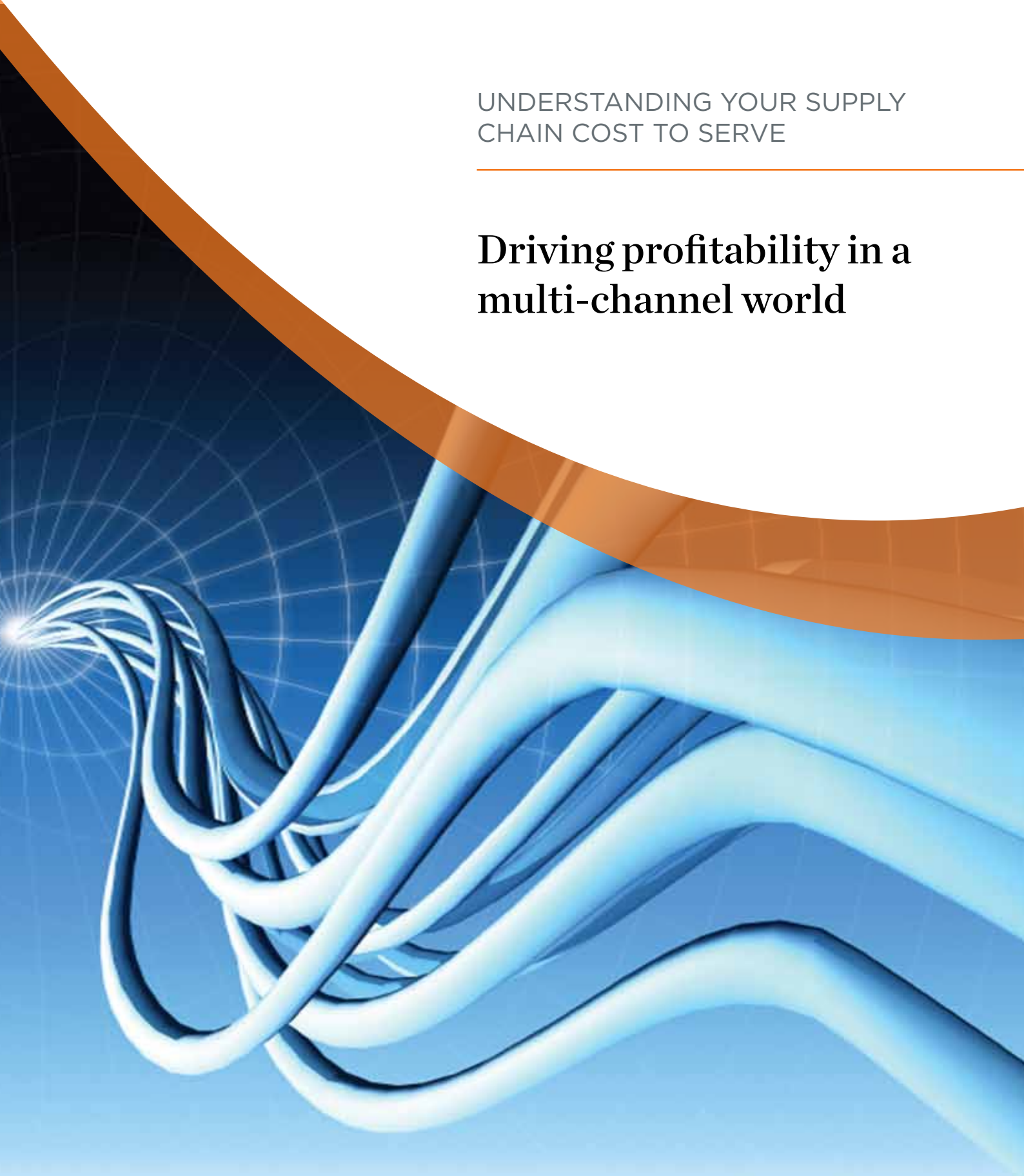


Kurt Salmon 

UNDERSTANDING YOUR SUPPLY
CHAIN COST TO SERVE

**Driving profitability in a
multi-channel world**



Driving profitability in a multi-channel world

Developing a multi-channel offering to capitalise on the growth in online and mobile retailing continues to be a key priority for senior executives. Retailers have recognised that the way in which new multi-channel activities are integrated with more traditional in-store operations can be the difference between success and failure.

