## Transforming Costs in Retail to Fund Future Growth

Retailers need to take an enterprise-wide view of cost-savings opportunities.

### Sustaining cost savings is hard, but it pays off

Only 9% of US retailers increased productivity for five straight years from 2012 to 2017.

The reward for shareholders? Returns rose by 25% a year, more than 2X the sector average of 10%.

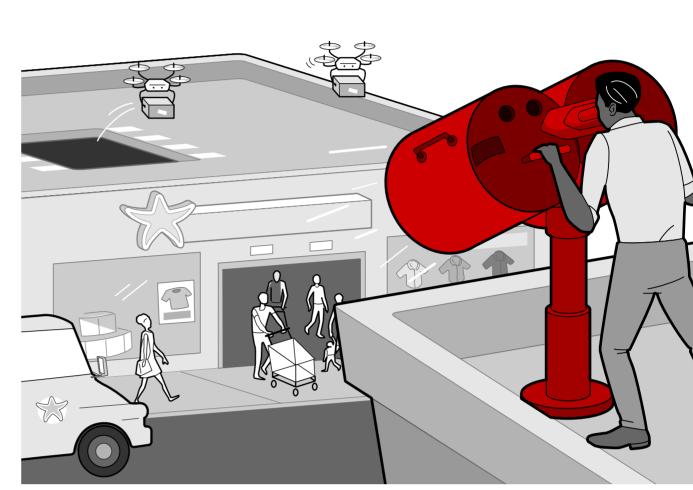


## To reduce costs, take a broad view

It's not enough anymore to just look at one narrow part of the cost bar.

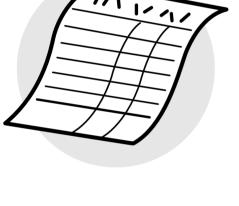


To free enough funds to reinvest for the future, put fresh eyes on all costs.



## How retail leaders free up costs to reinvest

## Cost of goods sold



create winners and losers among suppliers → Standardize contract terms

→ Link assortment decisions to negotiations to

**Cost-savings moves** 

- Reduce waste

→ Reduce usage

procurement paths

service levels

### 300-basis-point **improvement** in gross margins

The payoff

150- to

Headquarters wages



→ Eliminate low-value activities and duplication → Consolidate work in shared-service centers

→ Redesign and automate processes

- and centers of excellence
- Consolidate suppliers, and renegotiate lower rates → Increase effectiveness/return of

marketing and advertising spending

# on headcount

8%-12%

savings

15%-30%

savings



**Supply chain** 



→ Simplify procurement paths through network → Optimize inventory/working capital

→ Use automation and tracking to streamline

→ Redesign activities, and automate

## chain costs

5%-15%

savings

10%-20%

savings

on supply



Optimize labor to achieve desired

Restructure management responsibilities

on gross labor spending

**SHORTER** 

## Note: SG&A is selling, general and administrative expenses Time, investment and savings opportunities vary

Level of Bubble size represents relative opportunity for savings investment

Companies that can't attack all options simultaneously can sequence

savings to capture quick wins early.

Supply chain

depending on the

number of nodes

can be large,

Time and investment

Nonwage SG&A Often a quick hit to fund



Headquarters wages

Smaller spending base, but

accompany remodels

Store labor

changes often

Investments scale

with store footprint;

Cost of goods sold Large spending base, but savings result more from enhanced



a broader cost program

can set the tone for costs in the broader organization

capabilities than investment dollars

Time to achieve full potential savings

Read more:

LONGER