



# Retail's delicate balance

**2023 is the year of overcoming the extreme investment tensions between people, profit and planet in the retail industry.**



March 2023

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[KPMG.com/au/retail](https://www.kpmg.com/au/retail)

# Introduction

**Retailers have proven their resilience time and again, and they are poised to do the same in 2023. However, understanding the interplay between a growing set of tensions shaping the global retail industry can help retailers do more than merely survive strong headwinds.**

## **Economic and geopolitical challenges that began in 2022 have spilled into the new year.**

Spreading global inflation means households have less buying power and business margins are under pressure. Tighter monetary policies from central banks have increased the cost of capital. And recession – albeit softer than anticipated – is on the horizon in many economies.<sup>1</sup> Australia's GDP growth looks set to be slow at best for 2023.<sup>2</sup>

To claim the world needs retail to prevail against these latest headwinds is not hyperbole. In every country, the industry is among the largest private sector employers, the primary source of food and other necessary goods, and a major influence on natural and other resources along the value chain.

## **Despite the challenges, retailers are excited about the future of the industry.**

With ongoing margin compression and decreased access to affordable capital, retailers are considering how to afford, and target

investing for the future. At the same time retailers continue to explore new technologies and business models, smoothing the customer experience, and acknowledging their sustainability and other environmental, social and governance (ESG) responsibilities.

## **For retailers to continue their growth trajectory, they must recognise the high-level forces at play in the industry, and the tensions between them.**

These tensions include protecting margins and growing under harsh economic realities; the rising importance of people, from customers to employees with the rising workforce cost and retention challenges; and the new reality that sustainability can't be set aside when market conditions take a turn for the worse.

KPMG believe there are three key areas Retailers will be focusing on in the year ahead – People, Profit and Planet. The change for 2023 is that People take precedence.

**Australia employs >1.3 million people across the \$411.5 billion<sup>3</sup> retail sector, accounting for 9.7% of the country's total workforce.<sup>4</sup> Retailers also continue to hold significant trust from customers, with eight out of the top ten most trusted brands in Australia coming from the retail sector.<sup>5</sup>**

<sup>1</sup> NRF, Sustainability on the store shelf, 9 January 2023

<sup>2</sup> AFR, Economy: Maybe 2023 won't be so bad after all – it's a matter of perspective (afr.com)

<sup>3</sup> Retail Trade, Australia, December 2022 | Australian Bureau of Statistics (abs.gov.au)

<sup>4</sup> <https://labourmarketinsights.gov.au/industries/industry-details?industryCode=G>

<sup>5</sup> <https://insideretail.com.au/retailers/retailers-dominate-the-most-trusted-brand-rankings-in-australia-202302>

# KPMG believe there are three key areas Retailers will be focusing on in the year ahead – People, Profit and Planet. The change for 2023 is that People take precedence.

While the '3Ps' of people, profit and planet were widely addressed at the National Retailer's Federation 2023, there was one clear theme at the top of the retailer executive agenda this year: People – above all the retail associate/team member.

The effort to win the customer's attention and loyalty continues to also be a focus, especially as retailers try to grow market share in a more challenging market environment in 2023. What sits under customer loyalty is under review. This year, however, the spotlight has shone on retail employees. What many thought were temporary conditions at the height of the pandemic now appear to be more structural. This is evident as labour shortages and the accompanying wage inflation continue, and the changing role of stores in communities has accelerated.

Retail leaders are having to adapt their thinking around workforce management, learning management systems, talent management, recruitment, and corporate culture. To help combat attrition, more retailers have developed their employee value propositions (EVPs) by focusing on the facets that create the most engagement, stickiness and retention and investing in learning management systems.

More broadly, there is also still significant opportunity for the retail industry to lean into developing retail as a career with clear pathways as opposed to a single job.

Retailers have introduced policies and benefits to support employee health and wellbeing, including launching training and upskilling programs to attract new employees and help fill new roles with existing team members. Retailers have also accelerated workforce management transformation with new processes, systems and tools. New technologies on the retail floor or within the supply chain allow retailers to do more with less – kiosks, self-checkout and returns, automated distribution centres and many more efficiencies will become commonplace.

