From fine to distress

Over the past 12 months we have witnessed numerous retailers’ financial performance rapidly deteriorate, and often with seemingly little warning.

There are many examples in which well-established brands have gone from trading with no visible problems to severe financial distress in less than 6 months. Companies are simply running out of cash as lenders and other providers of finance shy away from retail.

However, other organisations have survived and thrived despite today’s complex environment.

The common theme from successful retailers is proactive engagement, and addressing challenges head on.

Underestimating the challenges when they emerge, and believing that a recovery will happen on its own, is a high risk strategy, fraught with uncertainty and unlikely to deliver. Here we outline the challenges for Australia, and demonstrate three case studies in which we have deployed our extensive retail experience to help management teams and boards to address issues proactively.

Proactive retailers can still make an impact in a market that continues to surprise.
Clear warning signs to watch

Warning signs can arise in differing forms between retailers, however the underlying trend throughout the sector is that the sooner organisations take action, the more options they have to maintain a sustainable future.

Key challenges for Australian retailers

- Deteriorating sales
- Endless discounting
- Declining margins
- Poor working capital performance
- Lender and stakeholder pressures
- Disengaged customer or workforce
- Increasing online sales
- Shifting consumer habits, sentiments and expectations
- Oversupply of physical space
- High levels of household debt
- International competitors entering the Australian market
- Changing regulatory environment
Proactive change – how KPMG has helped retailers

Toy retailer

Client challenge
A toy retail chain was facing financial difficulty arising from the collapse of its US parent. In Australia, the operations of a number of its stores were sub-optimal or loss making. The chain’s store footprint quickly required optimisation and needed insights and support on a turnaround plan at deal speed.

KPMG response
KPMG gained access to its data and applied our data analytics tool, Target Value Platform, to explore the status and what could be done. Within less than 3 days, our team found tactical opportunities to improve the enterprise’s value across a number of levers including working capital, pricing, supply chain and procurement.

Benefits to client
KPMG’s proprietary tools and approach provided deep insights into operations at deal speed, creating a competitive advantage in the bid process. The retailer was able to introduce a high level store optimisation strategy combining leasing, store performance and demographic data to build a strong case for landlord negotiations.

ASX-listed retailer

Client challenge
An ASX-listed retailer needed to drive cash and profit within an accelerated timeframe of less than 3 months. KPMG was engaged to work with senior leadership across finance, legal, merchandise, strategy, property, operations, HR and IT to find a solution to the challenges.

KPMG response
The team identified over 30 key initiatives across the business, comprising of both quick wins and sustainable, longer-term improvements. These included improving out-of-stocks, mark-downs, support function efficiencies, supplier performance, working capital, lease strategies and divestment of underperforming subsidiaries.

Benefits to client
KPMG’s challenging mindset and unrelenting focus on execution brought immediate and sustainable benefits to the retailer. The use of KPMG data and analytic tools provided the retailer with a rapid and cost efficient means of providing deep, data led insights.

ASX-listed food retailer

Client challenge
An ASX-listed food retailer needed assistance to rapidly gain visibility over its cash flow, as well as turnaround support and assistance with stakeholder reporting.

KPMG response
KPMG’s initial focus was on the development of a robust cash flow forecast. Our role included assisting with enhanced financial reporting, rapid identification and implementation of turnaround initiatives, ultimately ensuring information was able to withstand external scrutiny.

Benefits to client
KPMG’s initial assistance provided the retailer with the foundation and timeframe to develop and execute a more comprehensive turnaround plan. KPMG was then able to support the retailer in identifying, validating and implementing performance improvement initiatives.
A proactive approach

KPMG has deep experience working with countless types of retailers – from distressed businesses which need a rapid turnaround or transformation, to others which are trading profitably but are determined to improve their performance.

We can help management teams and executive boards to ensure they are appropriately prepared for turbulent market conditions.

Our expertise can help businesses to maintain a more cash generative position and to optimise their performance to be able to withstand unpredictable events or funding requirements.

This can lead to much greater confidence from key stakeholders, and provide the platform for a more competitive and engaging customer experience.
We use interactive tools and leading data visualisation techniques to ensure benefits are quickly identified and implemented. The tools can also be used for planning purposes and provide the ability to spot warning signs early.

**Business plan review**
We can thoroughly review your business plan and apply stress tests to ensure key stakeholder confidence is maintained. The review can also include product profitability to ensure you have the optimal range of products through focus on profitable stock keeping units (SKUs).

**Cash and working capital optimisation**
Through a review of your cash position, we can help to ensure your business is sufficiently cash generative to meet funding requirements. We can also assess your working capital and identify hidden cash benefits which can ultimately be released. We can also ensure there is clear visibility of your cash position in the short and long term to avoid any unpredictable pay outs having a harmful impact to your business.

**Rapid cost reduction**
We can help to improve margins across your business by assessing and reducing your cost base. This can focus on rapidly taking out costs – from head count costs (via workforce right-sizing) to non-pay costs. We will also ensure appropriate spend controls and authority limits are in place.

**Options review**
Our options review can ensure appropriate and robust contingency plans are in place. We can help you to consider the sale of underperforming areas of the business and help to implement a strategic plan to carry the business forward in the best possible way. In more challenging situations, we can also assist Directors consider Safe Harbour.

**Property rationalisation**
We can review your property footprint and in doing so, highlight underperforming locations or those vulnerable to change. We can subsequently help with exit considerations and assist with lease negotiations.

**Financing and funding**
We can use our extensive debt advisory expertise to ensure optimal debt structures are in place for maximum headroom. This may be through seeking new debt finance or refinancing with existing lenders. We can assist with discussions with existing or new lenders, and consider options for restructuring your debt.

**Pricing and margin optimisation**
We can analyse transaction data to understand SKU level product margins and identify optimisation strategies to improve margin mix.
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