

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.

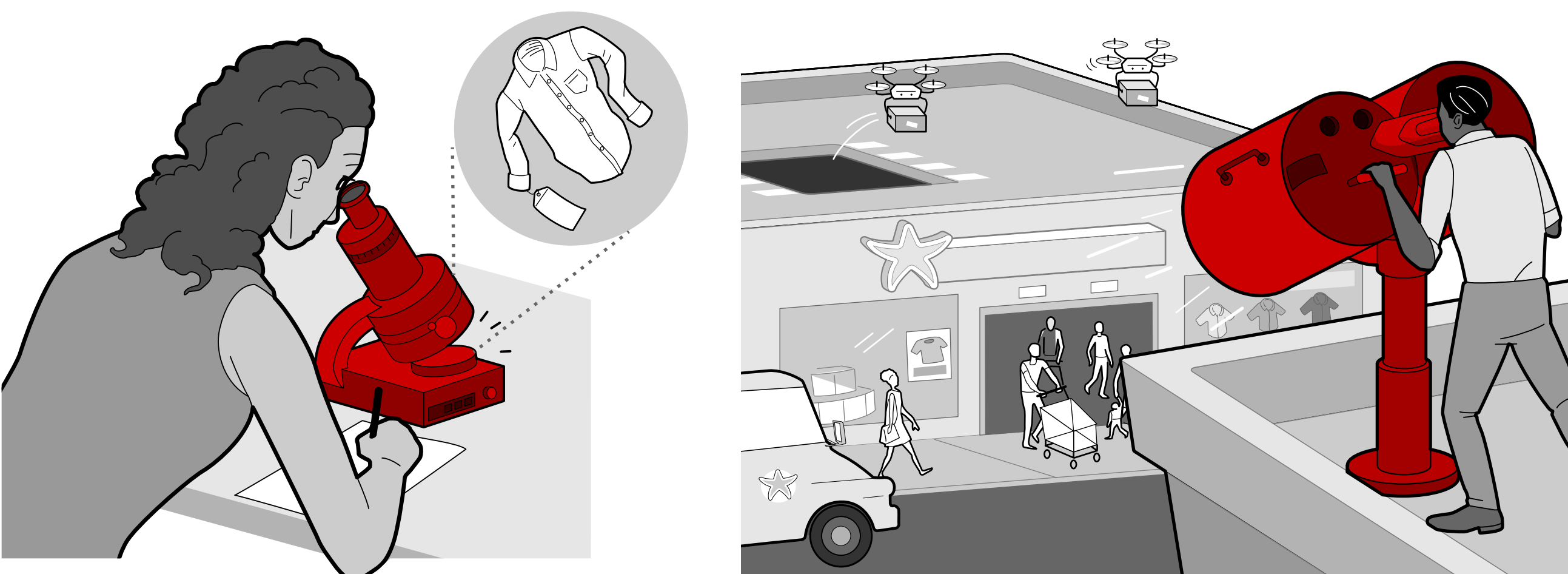
The reward for shareholders? Returns rose by **25%** a year, more than **2X** the sector average of **10%**.



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.

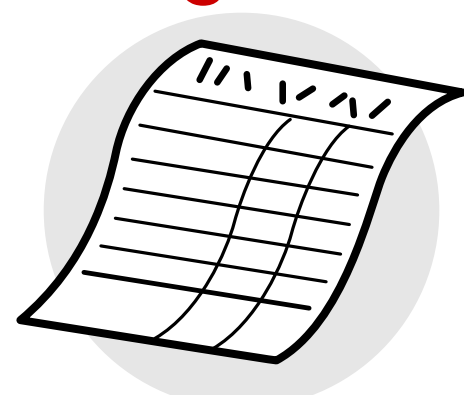


How retail leaders free up costs to reinvest

Cost-savings moves

The payoff

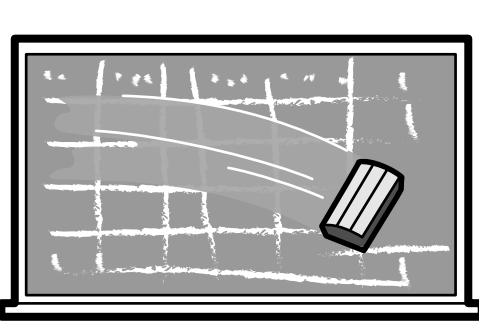
Cost of goods sold



- Link assortment decisions to negotiations to create winners and losers among suppliers
- Standardize contract terms
- Reduce waste

150- to 300-basis-point improvement in gross margins

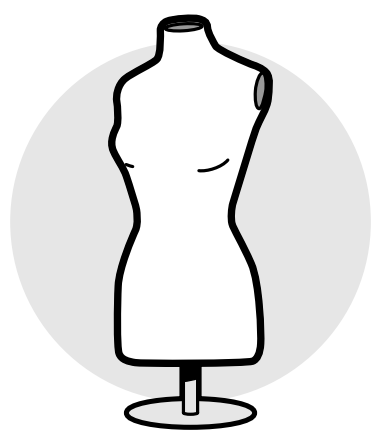
Headquarters wages



- Redesign and automate processes
- Eliminate low-value activities and duplication
- Consolidate work in shared-service centers and centers of excellence