The divide remains between corporate and front-of-store employees, which was exacerbated when the pandemic created a stark contrast between those who could and could not work from home. However, the unique value of instore employees continues to rise, with frontline workers becoming authentic key opinion leaders (KOLs) with the ability to influence customer buying behaviours.



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To help address the many influences or themes creating tensions within the retail industry this year and beyond, KPMG has developed best-in-class, focused solutions across multiple dimensions.

These help board directors and retail executive teams across Australia assess their organisation's tensions and harmonies and find their unique points of tension between people, profit and planet. With the insights generated, retail leaders can better protect profitability, establish business priorities, and find opportunities for sustainable growth.

What are your  
most urgent  
tension points  
to overcome?



# People. Profit. Planet.

Taking a holistic view, we believe all influences shaping the retail industry today can be framed along three high-level forces: people, profit and planet (the 3Ps).

Within the 3Ps are numerous themes pushing and pulling at each other to **impact retailers**: employees, customers, shareholders, sustainability, society, regulation, profit protection, growth, new business models and innovation.



## PEOPLE



Retail is a powerful force, serving as one of the largest private sector employers globally, and providing entire nations with access to goods, and individuals with their first job. Retail companies impact millions of lives in different ways, and ideally, they leverage diverse talent while ensuring equity and inclusion across their workforce while delivering on their responsibilities to customers. In return, retailers are influenced by their stakeholders through purchasing power, investment, and regulation.

### Key topics for Retailers to address

#### Employees

##### *Promoting retail as a career*

Head/corporate office to support office evolution, attraction and retention, living wage, benefits, hybrid work, organised labour, workforce management, upskilling and training, access to technology, physical and mental health, turnover, staffing shortages, immigration.

#### Customers

##### *Rapidly shifting customer demands*

Customer-centricity, generational preferences and expectation of personalisation, data usage, ESG focus – in particular closing the 'say-do' gap opportunity<sup>6</sup>, managing privacy and cyber security, personalised experiences and brand loyalty.

#### Other stakeholders, e.g. shareholders, policymakers, influencers

##### *Managing key relationships*

Shareholders, activists, suppliers, government agencies, policymakers, financial institutions, traditional media, social media influencers.

## PROFIT



When customer demand softens as propensity to pay is challenged, retailers have a growing menu of tools for preserving margin, most of them short-term. Retail has seen strong tailwinds from inflation recently, but the underlying volume has slowed significantly, particularly in at-home food and liquor. Slower moving product categories are also beginning to see slowdown coupled with significant inventory challenges. More often though, longer-term projects – especially those that will deliver structural benefits often connected to large-scale technology improvements – are shelved, sacrificing future benefits and the ability to gain market share. In addition, delivering against profitability ambitions whilst achieving people and planet targets, are critical.

### Key topics for Retailers to address

#### Margin protection

##### *Fostering reliability*

Creating efficiencies, operational effectiveness, loss prevention and reduction driven by technology, pass-through of inflationary costs, inventory and supply chain management, real estate footprint, cost synergies, digital and physical asset monetisation.

#### Growth

##### *Building consistency*

M&A, portfolio optimisation, cost to serve, cost out, price optimisation, promotional elasticity and effectiveness, revenue synergies and partnerships.

#### New business models and innovation

##### *Constant evolution*

Channel convergence, operating model transformation, social commerce, automation, artificial intelligence, cloud, shedding or reimagining retail space, alliances, ecosystems and marketplaces.

## PLANET



Planet and corporate health are intertwined. Climate-driven events have the potential to impact everything from fixed assets and employee safety to the ability to operate altogether. Retail companies are critical to preserving the environment and biodiversity by reducing the negative effects of their manufacturing, packaging, distribution, and other aspects of the value chain.

In raw materials sourcing, there are multiple considerations for food retailers:

- the environmental impact, such as evaluating the impact of extractive processes on natural resources, air and water pollution, and deforestation
- labour practices along the supply chain, including fair wages, working conditions, and labour rights
- supply chain transparency, the traceability of raw materials with ethical practice.

In non-food, such as fast fashion, here too;

- waste reduction – ESG principles focused on reducing waste, and recycling
- labour practices including fair wages, safe working conditions, and the protection of workers' rights
- the use of chemicals in the production process.

