

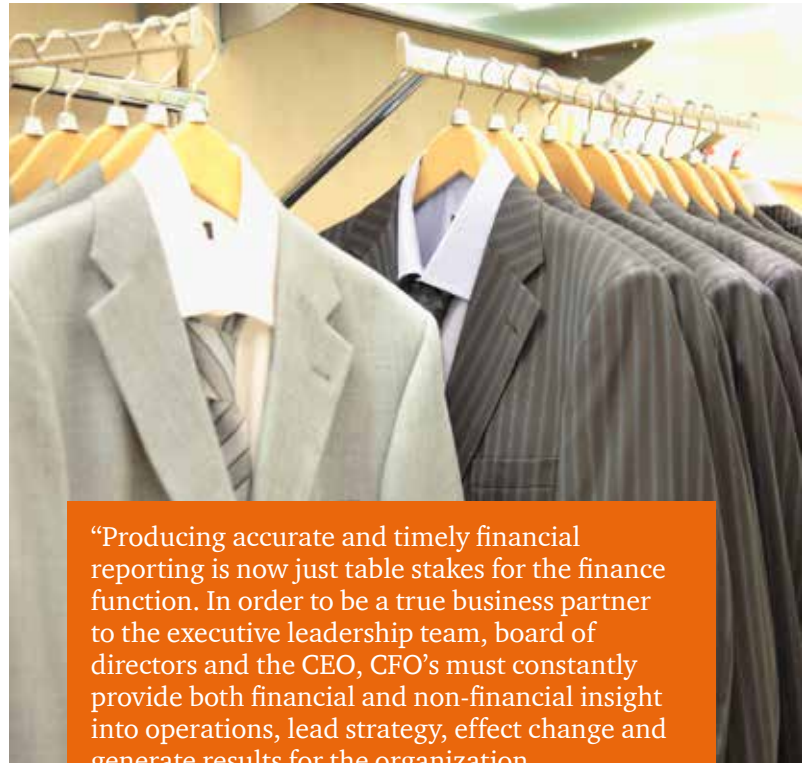
Measuring up Retail Benchmarking Survey



Retail Benchmarking Survey

PwC Consulting partnered with the Retail Council of Canada to conduct a high level Retail benchmarking survey with Canadian retailers. This report will allow you to determine where your performance stands among your peers in sales, general and administrative costs (SG&A), as well as key performance indicators (KPIs).

Often we focus our performance measurements internally; how we have done compared to last year and to budget. By comparing externally to similar businesses, you can identify areas of opportunity to reduce costs and improve performance.



“Producing accurate and timely financial reporting is now just table stakes for the finance function. In order to be a true business partner to the executive leadership team, board of directors and the CEO, CFO’s must constantly provide both financial and non-financial insight into operations, lead strategy, effect change and generate results for the organization.

The retail environment gets more competitive every year and whereas in the past competition was domestic, it’s now international. To survive and thrive, great retailers and great CFOs are constantly using competitive external benchmarks to ensure that the organization is staying ahead and adding value”.

— Bryan Tatoff, CFO, Danier Leather Inc.



Industry findings—
the data of 72 retailers gives us
the ability to assess individual
results across the industry,
by category and by function.

High margin and high cost go hand-in-hand

Retailers with higher gross margins tend to spend more on sales, general and administrative costs (SG&A). Higher spend on areas such as marketing and merchandising, permits retailers to build a less price sensitive brand image. In turn, this drives higher margins.

Retailers often come to us to talk about strategic options to keep their brand fresh and relevant. A constant theme among retailers is managing their brand equity while maintaining profitability.

Figures 2a and 2b show relationship between gross margin, SG&A and net margin, as represented by the size of the bubble.

Our data suggests that keeping SG&A low, in relation to your gross margin, is crucial for achieving higher net margin, but you cannot get there solely by growing your top-line sales.

Figure 2a: Gross margin vs SG&A – Apparel

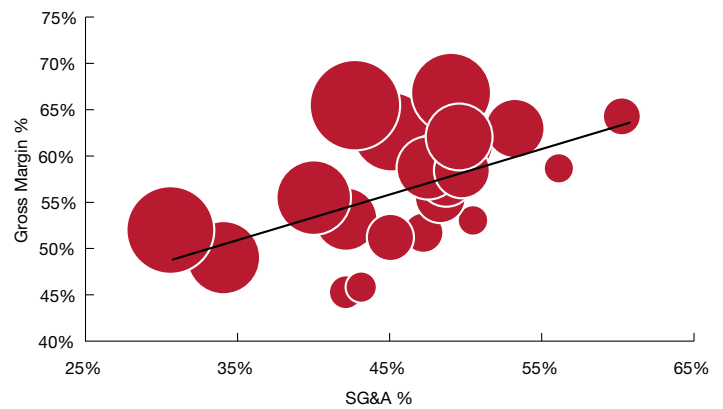
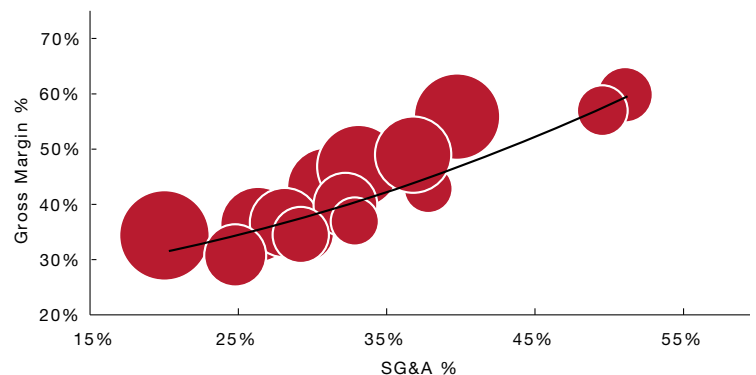


