to help customers select mid-priced wines. Target also collaborates with Associated Merchandising Corporation, its wholly owned global sourcing arm, to drive what it calls speed sourcing, which the company says enables it to be first to market with new fashions, colors and styles.

Target is remarkably good, too, at talent management. It promises service that's "fast, fun and friendly," and, thanks to its success in attracting, retaining and empowering staff, that promise is largely delivered. Customers are free to browse, but they can always find help if they need it. Moreover, when they come to the checkout counter, special expediters speed their exit. The company's investment in IT geared to workforce enablement means that returns and other issues raised by customers are dealt with swiftly.

ment, which provides everyone with a clear focus for constantly improving the company's performance.

Without such clarity of strategic intent, the second core competency, **obsessive customer focus**, wouldn't make much sense. To be sure, high performers are exceptionally good at translating customer insights into transactional experiences and at offering clearly differentiated products and services.

Customer focus for these companies, however, means more than just proactively managing markets and brands. High performers seek to please a customer even when doing so doesn't make short-term economic sense—empowering employees to accept returns on the spot, for example. What's important is the strategic value of retaining customer loyalty. High performers want to keep customers more than they want to make a sale—hence the obsessive emphasis on the customer.

The third core competency, **innovation and commercialization**, also hinges on strategic intent. High performers don't just innovate in terms of new products (although they certainly do that much better than their peers). They often develop a loyal and profitable following for their own brand or private-label offerings. They are especially innovative when it comes to customer interactions, whether they are on their website, at the checkout or returns counter, through the call center or even in their direct-mail campaigns. That's partly because they have a robust understanding of their customers and are therefore better positioned to identify and capitalize on emerging needs and trends.

Industry high performers also leverage the information gleaned by introducing value-added customer services—pharmacies, dry cleaners, wellness suites and bridal registries are just a few examples—in their

Loblaws: An innovator with strategic intent

Toronto-based Loblaws is a master of private-label marketing. In President's Choice, the company has developed a private-label food product of such high quality that it has become a separate brand that is licensed to retailers around the world. Overall, 29 percent of Loblaws' sales are from private label. And President's Choice is just that—the personal choice of Dave Nichol, a former Loblaws executive, who famously declared that the company's chocolate-chip cookie was so good it was "decadent." (The Decadent Chocolate Chip Cookie remains a customer favorite in the private-label range.)

Loblaws was also one of the first retailers in North America to roll out a line of private-label organic food products, back in 2001. President's Choice Organics are sold next to conventional food products in most of the company's stores, because unlike most organic food lines, they're priced competitively.

Although the President's Choice label remains focused on food, Loblaws is expanding it to encompass apparel and housewares. President's Choice House and Home, for instance, is a line of bath, bed, decor, household and kitchen products that are of comparable quality to the national brands but are less expensive—the key formula for private-label sales.

The retailer's willingness to experiment in new areas of business under its own brands is one of the secrets of its success. Indeed, Loblaws takes and accepts risks more like an entrepreneur than a public company. Yet it retains excellent relationships with its private-label suppliers, as well as with its customers.

Loblaws is partnering with a Chinese food distributor to extend its private-label products into mainland China. The company also has been highly successful managing multiple store formats to address different customer segments in Canada and using a common set of private-label brands across these formats.

The company's success in innovation and commercialization, moreover, is underpinned by the clarity of its strategic intent. "More for you!" is its promise to customers, and it continues to deliver with multiple-format stores and new customer experiences, including health clubs, wine shops, cooking classes and garden centers.

stores and by adjusting their business model to capture incremental revenues and margins. They're better than their competitors, too, at business process innovation and collaboration, which are critical for driving operational excellence.

Since Wal-Mart made economies of scale a basic requirement of hypermarket success, the fourth core competency, the pursuit of **operational excellence,** has become a must-win battle. It has significant implications for supply chain excellence, since supply chain assets and inventory usually comprise at least half of all non-store-based assets, because supply chain activities overall typically account for anywhere between 40 percent and 70 percent of operating costs. Achieving a high level of mastery is a tall order; supply chains have become more complex as hypermarkets have broadened their offerings of non-food items and begun selling in emerging markets.

High performers' commitment to operational excellence is probably most evident when it comes to information technology. They all view IT as a strategic asset that creates real value, not simply as a cost to be managed.

All high performers in this industry have been exceptionally good at **alliances and collaboration,** the fifth core competency. Fully leveraging global and local sourcing relationships is emerging as a critical element for differentiation. (For more information on low-cost-country sourcing, see "The secrets of successful low-cost-country sourcing," page 62.) But creative alliances also include such initiatives as home-market collaborative ventures with healthcare professionals to develop low-carb and low-cholesterol food lines, as well as persuading other retailers to stock and sell private-label products that have become brands in their own right.

The high performers have adapted their business models to incorporate key capabilities of manufacturers, such as product innovation and branding. In doing so, they've improved customer loyalty, reduced their cost of doing business and created better value propositions for themselves and for their alliance partners.

The final core competency is **talent management.** Retail isn't exactly a sexy industry; it involves long hours and a lot of sheer, physical slog. Yet it's very much a people-based business, and the high performers have mastered the art of attracting the right talent, developing it and retaining it. They've created websites geared to recruiting college graduates, offered staggered shifts for working parents, shared best practices around the globe, and generally created the sort of common culture and sense of camaraderie that ensure staff loyalty. By sharing information with everyone who works in the store and empowering even the humblest employees, the high-performing hypermarkets give their staff a sense of responsibility for the success of the entire enterprise.

The future importance of each of these core competencies will vary from company to company. But as the industry responds to competitive pressures by moving into new and especially emerging markets, by strengthening supply chain processes and by upgrading legacy systems to cope with bigger transaction volumes, it's clear that mastery of all six competencies will continue to separate the high performers from the also-rans.

About the authors

Susan S. Mann is a senior manager in the Accenture Strategy service line within the company's Retail and Consumer Goods & Services industry groups. For more than seven years, she has helped formulate sales and marketing, operational and M&A strategies for leading consumer products and retail clients. Ms. Mann, who is based in Boston, has spent the last two years as Accenture's global industry program manager for retail and consumer goods; part of her responsibilities in this role is to conduct high-performance business research and analysis in these industries.

susan.s.mann@accenture.com

Jeffrey R. Smith, global managing partner of the Accenture Retail and Consumer Goods & Services industry groups, leads the company's work with EPCglobal, the governing body working with consumer packaged goods and retail companies on RFID/EPC business values and assessments. During his 24-year career with Accenture, Mr. Smith has specialized in strategic planning, data modeling, design and development of value-creating technology solutions for large retail and consumer goods companies, with a focus on customer/supplier collaboration processes and systems. Mr. Smith, who is based in Detroit, also speaks regularly at global retailer and manufacturer conferences and trade events.

jeffrey.r.smith@accenture.com

Associate Partner **Olivier Trouvé** is the global lead for Accenture's High Performance Retailing activities. Based in Paris, he has 14 years' experience in various functional areas in the retail industry, including marketing, merchandising and supply chain. In addition, Mr. Trouvé has worked in both food and non-food retailing in Europe and the United States.

olivier.trouve@accenture.com