Retailers have the opportunity to close the 'say-do' gap if they are to successfully deliver on planet ambitions. Customers increasingly reward companies that commit to protecting the planet, and stakeholders demand demonstration of promises kept. However, environmental efforts and regulations are increasingly local, challenging global retailers to adapt.

### Key topics for Retailers to address

#### Sustainability

##### *Retailers as the end point of distribution in the value chain*

Sustainable and recyclable materials, reduced waste, less packaging, transparent carbon-neutral production and distribution (not simply carbon-credit based), sourcing and supply chain visibility through leveraging blockchain and meeting customer demands.

#### Society

##### *Supporting the retailer's role*

Collaboration with communities, localisation of product through data and insights, economic development, education and skills development, employment, cost and access of goods, disaster relief and public safety.

#### Regulation

##### *Helping with proof of commitment*

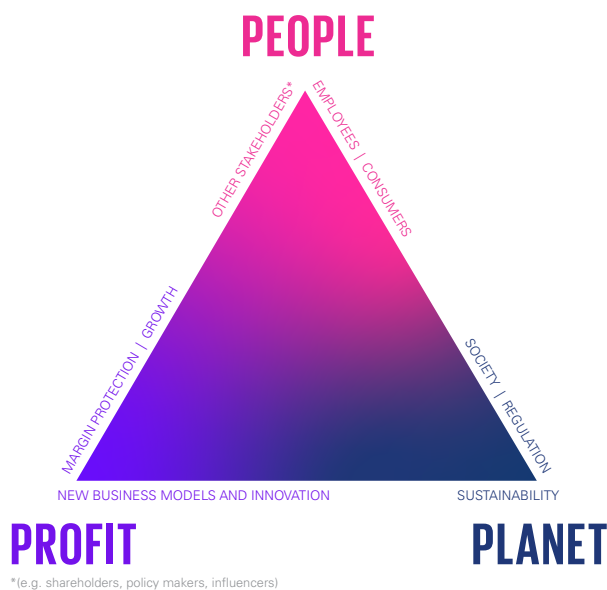
Increasing ESG reporting requirements, traceability and governance over vendors and partners, communications with stakeholders, brand and valuation.

<sup>6</sup> Bain & Company, Unpacking Asia-Pacific Consumers' New Love Affair with Sustainability

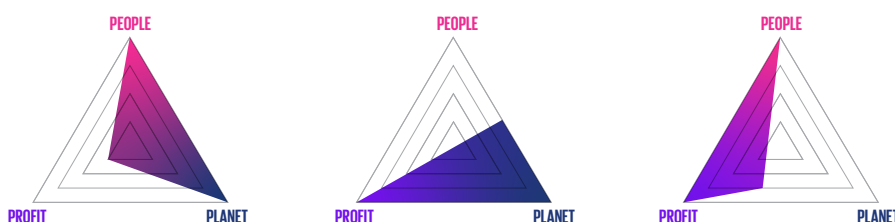
# How to overcome these retail tensions

**Retailers must perform a balancing act, addressing each individual theme across the nine topics, and understanding their interdependencies without detrimentally impacting others.**

Successful leadership teams take a multidimensional approach to the challenge, counterbalancing and overcoming the tensions by actively seeking the related harmonies. Insights for better decision-making come from gaining a deeper understanding of the countless connections and contradictions and their impact on the industry.



Each retailer has unique tensions and harmonies depending on how the organisation addresses its people, profit and planet goals. These tensions vary by each organisation and stretch the retailer's focus, investment and resources in varying angles that align to their brand value proposition and purpose.



**We have identified three of the most important tensions the retail industry will face this year.**



PROFIT &amp; PLANET

## The growing tension between margin protection and sustainability ambitions

**The retail industry continues to be one of the most powerful forces in the world, with the global reach to effect meaningful progress on the environment and society at large. At the same time, retail profitability has declined as much as 50 percent in many of the major markets over the last 10 years,<sup>7</sup> and currently, margins are experiencing further increased pressures as costs associated with goods, labour, capital, operations, consumer acquisition, and other business expenses have skyrocketed. Retailers can't simply pass these costs along to consumers through higher prices for competitive reasons, but also because they feel a societal obligation to their consumers and communities.**

