

## Case Study - 6seed Growth Blueprint

We get asked a lot how our Growth Blueprint works. It's no mystery really, it is simply a function of good process, experience and creativity.

To answer those who are curious, in this scribble we will put our Growth Blueprint to work and demonstrate it. The article might be a little long so you might need a coffee...



The business we have chosen to use as a case study is a toy store. Under normal circumstances, we would discuss the “in’s and out’s” of the business with the owner. However, we don’t know the owner and we don’t have access to their data. We’re not going to declare which city the store is in. What we can say is this business has been around for some years and seems to be reasonably successful.

Hopefully you’re somewhat familiar with our approach but, just in case, we will briefly summarise the steps to create the 6seed Growth Blueprint;

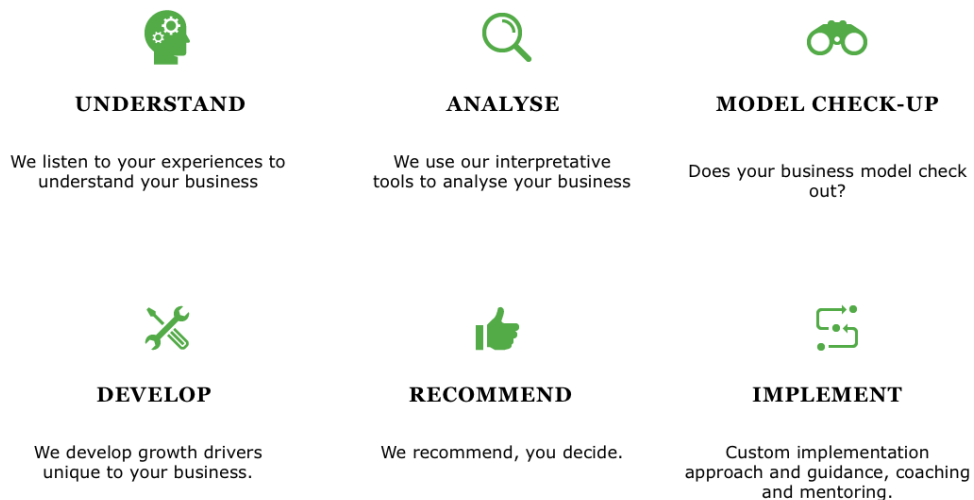


Figure 1 - Approach to generate Growth Blueprint



It all starts with understanding. In our toy example, as mentioned earlier, we don't know the owners so we cannot sit down with them. But we can research online and we found a lot of really interesting stuff. We captured these pieces in no particular order or theme, the original is at the back of this article.

We also had a look at the big online retailers. Experience counts here, we know that Toys-r-us and Amazon are big in toys, Toys-r-us having an Australian operation we can look at and Amazon, well it represents the US toy market in the majority which is very reflective of the Australian market (approx. 80% correlation to Australia in most categories).

So far, we know the big trends in the industry, what segments of the toy category should be present in a store and some pieces around shoppers, particularly some of their habits and what shoppers expect from a toy store.

Probably what is not clear here is that there is a lot of information, data etc. that is captured in notes, in different web sources and informally. Once we are confident we understand the business through the various discussions and research, we can conduct the more data oriented analysis.



The analysis phase. We have some difficulty with the toy store as we don't have the POS data but we found some data that we can use. We know that an independent store in Australia should turnover at least. \$3500 per square metre (we asked a toy store franchisor). The store we are analysing has floor space of 650 square metre's (we paced it out while shopping) so we estimate the turnover to be approx. \$2.2 mio. We also know this store is missing key growth segments of the toy category so we discounted the turnover back to \$1.8mio.

Notice we found our first opportunity gap, the store we are analysing is missing some really fast growing segments being;

- Remote control vehicles and drones
- Robotics
- STEM (science, technology, engineering and mathematical) games
- Virtual reality
- Digital animation equipment

And if you think we are being impractical, let's take an example of virtual reality. At Christmas, the clothing retailer Factorie was selling a VR kit for \$19.99 if you bought clothes to value of \$50 or more. If a clothing retailer can do it, a toy store surely can take advantage of this opportunity.