This integration must be carefully planned and designed so that the additional processes and activities can be managed effectively, including:

- **Assortment Planning:** selecting the appropriate ranges for in-store and online
- **Distribution and Stock Management:** deciding whether each channel should have a separate network, or whether they can be integrated
- **Cross selling:** implementing 'Click & Collect' and other initiatives to exploit the store network
- **Marketing:** co-ordinating promotional activity, pricing and branding across multiple channels

- **Managing returns:** establishing an efficient and customer-friendly process
- **Pricing:** setting appropriate and profitable delivery options and prices
- **Customer insight:** having a view of customer activity across all channels

Managing business profitability requires the ability to identify, plan and control the costs associated with a multi-channel operating model. Understanding the cost to serve for each product group, channel and customer type is an essential part of this.

+48%

Annual growth in mobile commerce, May 2015
(Source: IMRG)

+10%

Annual growth in online spend, May 2015
(Source: IMRG)

£37bn

Estimated value of internet retail sales in 2014
(Source: ONS)

The Opportunity:

Cost to Serve analysis - which has been gaining increasing recognition amongst retailers - covers all the activities of meeting customers' needs, and their associated costs. The analysis reveals the impact of product attributes, business processes and customer behaviour on total costs, and presents a view of costs and profitability by customer type, product group or channel.

A retailer that understands its "cost to serve" has access to information to help it take more informed decisions, including:

- **Range planning by channel** - in which products and channels should investment be made?
- **Pricing** - what prices will ensure profitability once all related costs are considered?
- **Cost reduction** - where can processes be simplified, and what benefits can be expected?
- **Organisation design** - how can structures and processes be better aligned?

The provision of timely, insightful management information, including periodic updates of cost to serve analysis, is an area where the Finance function can enhance its level of support to the business. Establishing the necessary information and reporting structures to present this type of analysis will help to drive business growth and profitability.

Case Study:

Kurt Salmon supported a major UK retailer in developing a cost to serve model for a category with £1bn turnover. The model covered the end-to-end supply chain through both in-store and online channels.

Benefits delivered from the analysis included:

- *Insight to inform the longer term supply chain strategy*
- *Clarity on the true cost to serve and profitability for different channels*
- *Fuller understanding of the benefits of further integration of store and online channels*
- *Opportunities to improve in-store availability*
- *Identification of short and medium term improvements*

The project reinforced the return on investment available from high quality, insightful management information.

Where is your organisation today:

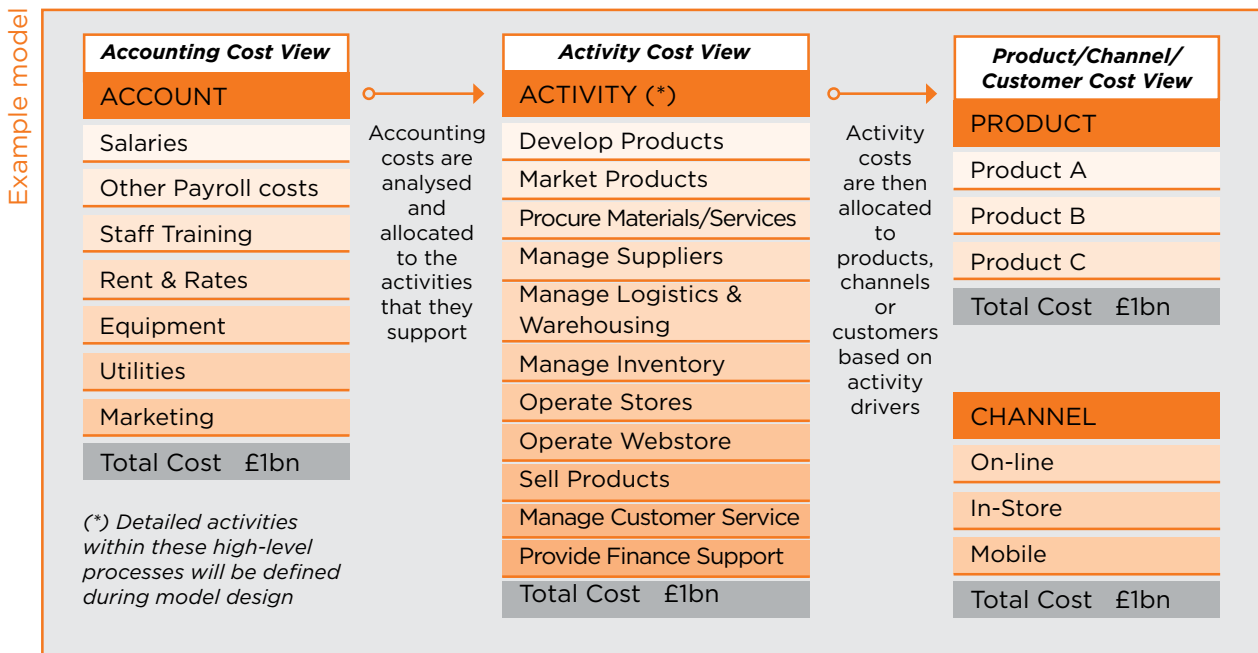
The decisions that the management team make will only be as good as the information available to them. In our experience, many organisations are “flying blind”, determining strategy and making operational changes without the correct information.