Figure 2b: Gross margin vs SG&A – Specialty other



Note: extreme outliers have been removed.
Size of bubble represents Net Margin %

Net margin

Cost control is a stronger contributor to profitability than higher margins

High gross margins or low SG&A costs? We looked at our data to determine the most important contributor to driving high net margins.

In all three retail categories (apparel, grocery and specialty), the correlation between net margin and SG&A is higher as a percentage of sales than between net margin and gross margin. This indicates that lower operating costs are a stronger factor than gross margin in determining net margin.

Figure 3a: Net margin vs gross margin – Apparel

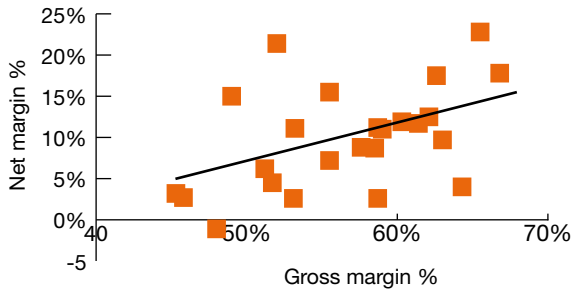


Figure 3b: Net margin vs SG&A – Apparel

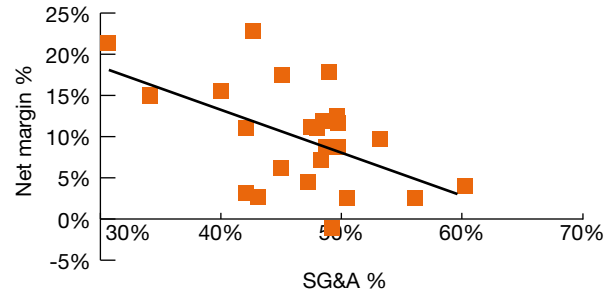


Figure 3c: Net margin vs gross margin – Grocery

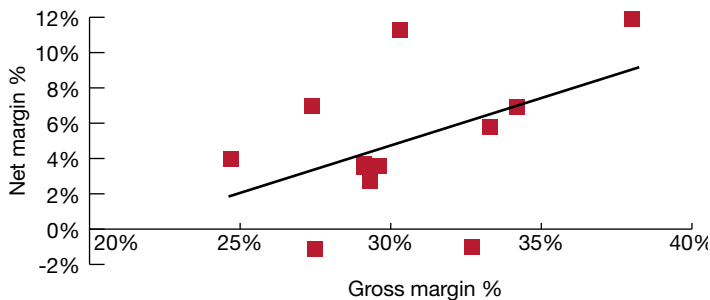


Figure 3d: Net margin vs SG&A – Grocery

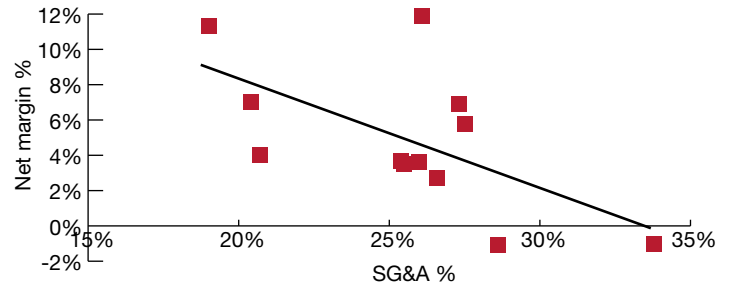


Figure 3e: Net margin vs gross margin – Other

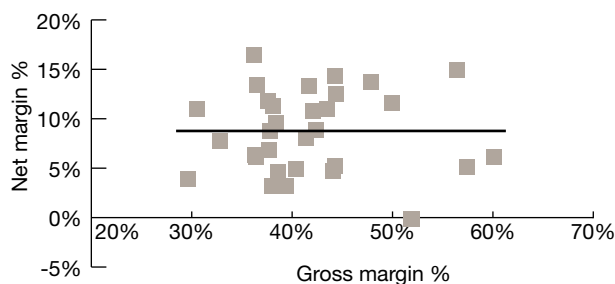
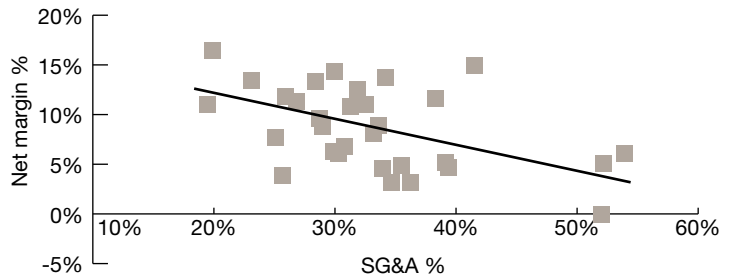


Figure 3f: Net margin vs SG&A – Other



Note: extreme outliers have been removed.
Other includes specialty other and department stores

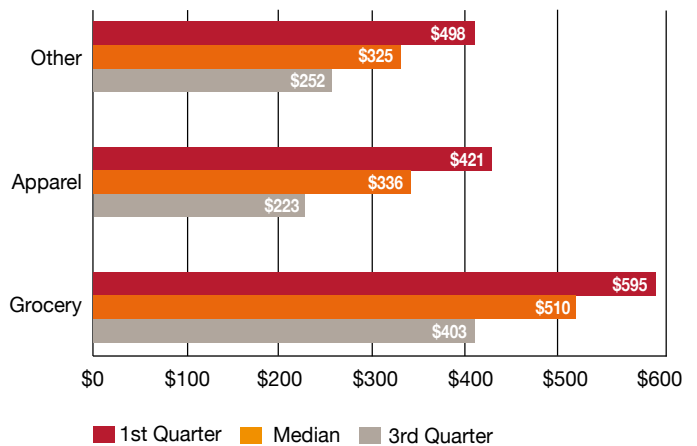
Sales productivity

Of the three retail categories (apparel, grocery and specialty), grocery has the highest sales per square foot – with a median of \$510 compared to \$336 for apparel and \$325 for specialty.

Differences between individual retailers within each category were significant. High performing apparel and specialty other/department store retailers scored almost twice as high as their lowest quartile peers and 50% more in grocery.

So what helps achieve higher revenues in each category? Retailers who are not high performers within their category should ask themselves: Am I using my space effectively? Do I have the right assortment mix? How can I improve conversion rates? Am I using analytics to understand my customers' shopping habits? Our retail clients who are using more “science” are obtaining better top line and bottom line results.