Turnover estimate is \$1.8mio, we know gross margin is 35% (from the toy store franchisor again) so gross profit of \$630k. Rent is \$160k per annum (we rang a real estate agent) which is really high versus the turnover (9% of turnover). We would expect a more likely percentage of rent to turnover of 6% (from the Australian Tax



Office). This means either turnover is too low or rent is too high. And we know rents in the area are depressed at the moment due to the overall economy's performance so we figure the turnover is low.

We could also work out the labour costs, we know the store had two staff on at any one time. We know the hours and we assumed the owners paid themselves a wage. All this came to \$145000 and as percentage of sales is 8%. When compared with the ATO figures, this is pretty good.

<b>Turnover</b>	\$1,800,000
<b>Gross Margin %</b>	35%
<b>Gross Profit</b>	\$630,000
<b>Rent</b>	\$160,000
<b>Staff</b>	\$145,000

We know the area that the toy store pulls from, approximately 50km radius. We know how many households in that area (thank you Australian Bureau of Statistics), we know how many children etc.

We also know how many competitors, the usual suspects of the toy business, Big W, Target, Kmart, Aldi, Coles, Woolworths (seasonal) and some up-market stores.

After putting all this together, we estimate the potential of the store we looked at to be between \$2.6 - \$3mio. Based on our logic and what data sources we can access on the public record, we estimate the toy store we are analysing to be between \$800k and \$1.2mio less than they should be...this is a big opportunity gap!

<b>Estimated Turnover</b>	\$1,800,000
<b>Potential Turnover - Low</b>	\$2,600,000
<b>Potential Turnover - High</b>	\$3,000,000
<b>Opportunity Gap - Low</b>	\$800,000
<b>Opportunity Gap - High</b>	\$1,200,000

Further on analysis, we look at the state of the store (in this case very tired), merchandising (needs work) and promotions. On promotions, we looked at the store over 3 different occasions and every time we couldn't find any focus relevant to a season (e.g. Lego always relaunch their range in February, movie tie-in to school holidays...think Moana) or even just a basic price promotion. There is no website (lots of toys are being purchased online these days). We did find a catalogue being distributed in the store catchment area but couldn't find the according tie-up in the store which was puzzling.

In summary, our analysis shows;

1. There is a very sizable opportunity gap (\$800k+)
2. There are key toy segments missing
3. The store needs refreshment
4. There are opportunities to grab the basics of good retailing (e.g. merchandising to drive excitement, people love exciting toy stores especially kids!)

There is a lot more but we're running out of space.



Now to the model checkup. By this we mean the business model of the store in question. We looked at some fundamentals being - range, merchandising, promotions and instore environment. Very quickly;

- Range - we have already mentioned some key segments missing. But some real basics also missing, Pokemon range was poor (how many people played Pokemon Go recently?), Minecraft range was very poor (the world's biggest online game), educational toys were well under-presented
- Merchandising - going hand in hand with the range issues were the merchandising issues. The store is merchandised so it's easy for the staff to refill the shelves and the range is presented very functionally, e.g. Lego is with Lego (But Lego is also in Star Wars, do people want to see full range of Lego presented together or full range of Star Wars presented together?). The store is not generating the excitement of toys which is key to repeat purchase (see category notes). Most importantly for us, there was absolutely no way to interact with the toys which kids love to do (And we know if you can get your customers to stay longer in your store, they will buy more!)
- Promotions - already covered but not tying up a catalogue with instore display is just a waste of going to the effort and cost of producing the catalogue in the first place. With many competitors located nearby, the toy store should ensure customers are able to easily identify whatever they saw in the catalogue when they are in the store
- Instore Environment - we have already hedged around this one but the store is tired. It really doesn't matter what sort of retail environment you have, people want great retail experiences and they reward retailers who give it. Why do you think Aldi is so successful, they offer a great retail experience, great different specials each week (we got a robot vacuum for \$179, try to beat that at a branded store...even better it works really well), easy to shop because of the small range (800 SKU's versus Coles/Woolies 25000 SKU's) and cheap. Most importantly, Aldi customers know these weekly hot specials are limited time and limited stock so you must be in quick. This drives visit frequency perfectly. The toy store's environment hits none of the drivers of sales for a toy environment.