**This situation is questioning the focus on sustainability as the transition to more sustainable practices is costly unless they are embedded in the whole value creation model. Retailers will need to constantly evolve, adopting new business models and strategies working across the entire 'farm to fork' value chain that will allow them to deliver on the promises that they have made to ALL their stakeholders.**

**More and more non-food retailers are introducing resale business models.** The resale business model is moving from customer-to-customer online marketplaces and thrift shops to shop floor and retailer ecommerce sites. In the near term as wallets are shrinking, customers are looking for bargains. But resale is a long-term trend driven in great part by the younger generation's desire to support a circular economy. Even though a growing resale market has the potential to cannibalise new product sales, more than 100 retailers in the US sell previously owned merchandise to capture some of this market, according to NRF 2023.<sup>8</sup>

During her interview at the conference, Saks OFF 5TH President and CEO Paige Thomas discussed the retailer's partnership with Rent the Runway and others, to sell used fashion as one part of their strategy to add new capabilities and meet customer demands.

The company confirmed in a survey that resale would be welcomed by its customers: 80 percent said they are open to buying second-hand from a retailer that can authenticate and curate clothing in excellent condition.<sup>9</sup>

H&M-owned Cos brand has created a marketplace for customers to buy and sell its used fashions, for which Cos takes a commission. Among furniture retailers, IKEA's Buy Back & Resell program gives store credit for used goods they resell onsite, already assembled by another customer.<sup>10</sup>

In Australia, The Iconic has partnered with AirRobe – with just a tap, items can be added straight to AirRobe to make them available to resell, rent or recycle.<sup>11</sup> More broadly, there has been a significant increase of retail fashion startups that accelerate this resale trend in Australia such as Showpo.

**Can retailers be sustainable and protect margin?** ESG is ubiquitous in the investment community, yet there's a limit to how much investors expect companies to commit to ESG at the expense of profitability.

And there's a limit to how much customers will pay, or expect to pay, for a retailer's sustainable practices. One-third of customers globally say they are willing to pay more for sustainable products, according to an environmental sustainability in business survey. Yet the same percentage say sustainable alternatives are simply too expensive, and inflation has negatively affected their buying power.<sup>12</sup>

<sup>7</sup> KPMG analysis, last 10 years to 2023

<sup>8</sup> NRF, Sustainability on the store shelf, 9 January 2023

<sup>9</sup> Retail Dive, Saks OFF 5TH partners with Rent the Runway, 28 July 2022

<sup>10</sup> Greenmatters, IKEA Makes Furniture Buy Back & Resell Program Permanent at 37 US Stores, 31 March 2022

<sup>11</sup> Iconic website

<sup>12</sup> Simon-Kucher Strategy & Marketing, Environmental sustainability in business, 2022



**Products making ESG-related claims averaged 28% cumulative growth over the past five years, +800bps faster than products that made no such claim; and, brands with ESG claims have higher loyalty, with a 34% or 3.4x repeat rate vs those that have lower levels at 27%.<sup>13</sup>**

To be sustainable and protect margins, retailers must continue:

- transforming their operating models
- investing in supply chain automation and the usage of blockchain for product transparency
- category management processing and systems to drive up return on space (instore and online)
- end-to-end ESG impact planning and implementation
- cost improvement programs and systems.

Ecommerce profitability can also be improved by order picking and fulfilment efficiency optimisation and order orchestration platforms. And in the meantime, they can improve the customer experience through their content and filters, helping customers make more environmentally conscious choices. A handful of companies including Patagonia, built loyalty among environmentally focused customers

by focusing their entire purpose on sustainability: “Buy less. Buy used. Repair. Demand more.” while being fully B Corp certified. Others try to connect the sustainability and profit protection agendas to deliver on both efforts, such as cost optimisation opportunities like: range optimisation, blockchain usage to highlight transparency of product in the supply chain, and re-engineering measures to switch from far-shore to near-shore sourcing.

#### **Products may live a longer life**

Another way retailers are addressing potential waste and reducing their carbon footprint is through services to rehab used goods for their owners. In addition to Patagonia, Nike opened pop-up stores to whiten customer sneakers. Levi Strauss & Co. helps customers understand how to extend the life of a pair of jeans through clear and sustainable “wash less” directions as well as by offering instore tailoring to repair or repurpose vintage denim.