Figure 4: Sales \$/Square foot



“ We ensure that our selling space is as productive as possible by offering highly effective products of the best quality, and exceptional, genuine customer service.... We’re innovative, introducing new products and categories on a regular basis and disciplined in discontinuing products that aren’t selling, no matter how much we love them. – **Andy McNevin, COO, Lush Cosmetics** ”

Gross margin

Apparel leads all retail categories with significantly higher gross margins.

Apparel has the highest gross margin, with a median of 58% versus 30% for grocery and 41.4% for other (specialty other and department stores).

The reliance on unique fashion products in the apparel category drives the highest gross margin performance. However, the difference between the highest and lowest performers in apparel can be as high as 10 percentage points.

Lower margins in the grocery category can be attributed to the highly competitive and less differentiated environment, where low priced items and homogenous goods work to drive down margins and costs.

With such significant differences between categories in the range of gross margin, it's important for retailers to compare performance within their category. Benchmarking against your peers rather than the general retailer population is more indicative of your performance.

Figure 5: Median gross margin percent by category

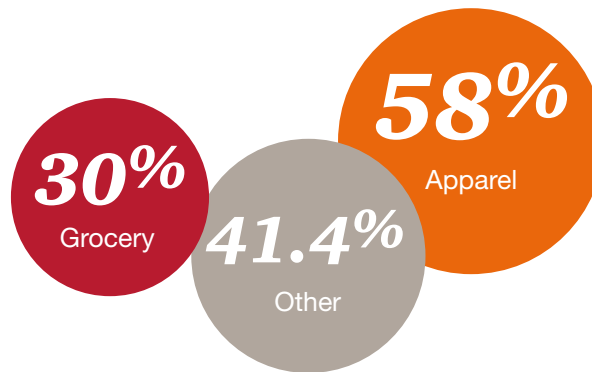


Figure 5a: Gross margin percent – Apparel

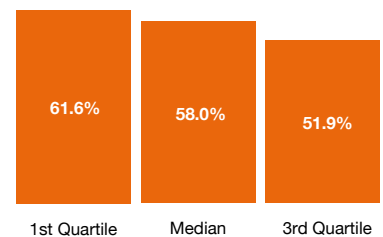


Figure 5b: Gross margin percent – Grocery

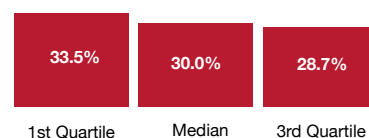
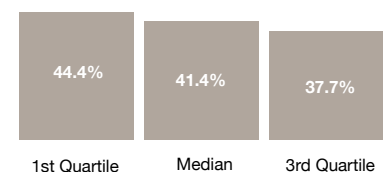


Figure 5c: Gross margin percent – Specialty Other





Store expenses

Labour and occupancy costs make up the bulk of store expenses.