Looking at the business model is a critical component for the 6seed Growth Blueprint for two big reasons;

1. If you drive more potential customers into the store and you have not fixed the business model fundamentals, these new customers will be very disappointed and not come back
2. This is easy to get growth at a low cost. Think about what we have identified already, fix the range and promotional issues alone will drive great growth. Refreshing the store requires a lot more investment though.



Now we know enough to be really dangerous. We need to develop the growth drivers unique to this store. A growth driver is simply a statement of “what” and “why” of what we have found so far around this business. We usually theme the growth drivers but not always. A growth driver is based on one of four critical elements of the 6seed Growth Blueprint being;

- More customers
- More often
- More units
- More dollars



More  
Customers



More  
Often



More  
Items



More  
Dollars

Figure 2 - 4 Elements of the Growth Blueprint

To keep things simple, these four areas are from where we develop unique growth drivers. The purpose of the 6seed Growth Blueprint is;

“...to get more customers to buy more items for more money more often...”

Now it’s tough to activate all 4 elements, the first step is to identify which of the four will have the greatest impact. In this toy store case study, we think we have already developed clarity around “more customers”, we know that there is a large opportunity gap around this as discussed in the analysis phase.

You don’t want to have too much on your plate when trying to grow your business, focus is paramount. Given the estimated size of this business, we would think that 2 growth elements is sound, anymore is probably an over-reach in terms of resources and energy.

We are confident that the second growth element to develop themes from would be “more often”. Simply put, this means if a customer is visiting the store once per year, we think we can get them to come twice. Normally you can work this out from POS data, not available in this case. We have based this choice again on what our analysis section has demonstrated, not only are customers not visiting the store but also customers who do visit the store are not visiting often enough. This is definitely an intuitive leap but we feel a reasonable one and based on logic and data.

It is really important to be clear about what you are trying to do when driving for growth. These two growth elements that we will pin our growth drivers on are very different.

With “more customers”, we want people who are not visiting or have never visited the store to change their behaviour and visit.

With “more often”, we want people who are already customers to visit the store more frequently (often).

Because we know the “what” clearly, we will develop very different “how’s” (strategies) to achieve the what.

Two growth elements to focus on, now to turn them to drivers. Here we interrogate everything we have learned, understood, collected and analysed really hard and push at everything. It’s an exhausting and yet fun piece of work to do, the outcome is always worth the effort.

Below we have summarised the growth elements and the subsequent growth drivers that came from them.

Growth Element	Growth Driver
<b>More Customers</b>	Toy store renovation - refurbish store to create interactivity of product, theme space availability and excitement generators
	Accessibility - “pop up” store concept to be taken to regional towns surrounding store during key selling seasons (e.g. Christmas)
	Online - develop and implement online store. Focus to be on region first, roll out to national when stable
	New Products - create event(s) to communicate new line availability in store preferably prior to competitors
<b>More Often</b>	Themed events instore - e.g. Star Wars month. Outside of themed catalogues, create themed events unique to store. Elements include feature merchandising instore, staff dressed to support theme, interactive elements for target market (e.g. make Lego instore)
	Parent events - events to support parental understanding of toys and their importance to children’s development. Focus to be on how toys can educate, concentration on industry’s of the future (e.g. coding) and how toys can drive children’s understanding and enjoyment e.g. Sphero



We think the next step of the 6seed Growth Blueprint is clear, we present and recommend the formulated growth drivers to you, our client. Pretty much a presentation and workshop style of approach and very interactive with no formality.

It is your business so you get the fun part of choosing which growth drivers you will implement. We provide forecast investment, return on investment, profitability, all the numbers you would expect to use to make an informed choice. At the end of the day, 6seed recommends, you decide.