<sup>13</sup> McKinsey & Co, Consumers care about sustainability – and back it up with their wallets, 6 February 2023





Meanwhile, in the UK, Sainsbury's is tackling food waste through a London pop-up store, Sainsfreeze, demonstrating storage and other techniques to keep goods from going bad.<sup>14</sup>

### Risks and opportunities are local

While regulatory and market frameworks for sustainability disclosures are becoming more similar, requirements are changing all the time, and there is no current overall global ESG standard. The importance customers place on sustainability also varies greatly from one market to another, therefore companies willing to stand globally for a consistent purpose, regardless of local differences, could have an even greater impact on the planet – customer use and post-use represents up to 90 percent of Scope 3 emissions for customer-facing companies.<sup>15</sup>

Retailers have to keep an ear to the ground in the markets in which they operate, to anticipate government and regulatory change and uncover the business opportunities driven by that change.

By engaging the local community, retailers may be able to reduce some of the tensions standing in the way of greater environmental impact – and profitability.

### Actions are louder than words

Increasingly, customers have taken to social media to punish companies for greenwashing or virtue-signalling.

The North Face and Columbia were among the outdoor apparel retailers praised at NRF 2023 by the executive director of the Reverse Logistics Association as companies that have “sustainability in their ethos”. Their encouragement of building products for long life, donations of items they can't restock, and other practices are “more important than just saying you're sustainable”.<sup>16</sup>

Retailers' ESG commitments also need to be authentic and permeate their customers' experiences, which requires an integrated ESG approach.<sup>17</sup> Customers will consistently reward companies who are honest about their shortcomings but stay true to their mission.

**62% of Gen Z and millennial customers shop for second-hand items before purchasing new goods**

**46% consider resale value before buying**

**The global second-hand goods market is expected to grow by 127% by 2026 – 3x faster than the global apparel market**

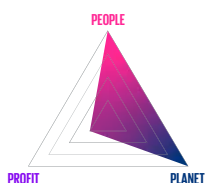
*Source: thredUP 2022 Resale Report*

<sup>14</sup> Sustainable Brands, Sainsbury's 'Sainsfreeze' Pop-Up Will Show Brits New Ways to Reduce Food Waste, Save Money, 23 September 2022

<sup>15</sup> World Economic Forum, Scope 3 Decarbonization: The Consumer Opportunity

<sup>16</sup> Multichannel Merchant, Looking at Ecommerce Returns in a New Light, 18 January 2023

<sup>17</sup> KPMG International special edition 2022: Me, My Life, My Wallet



PEOPLE &amp; PLANET

## The escalating tension between people and sustainability ambitions

For thousands of years and across many civilisations, retail has been an integral part of society. The marketplace today is not so different from that of ancient Greece or Rome; it continues to serve as the hub of the community. The industry is also often the largest public sector employer in many countries and an integral part of many local communities, providing entry-level jobs and flexible working arrangements to serve the needs of those who live there. And, many retailers focus charitable activities on local needs. However, retailers can miss opportunities in that intersection between employees, customers, and community. In fact, a strong corporate purpose can help drive customers, attract and retain talent, and sustain business, especially during an economic downturn.

Some large retailers recently announced that almost

# 17%

of their roles were vacant

Many retailers are reporting sick leave rates peaking at

# 70%

more than normal levels at times over the last year.

### Talent is scarce – and expensive

Nearly all industries around the globe face a talent shortage following the onset of the pandemic, but retail headcount shortages are clear to everyone who has waited in long checkout lines, wandered a store looking for help, or tried to open a locked door as store hours shortened. The UK retail sector, for example, is claiming significant labour shortfalls. Some grocery retailers are missing on average 15 percent of frontline staff.<sup>18</sup>

In Australia, the number of workers in retail fell 2.7 percent over the quarter leading up to festive trading.<sup>19</sup> Behind the scenes, retailers are still trying to fill technology, warehouse, logistics, and other critical job functions, with the retail sector seeing a crisis unfold in terms of shortfall.<sup>20</sup>

Some large retailers recently announced that almost **17 percent of their roles were vacant**.<sup>21</sup> Coupled to this, many retailers are reporting sick leave rates peaking at **70 percent more than normal levels at times over the last year**.<sup>22</sup>

These, along with product supplier labour shortages, adversely impact the core customer experience. And we know suboptimal customer experience and engagement adversely impacts sales. But at the same time, the need to offer higher wages to attract and retain employees and address inflationary driven pressures have eaten into already slim margins. Therefore, headcount reduction is often a natural cost optimisation approach in the sector, although the longer-term implications are often underestimated.

