

Weighing up the cost to serve

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How much does it cost to sell a product in store, deliver it to the customer's home, or via click-and-collect?

It can be difficult to assess the true end-to-end cost of getting a product into the hands of the customer, but as retailers look to capitalise on the growth in online and mobile sales, it is vital to have a clear understanding of the true cost and profitability of each channel.

Historically, retailers have taken an 'accounting' view of costs, with salaries and other expenses such as staff training, rent and rates, equipment, utilities and marketing spread across the business. However, by switching to an 'activity based' accounting system where these costs are analysed and allocated to the activities they support – such as product development, supplier management, logistics and warehousing, ecommerce, and customer services - means it is possible to find out the cost by channel, product or customer type.

A cost-to-serve approach provides insight that can be applied to 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 the value of a robust cost-to-serve analysis has never been greater.

"Retailers and brands need to better understand multi-channel costs and not squander hard earned margin on frivolous delivery mechanisms and promises," says Alek Adamski, head of the supply chain practice at Kurt Salmon, the global management consultancy that specialises in retail and consumer goods. "By frivolous, I mean action that may be driven by competition or a belief that non-store fulfilment mechanisms are cheaper - when these are fully examined they are usually more expensive if not designed correctly - or just blindly price matching a competitor's multichannel promise which is dangerous without having done the maths. The full end-to-end cost to serve is key."

He adds: "Click-and-collect may seem cheap but once the service desk, sortation/picking, increased space and staff costs are understood this or other multichannel fulfilment models may be less attractive than first thought. I would caution just blindly following the market leader."