The final part of 6seed Growth Blueprint is to actually do something or implement. We design a custom implementation approach for you. We also support you along the way with coaching, mentoring and guidance.

We usually plan to meet our clients monthly when they're in the implementation phase and we are always "on call". This is the part we enjoy the most although it is the hardest piece, actually doing stuff and seeing the results come through is testing, challenging and motivating.

And the toy store? Well, if we sat down with the owners of the store, we would recommend that they should not implement any of the growth drivers.

Bet you didn't see that coming!

Why? We think it's clear, fix the business model before you invest for growth.

And based on our experience, it will take the business owners approx. 2 years to re-work the business model. What is fantastic is that if they fix the business model, there is easy growth for them along the way...maybe 20% + !

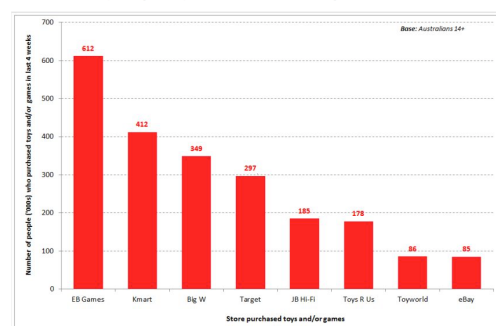


## Appendix

### Category Notes

- Average Australian household with kids has in excess of 100 toys
- Australian parents spend more than \$100 per year per child on toys
- 25% of Australian parents spend more than \$500 per year per child on toys
- Just over half of Australian childrens toys are powered or electronic
- Largest toy spend on kids over 8 is on “toys that are not toys”...Digital cameras, mobile phones, computers and peripherals, X Box, PSP etc.
- Australian parents like to buy toys with stated educational benefit
- Half of Australian kids have an even mix of educational and non-educational toys
- Over one third of Australian kids have more educational than non-educational toys
- Girls stop playing with dolls at age 6 and reducing
- A third of Australian parents get rid of between 5 - 10 toys per year. 19% get rid of over 15 toys per year
  - 2 out 3 toys are let go as they are unwanted
  - 1 in 5 are let go because they are broken
- Trend towards “go out and play” toys
- Trend towards nostalgia
- Trend towards experiences
- Trend towards values based and educational focus
- Trend towards “up-ageing”
- Benchmark Ratio’s
  - Cost of sales/turnover - 57 - 63 %
  - Average cost of sales - 60%
  - Expenses/Turnover - 88 - 94%
  - Average Expenses - 91%
  - Labour/Turnover - 10 - 15%
  - Rent/Turnover - 6 - 10%
- Toy market is worth \$3.7 billion
- Average spend is \$80

Top 8 retailers of toys and games by customer numbers per average four weeks



Source: Roy Morgan Single Source (Australia), July 2015-June 2016, n=14,514.  
Electronic entertainment retailer JB Hi-Fi and specialist toy chain Toys R Us attract similar shopper numbers in an average four weeks (185,000 and 178,000 respectively), although the two stores' customers are no doubt making very different kinds of purchases.



- 801000 Australians buy toys online. 25% of sales is completed online. Most likely to be 18-24 age
- From retail consultant (Spielwarenmesse)
  - Themed presentations and cross-selling
  - Demonstrate and try out
  - We do not have it is no longer an option
  - From toy store to recreation building
  - Events
  - New product lines
  - Pop-up store
  - Service and added value
  - Display window design
  - Digital signage
  - Social media
  - Local internet activities
  - i beacons
  - Instore photo opportunity
- Toy Trends
  - Unmanned vehicles and drones - many and varied
  - Augmented reality, AI, virtual reality
  - Digital animation tools
  - Maker movement - DIY robotic, Arduino etc.
  - STEM learning for kids to teens
- Reviews or ownership by friends is important to purchase decision
- Store must be;
  - Easy to shop
  - Easy to browse - organisation
  - Wide range