<sup>18</sup> BRC, Retail Jobs Continue Downward Trend, 13 December 2022

<sup>19</sup> Australian Government, Retail Trade & Labour Market Insights to end Nov 2022

<sup>20</sup> Inside Retail, ARA urges skilled migration, flexible work arrangements to fill labour gaps, 1 September 2022

<sup>21</sup> News.com.au, Coles job security put in the spotlight at Senate inquiry into work and care, 31 January 2023

<sup>22</sup> Retail World Magazine, Sick days weighing down Aussie businesses, 16 November 2022. Also Australian Financial Review, Australia COVID: Bosses brace for a month of record sick leave (afr.com), 10 July 2022

### Employees are one of retail's most under-utilised assets

In the United Kingdom and the United States, retail is the #1 and #2 employer, respectively; and #2 in Australia at ~1.3 million employees – behind healthcare and social assistance. Those employees – who also are customers – have the potential to be the most prominent marketing ambassadors and customer insight agents for the organisations they represent. Using retail employees to promote the company can have a positive impact on marketing expenditure while enhancing the authenticity of the brand. However, if employees are to be effective long-term assets, they must be treated well – paid fairly, engaged, and trained properly.

### Willingly or reluctantly, retailers have taken on the role of societal change agents

Retailers recognise that to offer the right customer experience, their employee base should understand and mirror their customer base. More have implemented diversity, equity and inclusion (DEI) programs for their customer-facing employees in recent years.

Some retailers also are wielding their buying power. In the US, Target committed to invest US\$2 billion in black-owned businesses and place more of their products on its shelves. Others tackle current events – Chobani founder and CEO Hamdi Ulukaya told NRF 2023 attendees that a simple but powerful way to help global refugees is to hire them. In return, Ulukaya said his company benefits from their creativity, talent, and loyalty.<sup>23</sup> Retailers in Australia are increasingly changing to reflect their local communities; not only does this drive sales, baskets and stickiness, but it also enables stronger ties with the community itself.

### Retailers are core members of the community

The retail industry touches the entire population and uses its breadth to make a difference in local communities. Lowe's CEO was honoured at NRF 2023 with The Visionary Award for Change, a recognition for the US home improvement retailer's US\$100 million community investment and other programs.<sup>24</sup> The NRF Foundation also honoured executives from Gap Inc., Ministry of Supply, Steve Madden, The Home Depot, and Walmart via its People Shaping Retail's Future 2023 list for their community work.<sup>25</sup>

Retailers globally also provided material goods and volunteer assistance in times of crisis, in addition to monetary investment. During the height of the pandemic, non-essential retailers and customer packaged goods (CPG) companies diverted their raw materials and repurposed production lines to make essentials such as masks and hand sanitiser.<sup>26</sup>

Finally, many retailers at NRF 2023 including Walmart, Target, and Kroger, reiterated the importance of the sector (and their role as an employer) and as a major provider of entry-level jobs and an on-ramp to successful careers, as opposed to simply one of job roles.

### Community connections require investment

Retailers aspire to build deeper connections with the local community every day but this requires resourcing and time investment at scale, and in many cases, in the context of downward pressure on P&L and balance sheets.

