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## Comment: The price of technology investment

Kurt Salmon director Simon Bennett highlights the benefits to omnichannel retailers of a cost-to-serve approach to business investment.

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Author: Simon Bennett

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Investment in omnichannel was the main priority for top retail bosses when quizzed for the **Retail 2014 report**. Yet, with not much cash to play with, retailers are going to have to be highly selective about where to invest their hard-earned profits to deliver that highly complex, seamless customer experience that is the ultimate goal.

As such, the operations and the finance teams are going to have to work far more closely together to develop the business case to enable senior management to fully understand the financial implications of any investments. Unfortunately though, when it comes to making decisions on, for instance, an increase in supply chain capacity or in mCommerce, for the most part, the business does not have the detail needed. And that is where the devil sits.

An analysis of a potential investment typically includes figures relating to 'return on investment' and 'net cash generated', something that should be supported by cost-to-serve analysis.

However, from our research there appears to be a high percentage of operational executives who are just not getting the numbers they need from their finance colleagues to present an accurate business case. This is understandable, given that often, finance teams have historically concentrated on producing management accounts – setting out data relating to rents, rates and wages as they impact the business as a whole – yet what retail businesses need today is a view of costs on an activity basis that provides insight into the true cost of getting a product into the hands of the consumer. With this type of accounting, costs such as those incurred by product development, supplier management, distribution, eCommerce and customer services, are added into the mix and attributed to channel and/or product group.

To arrive at these figures requires analysis of every activity performed by the team. This exercise in itself will usefully reveal any inefficiency in processes and systems and can typically generate a saving of around 10-15% as it highlights unnecessary, yet costly, number crunching for reports that are never used and processes that are extraneous.

Additionally, a cost-to-serve approach provides insights 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.

As retailers gain a better understanding of their multichannel costs, there is a lower risk of squandering hard-earned margin on, say, a delivery mechanism or a price promise which could be extremely costly without the full financial picture. The full end-to-end cost to serve is key.

Take click & collect as an example. According to Planet Retail, **the percentage of UK shoppers using this facility will rise to 76% in three years' time – double the percentage today.**

While click & collect from store may, at face value, seem a good way of avoiding delivery cost, once the service desk, picking and packing activities, together with the increased space and staff costs are understood, this or other multichannel fulfilment models may be less attractive than first thought.

While intuitively, retailers may know that some of their activity may be 'loss leading', in order to remain competitive, they need to have the full picture: the transparency to understand the dynamics of the current cost base and to assess the impact of alternative initiatives on the future cost structure, and sufficient analysis of their customer, channel, product and category profitability to identify opportunities for improvement.



Simon Bennett, director at Kurt Salmon

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Retailers that understand their cost-to-serve will additionally have access to a broad range of information that will help them take more informed decisions around:

- 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?

So to make a difference in the robustness of business cases, or to understand where the margin is being eroded in the supply chain, or to have a more granular profitability analysis, then developing a robust cost-to-serve analysis would be an appropriate place to start.

The Kurt Salmon team writes a regular column on technology in retail for Essential Retail.

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