15%-30% savings on headcount

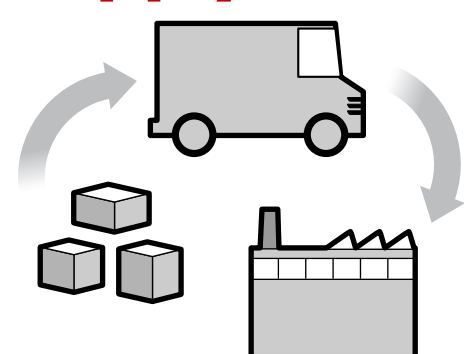
Nonwage SG&A



- Reduce usage
- Consolidate suppliers, and renegotiate lower rates
- Increase effectiveness/return of marketing and advertising spending

8%-12% savings on addressable spending

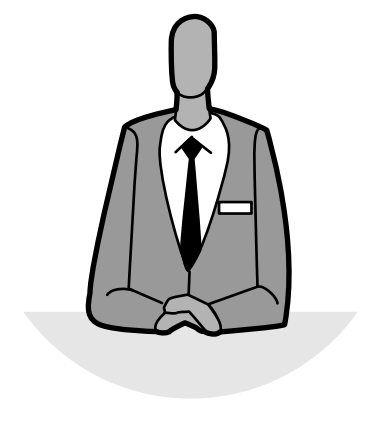
Supply chain



- Use automation and tracking to streamline procurement paths
- Simplify procurement paths through network
- Optimize inventory/working capital

10%-20% savings on supply chain costs

Store labor



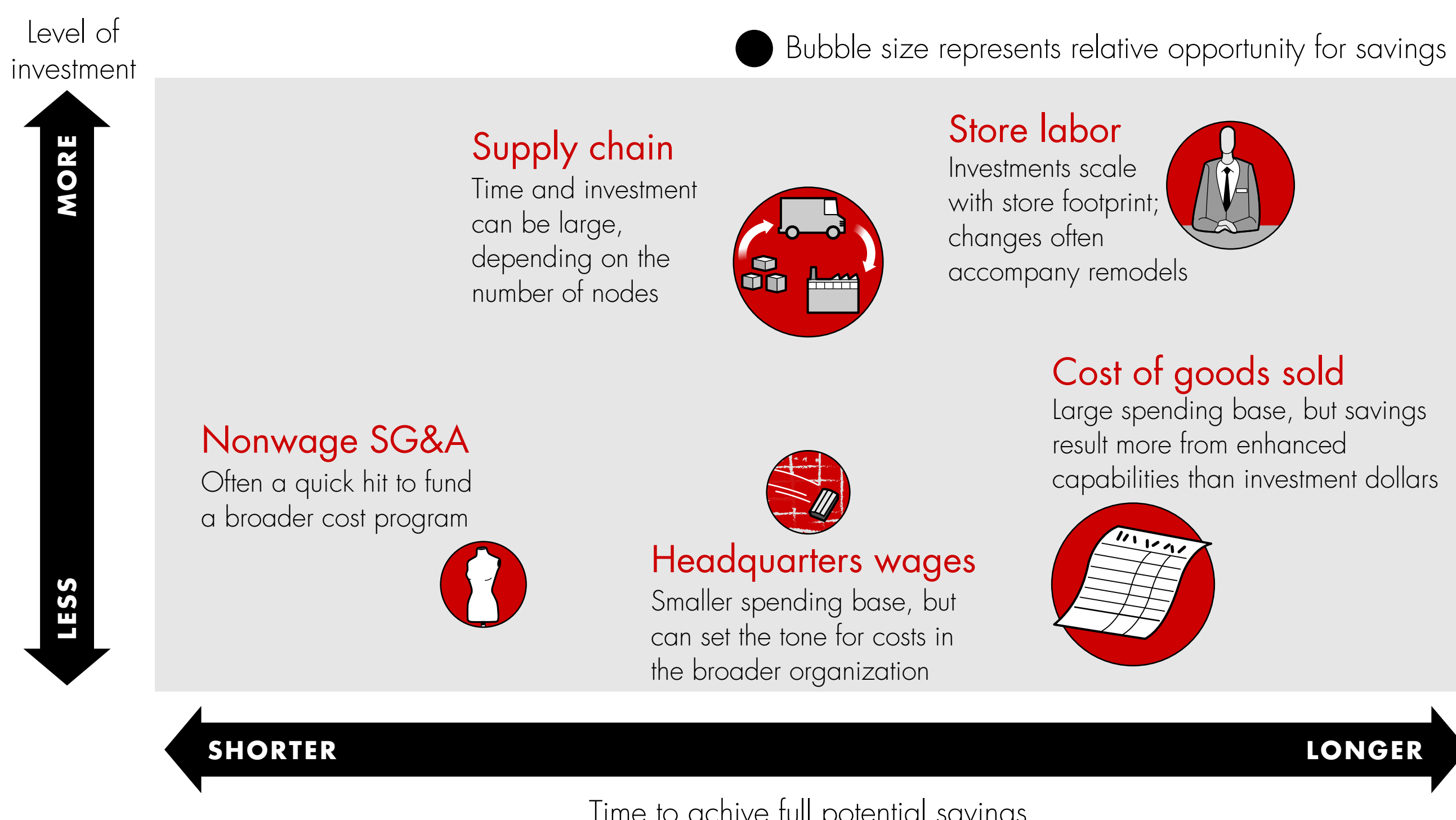
- Redesign activities, and automate
- Restructure management responsibilities
- Optimize labor to achieve desired service levels

5%-15% savings on gross labor spending

Note: SG&A is selling, general and administrative expenses

Time, investment and savings opportunities vary

Companies that can't attack all options simultaneously can sequence savings to capture quick wins early.



Read more:

www.bain.com/retail-cost-transformation