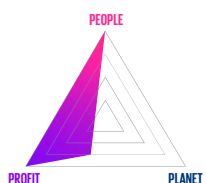


<sup>23</sup> NRF, For Chobani CEO Hamdi Ulukaya, hiring refugees is a no-brainer, 17 January 2023

<sup>24</sup> NRF, NRF Announces Lowe's CEO Marvin Ellison as The Visionary 2023, 12 December 2023

<sup>25</sup> Retail TouchPoints, Walmart, Home Depot and Gap Execs Honored by NRF Foundation, 27 December 2022

<sup>26</sup> World Economic Forum, From perfume to hand sanitiser, TVs to face masks: how companies are changing track to fight COVID-19, 13 April 2020



PEOPLE &amp; PROFIT

## The mounting tension between people focus and profit ambitions

**Employees are one of retail's most important assets, but far too often they are considered first as a cost centre. Attracting, retaining, and incentivising talent is a considerable challenge, with acute labour shortages across many countries. Retailers may view a smaller workforce as helpful for maintaining margins, especially while economic uncertainty continues – but at what cost to customer experience and growth?**

**Here we see the culmination of three themes creating tension and harmony. Technology investment should remain a priority, releasing pressure on the bottom line by increasing efficiencies and productivity from a shrinking workforce. Just as importantly, technology can free employees from manual tasks and give them the time and information they need to enhance the customer experience and generate loyalty.**

**The pandemic showcased how retail employees are frontline 'critical' workers for the smooth running of society and ultimately, irreplaceable leaders on the customer journey.**

At the height of the pandemic, the industry was focused on increasing automation to replace people and improving logistics to deliver goods directly from the warehouse to home. But when stores reopened, the customer, who clearly valued both the physical and digital channel, returned with demands for more personalised and immersive experiences. Customer-facing employees are needed more than ever but often lack the proper tools and incentives to give customers what they crave. When coupled with higher levels of sick leave, retail employees often have to pick up additional work on the shop floor in the short term.

**Automation and Artificial Intelligence (AI) represent more bang for the retailer investment buck**

Ongoing labour shortages may require greater investment in these technologies to make up for permanently smaller

workforces, although the potential benefits are much wider. Retailers can also better leverage their data in real time using AI to build customer lifetime value through engagement, acquisition, retention and customer experience. It also enables retailers to take opportunities or make decisions about shedding businesses if conditions shift quickly.

Intelligent technologies applied to supply chain management – still a top pain point for most retailers – can improve visibility and efficiency. This visibility and transparency can also improve last mile fulfilment economics and customer experience. Last mile itself is becoming increasingly competitive in both efficacy and cost, with some retailers opting to partner with specialists and/or build order orchestration and route optimisation automation into their ecommerce processes, to maximise on time delivery, customer experience, retention and profitability.

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**When employees benefit from new technologies, the rest of the company can as well.**

#### **Omnichannel strategies require technology to empower employees in the store front**

When placed directly into the hands of retail employees, technology has tremendously positive impacts on profitability through improved customer service. The same technology and training for all employees, whether they sit in an office or stand at the register, helps maintain a quality experience for customers from web to store. Additionally, a single data-driven view of the customer that can be leveraged by employees instore, online and at customer service centres via easy-to-use apps, can help to drive overall engagement and stickiness.

#### **Technology investment has a spillover effect**

When employees benefit from new technologies, the rest of the company can as well. Ideally, investment in technologies, including automation, increases efficiencies and frees employees from repetitive processes to better serve customers. Higher conversion rates, increased units per transaction and return visits measure the impact.

Employees who are engaged in more interesting work also tend to stay. A Lowe's technology executive said at NRF 2023 that an application the retailer deployed to the store's associates reduced mundane tasks by 20 percent, allowing them to improve customer service and making their jobs not only more efficient, but "more exciting".<sup>27</sup> Technology improvements like these, in turn can reduce recruitment needs and better position retailers to upskill employees, a virtuous cycle.

<sup>27</sup> Retail TouchPoints, NRF 2023 Spotlights Profitability, Workforce Enhancements and Media Network Opportunities, 24 January 2023

**Upskilling presents a strong reward-for-investment ratio**

Recruiting, hiring, and training new employees can cost more than the price of better leveraging personnel on hand. Additionally, training that folds employees into the retailer's culture gives them confidence and support, and aligns corporate and workforce goals to help prevent attrition. Some companies have introduced gamification into their training modules for an improved experience.

**Employee KPIs need realignment**

If acquisition, conversion or customer retention become top Key Performance Indicators (KPIs), for example, then compensation (including commission and profit sharing) are motivating tools. Unfortunately, many retail employees sit in silos left over from when there was a much more solid line between bricks-and-mortar and ecommerce businesses, as well as between retail floor and office employees.