Labour costs as a percentage of store sales are similar across all retail categories, with only a two percentage point variation in medians. Whereas occupancy costs as a percentage of store sales differ widely.

Apparel has significantly higher median store expenses than other categories, as a result of considerably higher occupancy costs.

As seen with gross margin, the large differences between categories make it more valuable for retailers to compare their performance on store expenses against peers in each category..

“High performers carefully manage their investments in store labour— and modify quickly based on the fluctuating needs of their business.”

— Paul Beaumont, Director, Retail and Consumer, PwC

Figure 6: Store expense drivers

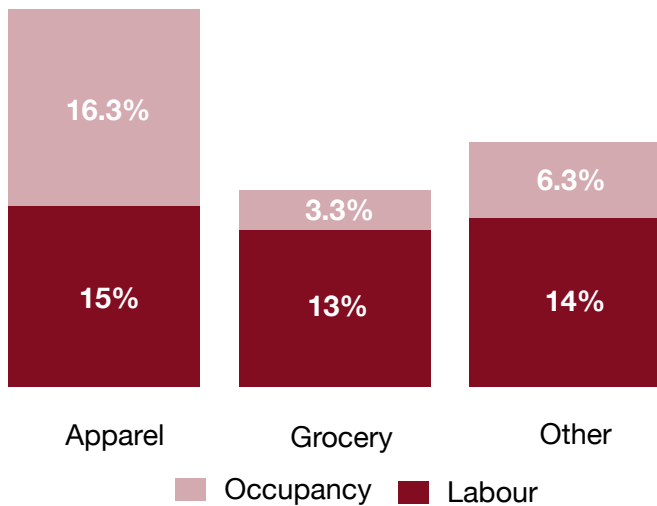


Figure 6a: Store expense percent – Apparel

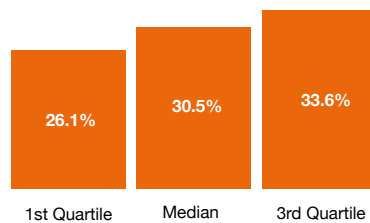


Figure 6b: Store expense percent – Grocery

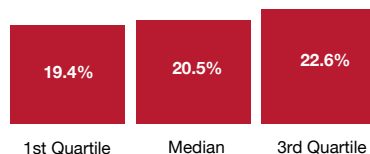
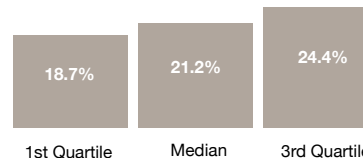


Figure 6c: Store expense percent – Specialty Other



G&A by category

Pressure of lower margins drives the grocery category to lower overall G&A percent

Total G&A refers to all head office costs and excludes costs within the “four walls” of the store. At a median of 5.8%, the grocery category has a significantly lower G&A percentage of sales than the apparel and specialty (other/department store) categories.

Grocery also has a smaller gap between first and third quartile G&A percentage of sales. Back office costs are more tightly controlled in response to higher volumes and lower margins.

There are significant differences in specialty other and apparel between first and third quartile retailers. These gaps represent the larger variations in business models and efficiencies caused by the wider range of offerings at these types of retailers.

Figure 7: Median G&A percent by category

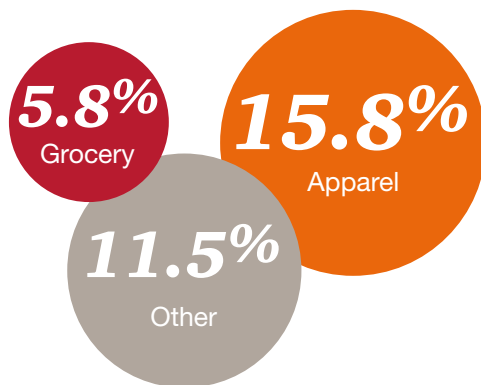


Figure 7a: G&A percent – Apparel

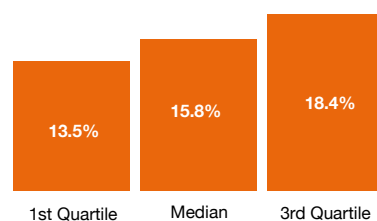


Figure 7b: G&A percent – Grocery

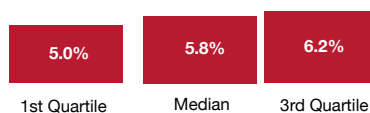
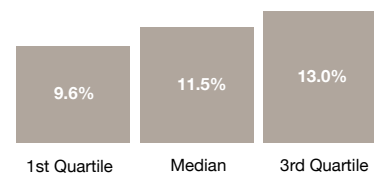


Figure 7c: G&A percent – Specialty Other



G&A by function

Marketing and supply chain represent the highest portion of G&A

Comparing G&A by function within your category can be a powerful tool in identifying where you may have over or under invested compared to your peers.