In today’s multi-channel world, retailers must be able to answer the following key questions:

- Which customers are our most profitable?
- How profitable are the products supplied through each channel?
- What are the costs of and the cost drivers for each of our key activities?
- How much does it cost to sell a product in store, delivered to home, and via Click and Collect?
- What are the process improvements required to reduce our overall cost base?
- Can the supply chain be reconfigured to be more efficient and effective?
- How can the efficiency and effectiveness of customer, product and channel related central activities be improved?
- Is our current multi-channel strategy correct and will it drive growth in revenue and profitability?
- How can the multi-channel challenge be met whilst delivering a good return on investment?

Developing a Multi-Channel Profitability Model

Kurt Salmon has a proven approach and toolset for rapidly delivering cost to serve insight, and gaining an end-to-end view of activities and their cost that moves away from the more traditional focus on the ‘accounting view’ of costs.



The business intelligence gained from this analysis provides an understanding of true product, channel and customer profitability, together with an activity-led view of cost consumption.

By designing the cost to serve model to answer specific questions and needs of management, the output can be converted quickly from information to actions and the delivery of benefits.

The analysis can then be further developed and become a sustainable part of the operating model.

Summary

A cost to serve approach provides actionable insights that can be applied in a wide variety of business decisions from determining strategy to improving processes, costs and profitability. As retailers continue to transform their operating models to integrate multi-channel strategies and plan for an ever changing operating environment, the value of robust cost to serve analysis has never been greater.

An Overview of Kurt Salmon

- Kurt Salmon is one of the world's leading strategy and transformation business advisory firms, with over 1,400 experienced professionals worldwide
- We have been recognised as a Leader in Gartner's "Magic Quadrant for Business Operations Consulting Services, Worldwide", December 2014
- Our Retail team has worked with a wide range of leading retailers to drive significant improvements to performance and profitability
- Our CFO Advisory Services team focuses on the Finance and Performance Improvement agenda through a combination of finance expertise and deep industry knowledge
- Our consultants are experienced industry specialists with significant operational and consulting experience
- We know what works, how best to make it work and the pitfalls to avoid, and ensure these lessons are shared throughout each client engagement
- We are recognised for our practical approach - 'rolling up our sleeves to make change happen'
- We are independent and have no exclusive ties to any systems or software vendor, or outsourcing service providers
- Our clients include 30 of the world's top 50 retailers, including all of the top 5, and 17 of the UK's top 20.

"I have really valued the open and honest dialogue we have had with Kurt Salmon. The analysis and insight that the Kurt Salmon team provided has really helped to challenge our thinking and caused us to look at new ways to improve performance" CHIEF FINANCIAL OFFICER

Contact

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