Performance goals and incentives vary from one team to another. Technology budgets also still reflect this past, with greater allocation given to online initiatives without thought.

Change and workforce management programs can help develop a unified and customer-centric work culture, and a common set of KPIs that roll up to high-level corporate initiatives. Updated trainings can help ensure the widest number of employees are comfortable with new technologies, fully leveraging the tech investment and allowing the company to provide the seamless, omnichannel presence customers now demand.



**51% of US retailers equip store associates with mobile devices to assist customers**

**But only 13% can check them out**

**Just 10% have kiosks for self-checkout**

*Source: Omnichannel Retail Index 2022, OSF Digital*

# In summary

## **Navigating through the prioritisation of investment across these three tensions centres on the retail brand's purpose – or customer value proposition.**

A retailer's brand purpose helps it reconcile the tensions between people, profit and planet. Purpose gives retailers permission to implement a business model that pulls in one direction or another. It allows retailers to make strategic and operational choices relevant to their unique cultures, markets and industries, and to be evaluated on their consistency and adherence to the direction chosen.

To overcome these tensions for retailers is not a one-size-fits-all approach. Not all retailers are equal, there are significant differences that can affect the speed and effort required, and prioritisation of focus.

Positioning can differ within verticals, with some focusing more on premium offerings and experience versus value. Across verticals (food vs non-food), there are marked differences in the available gross and contribution margin to invest, cost to serve and supply chain costs. Additionally, there are further differences with product lines (such as evergreen vs seasonal products) that require precise open-to-buy management to get the best return on inventory and margin effectively.





# How KPMG can help

KPMG Australia's Retail experts offer customer experience, operational advisory, digital transformation, restructuring, tax and M&A services geared to the unique needs of the retailing industry.

Below is a sample of how we can support our client's needs, specifically centred around the 3Ps. For additional services, capabilities and insights, please visit [kpmg.com/au/retail](https://kpmg.com/au/retail)



## People

- **Employee:** onboarding and experience mapping, voice of employee, people and change, tax and employment law
- **Customer:** insights – voice of customer, CX strategy, marketing effectiveness and optimisation
- **Retail loyalty programs:** single view of the customer including CRM implementation for segmentation and targeted promotions, brand strategy and loyalty program ROI reviews
- **Shareholders and regulators:** capital markets advisory, reputation advisory



## Profit

- **Protection:** range and merchandise optimisation, operational excellence in retail advisory services, supply chain resilience, functional and digital transformation and store network optimisation, pricing optimisation, inventory optimisation
- **Growth:** M&A, international expansion, technology advisory, customer experience, loyalty and customer lifetime value optimisation
- **Finance strategy and operations:** finance target operating model, business intelligence tools and data analytics, cost models, lean finance principles, shared services and outsourcing, robotics process automation services
- **Data and analytics:** data analytics strategy and roadmap, dashboards and visualisation, execution support, scheduling/optimisation, compliance (controls, fraud), data monetisation
- **Omnichannel:** end-to-end order process review to improve customer metrics and profit optimisation, real-time personalised targeted messaging to drive engagement, retention and conversion, increasing customer lifetime value, customer journey mapping to identify and increase customer lifetime value
- **Restructuring:** strategic business reviews, business restructuring and planning, performance improvement, lender assistance, shareholder management and negotiation, distressed financing and refinancing, cash and working capital strategy, asset divestment, exit planning and implementation
- **Business model and innovation:** operating model design and transformation
- **Cyber program assessments:** design security, powered identity, cyber resilience, third party risk management
- **Automation:** process, technology and data



## Planet

- **ESG benchmarking:** including maturity assessments, materiality assessments, ESG metrics and reporting and how to operationalise
- **Risk management:** regulation and compliance, people learning and responsible culture development
- **Technology and data:** data management and tech integration services
- **Circularity in retail:** food waste, ESG embedded in merchandising and ranging, modern slavery and social risks, super-traceability through the supply chain
- **Assurance services for ESG reporting:** reporting and advisory services



# KPMG Australia Retail Advisory

Where does your organisation see tensions and harmonies between people, profit and planet? We look forward to sharing insights and ideas with you.



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