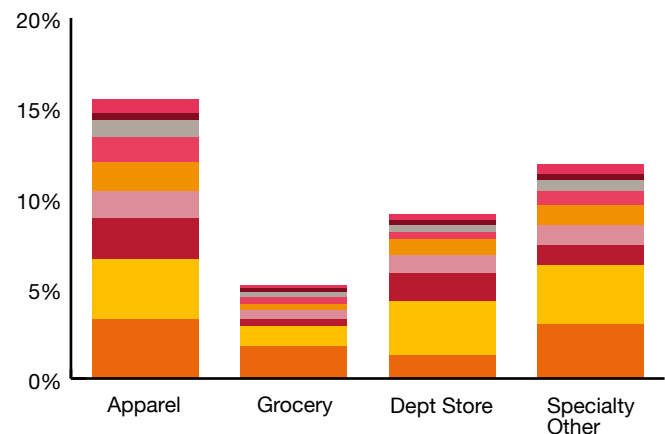
When assessing your performance within your peer group, ask yourself what's driving the biggest differences? Are there inefficiencies in your processes or systems? Are you over-paying for services? Analysis of the data will enable you to pinpoint the key drivers.

Marketing and supply chain are the highest cost functions in all categories, except department stores, where merchandising outweighs supply chain.

Retailers should expect that marketing, supply chain and merchandising costs will increase as their ecommerce business grows. While areas such as store expenses and store operations will decrease as a percentage of total sales.

Merchandising is a more significant proportion of head office costs for apparel and department stores than grocery and specialty other.

Figure 8: G&A by function*



* Based on median value within each category for each function

Other	0.8%	0.2%	0.3%	0.6%
HR	0.4%	0.2%	0.3%	0.3%
Finance	0.9%	0.3%	0.4%	0.6%
Store Operations	1.4%	0.4%	0.4%	0.8%
Corp Services	1.6%	0.3%	0.9%	1.1%
IT	1.5%	0.5%	1.0%	1.1%
Merchandising	2.3%	0.4%	1.5%	1.1%
Marketing	3.3%	1.1%	3.0%	3.3%
Supply Chain	3.3%	1.8%	1.3%	3.0%



Higher inventory turns drive grocery to higher GMROI rates despite lower margins.

Inventory turns & gross margin return on investment (GMROI)

The high perishability of grocery products and higher purchase frequency drive significantly higher inventory turns in grocery than apparel and other. Grocery has a median value that is approximately five times greater. The higher inventory turns of the grocery category lead it to also have a significantly higher GMROI than the other categories, despite lower gross margins.

Greater variability in turns and GMROI within grocery presents an opportunity for grocery retailers to stand out from their peers.

Figure 9a: Inventory turns

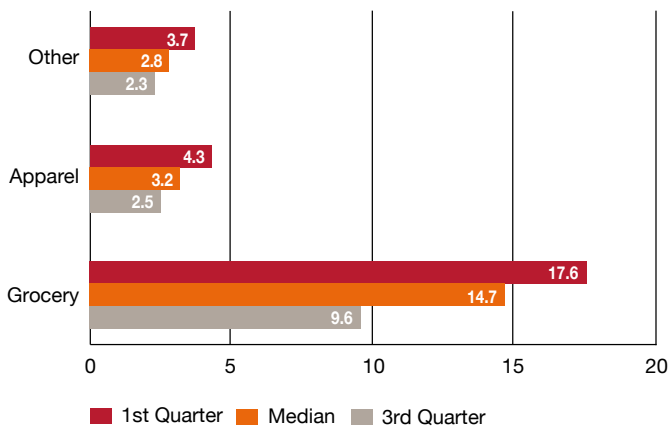
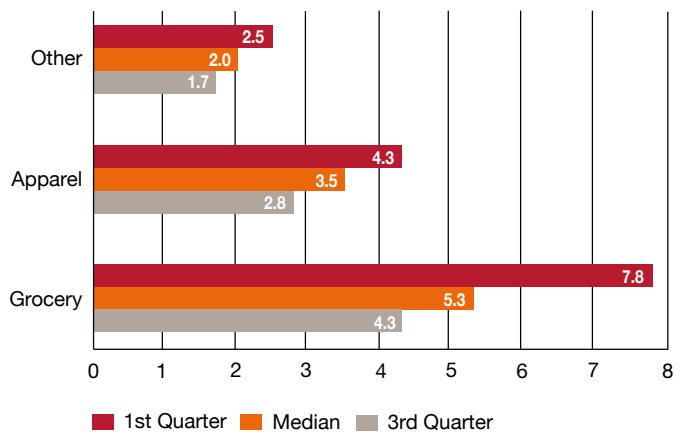


Figure 9b: Gross margin return on investment (GMROI)



Does size matter?

Less than you would think!

While retailers tell us that their larger competitors have an advantage due to their size, the data tells a different story.

The benefits of economies of scale on G&A costs at both the total retail and category level were smaller than expected across the 72 retailers we studied. In many cases, the increased complexity of larger retailers and duplication of head office functions, driven through acquisitions, have offset the advantages gained from economies of scale.

Increased complexity and duplication of functions offset the advantages gained from economies of scale.

Figure 10a: Net sales vs G&A % – Apparel <\$300M

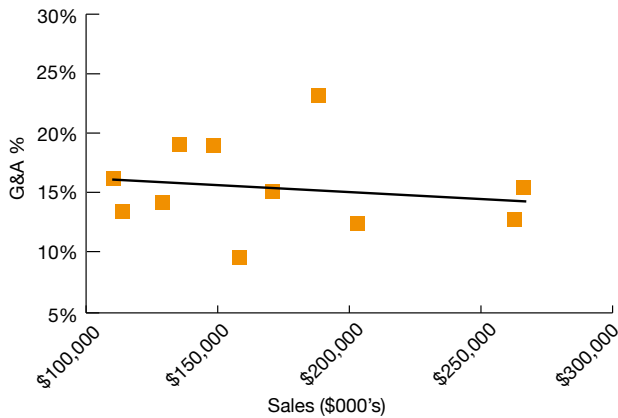


Figure 10b: Net sales vs G&A % – Apparel >\$300M

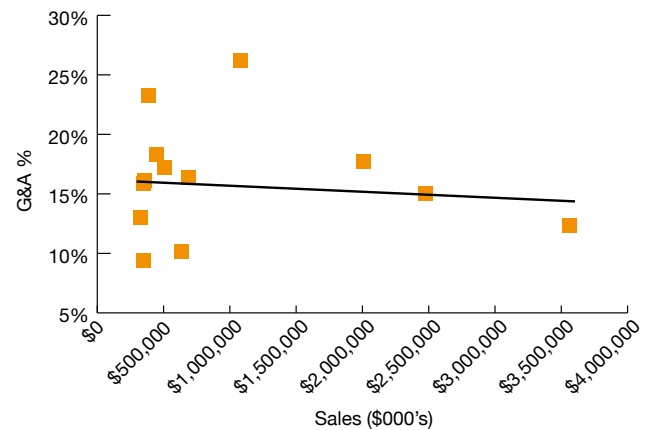


Figure 10a: Net sales vs G&A % – Specialty other <\$1B

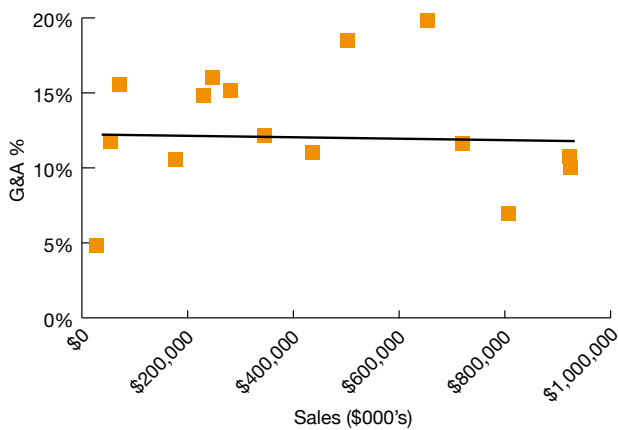
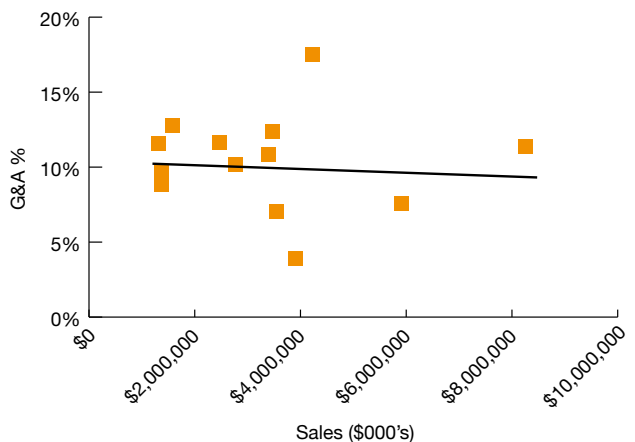


Figure 10b: Net sales vs G&A % – Specialty other >\$1B



Canada vs US retailers

There has been a lot of discussion on why retail prices tend to be higher in Canada compared to the US. While we did not compare retail prices, we did compare sales, cost and margin information in Canada and the US.

We found that Canadian retailers enjoy higher sales and gross margin per square foot, but this advantage is offset by higher labour and occupancy costs.

Figure 11a: Apparel – Average dollar per square feet Canada vs. US

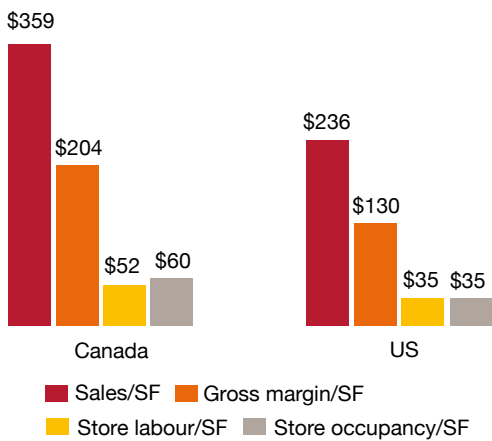
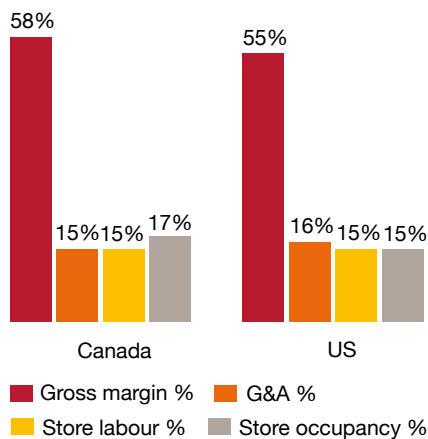


Figure 11b: Apparel – Average percent of sales Canada vs. US



Conclusion

PwC's *Retail benchmarking survey* findings show that high margin and high cost go hand in hand. So, what sets high performing retailers apart?

Our data indicates that cost control is a stronger contributor to profitability than higher margins. There are significant gaps between first and third quartile G&A costs as a percentage of sales.

While larger retailers may experience economies of scale, their increased complexity and duplication of functions largely offset these advantages.

While cost control is important, higher performing retailers are also able to focus on sales. They have significantly more productive selling space – almost 50% higher sales per square

foot than the median of their peer group. And high performing retailers enjoy higher returns on their inventory investments, with significantly higher GMROI at top quartile grocers.

Are there differences between Canadian and US retailers? We found that Canadian apparel retailers enjoy higher sales and gross margin per square foot than their US counterparts. But, this advantage is eroded by higher labour and occupancy costs.

The benchmarks in this study can help you to set goals and priorities in order to compete and add value in an increasingly complex retail environment.



“As we craft a support structure for a fast-growing company it’s valuable to compare our investments in people and infrastructure to our global business and other retail leaders. It helps determine that over or under-investment relative to our peers in a given area is strategic and not just accidental.”

– Andy McNevin, COO, Lush Cosmetics

Appendix



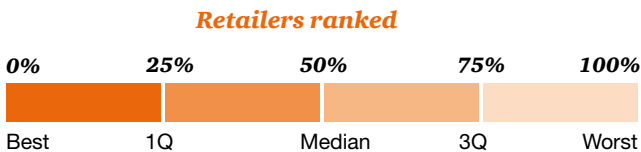
Appendix 1

Scope

The *Retail benchmarking survey* was developed in partnership with the Retail Council of Canada (RCC) and its members. It captures KPIs important to the retail industry covering revenues, costs and profitability. The data received from RCC members was combined with PwC’s Retail Benchmark database of North American retailers.

In addition, PwC conducts an in-depth, 300 question benchmark for retail clients to help them focus on areas of over or under investment and assess whether gaps are strategic or require action.

Overall survey results are presented in this report for the benefit of RCC members. Retailers who participated in the survey were also provided with individual dashboard reports which benchmark them against their peer group.



SG&A %*	KPI's
Human resources	Average sales/sq. ft.
Finance	Comp sales vs. previous year
Marketing & advertising	Merchandise gross margin %
Merchandising	Inventory turns
Store operations	GMROI
Supply chain	Store labour % of store sales
Information technology	Store occupancy % of store
Corporate services	Sales
Real estate	Conversion rate – store
Legal	Conversion rate – online
Non-merchandise procurement	Marketing spend percent of sales
Call centre	Markdown percent
Store expenses	Shrink percent

* Selling, general and administrative costs

Quartiles defined

To better understand the factors that contribute to the results of high performers, we ranked the findings into four quartiles. The first quartile is defined as the value at the point that separates the best 25% of the sample retailers along the list of values from best to worst. The third quartile is the value that sits at the 75% point. A retailer is considered “in the first quartile” if it sits between the best value and the first quartile value.

Appendix 2

Profile of participants

There are a total of 72 retailers in the benchmarking database, covering a cross-section of retail categories and business sizes in both Canada and the US.

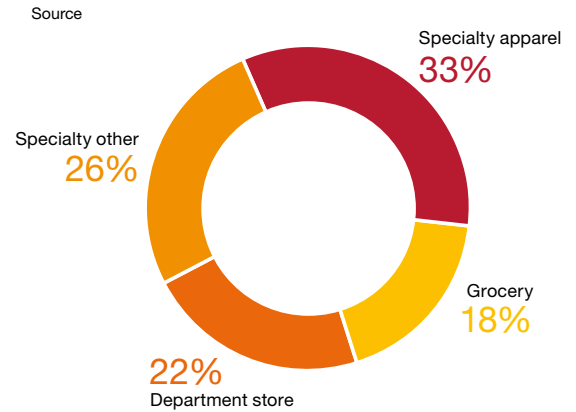
The revenue of retailers in our database ranges from less than \$30 million to more than \$20 billion, with a median of \$653 Million. Canadian participants represent over 7% of total Canadian retail industry revenues. The number of stores ranges from 1 store to 4,500 – with a median of 179 stores.

The categories are apparel, grocery, specialty other and department stores. For the purposes of this report, specialty other has been combined with department stores and is categorized as “other”.

Please note that the quartiles are calculated separately for each metric. For example, the retailer at the first quartile for net sales may not be the same retailer at the first quartile for gross margin percent.

	1st Quartile	Median	3rd Quartile
Net sales (millions)	\$2,483	\$653	\$242
Gross margin percent	56%	44%	36%
Number of stores	360	179	73
Average sf/store	46,151	11,156	3,607

Figure 1: Retail category



Appendix 3

G&A Taxonomy

	Human resources	Legal	Finance	Marketing & advertising*	Merchandising	Store operations (excluding in-store ETFs and labour)
Retail store	<ul style="list-style-type: none"> • Benefits administration • Compensation administration • Employee lifecycle/ HRIS • Employee relations • Diversity • Recruiting • Communications • Field HR (excluding store training) • Corporate development and training 	<ul style="list-style-type: none"> • Corporate counsel • Legal affairs • Real estate counsel • Corporate contract administration 	<ul style="list-style-type: none"> • Accounts payable • Internal audit • Receivables • Revenue accounting • General accounting • Control and reporting • Financial planning and analysis • Treasury and tax • Capital and fixed assets accounting • Payroll 	<ul style="list-style-type: none"> • Marketing strategy • Promo planning • Creative • Media buys/ advertising • Marketing operations • Marketing communications • Market research • Print production • Creative • Public relations • Corporate giving/ sponsorships • Loyalty program 	<ul style="list-style-type: none"> • Category management • Sales planning • Price management • Merchandising execution • Inventory management • Merchandise financial planning • Merchandise allocation • Merchandise buying • Merchandise design • Visual merchandising • Space planning • Merchandise sourcing/product development 	<ul style="list-style-type: none"> • Store operations support • Store audits • Store safety • Field supervision • Loss prevention • Store communication • Labour management • Store training and development • Metrics and reporting • Health and safety/ security
Direct (online and catalog)				<ul style="list-style-type: none"> • Website and social media content management • Online and email marketing • Catalog marketing • Database management and analytics 	<ul style="list-style-type: none"> • Merchandise planners, buyers, analysts, etc. dedicated for the direct business 	

*Marketing is net of co-op

	Information technology	Supply chain/DC	Non merchandise procurement	Corporate services and other G&A	Real estate/ construction & facilities management	Call centers (Not including IT)
Retail store	<ul style="list-style-type: none"> • IT operations • End user support and training • Maintenance • Application development • Application support • EDI • IT help desk 	<ul style="list-style-type: none"> • Warehouse labour (including temps) • Outbound freight (store to store, DC to store, store returns) • Transfers • Reverse logistics • Basic replenishment • DC/warehouse facilities, occupancy, maintenance (excl depreciation) • DC property insurance 	<ul style="list-style-type: none"> • RFPs/supplier selection • Non-merchandise vendor management • Supplier performance monitoring • Spend analysis • Store supplies/svcs purchasing 	<ul style="list-style-type: none"> • Aviation • Corporate affairs/ communications • Risk management • Corporate facilities • Executive offices (CEO/COO/CAO) • All office rent and maintenance • Mailroom • Insurance (Head office) • All other G&A 	<ul style="list-style-type: none"> • Store construction and administration • Store design • Location research • New store project management • Facilities management including environmental and energy • Store remodeling 	<ul style="list-style-type: none"> • Store inquiries/help desk • Customer service
Direct (online and catalog)	<ul style="list-style-type: none"> • Website technicians and support • Direct-to-consumer systems • MIS ecometry 	<ul style="list-style-type: none"> • Dedicated labour for catalog and/or online fulfillment and returns 				<ul style="list-style-type: none"> • Online inquiries • Catalog inquiries

Who to contact

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