

# Cut costs, not performance in retail

**Uplifting productivity and efficiency across your organisation to allow you to invest in revenue-generating activities**

In today's challenging economic environment retailers need to focus addressing profit leakage and erosion, through reducing key costs to allow greater focus on increasing their revenue, to ensure they remain competitive, viable and relevant to their customers and stakeholders. Aligning cost out goals with broader business strategies allows retailers to optimise their operations, reduce waste and unlock true value, ultimately leading to improved long-term financial performance.

Global macroeconomic conditions outside retailers' control are heavily impacting their revenue and cost, highlighted by increasing energy costs, elevated interest expenses, inflationary pressures including input costs and wages, and slowing economic growth impacting consumer confidence and spending levels.

With an inability to control these external factors, retailers need to focus their efforts on unlocking value in areas under their direct control. KPMG's specialists work with you to identify and validate where value can be unlocked across your organisation. Our specialists will then design the transformation initiatives necessary to unlock this value and assist in managing the implementation and ongoing delivery of your prioritised value creation initiatives.

## Our track record in retail



**10.0%**

freight cost reduction for a discount retailer.



**+20.6%**

increase in economic contribution for a hard goods manufacturer.



**+13.5%**

increase in economic contribution for a food and beverage manufacturer.

## Numerous factors are driving retailers to undertake cost out programs

### Inflationary pressures

- Significant and sustained inflationary pressures have increased input costs and are limiting retailers' ability to pass on costs.

### Consumer sentiment

- Still remains at levels worse than those seen during the Covid lockdown period and Global Financial Crisis.

### Growth forecasts

- Retail sales growth is negative in discretionary categories and in volume decline at a total retail level.

### Increases in cost of goods

- Significant ongoing increase means retailers need sustainable COGS programs that deliver improvement and supplier engagement.

### Digital transformation

- 70% of digital transformation projects fail to meet stakeholder expectations.

### Labour costs

- Wage increases on front line and warehouse staff in particular have continued to increase.

## How can KPMG help you?

### KPMG's expertise can help you across your cost out journey

- **Strategic alignment:** a holistic view of your organisational challenges and goals to inform development of key cost transformation initiatives.
- **Data analysis:** we will analyse your data to develop an organisational heatmap detailing priority areas for cost transformation initiatives.
- **Opportunity identification:** an end-to-end visualisation and review of the cost baseline, identifying a prioritised list of cost transformation opportunities across the organisation.

- **Delivery roadmap:** sequence initiatives and develop a clear roadmap to deliver and realise cost transformation benefits.
- **Implementation:** we work with you to deliver the initiatives and ensure the full benefits of the cost transformation program are realised across your organisation.

### Our tools and capabilities to ensure your project is a success

- **Global benchmarking:** benchmark productivity metrics against global peers facing similar challenges to identify pockets of inefficiency.

- **Retail sector knowledge:** our diverse range of subject matter experts from across retail allow us to provide detailed insights into how your organisation can successfully drive value creation.
- **Operational analysis:** a diverse set of accelerators will allow us to effectively analyse your data and generate key value creation hypotheses to support your journey.

## KPMG'S 12 cost out levers for retail

Macro cost lens	Cost out opportunities in retail
<b>Strategy</b> Focus on markets, products and business models that deliver value for customers and shareholders	<b>1 Geographies, markets, products:</b> Operations require optimising by refining geographic presence, markets served, and category ranges to enhance profitability and efficiency
	<b>2 Operating model and balance sheet:</b> Suboptimal operations and finances that can be improved for efficiency, working capital management and allocation
<b>Simplicity</b> Ensure the organisational, accountability and governance arrangements enable efficient decision-making and operational agility	<b>3 Organisational model:</b> Streamlining structure and roles for efficient decision-making and resource allocation
	<b>4 Transformation optimisation:</b> Continuously refining transformation initiatives for maximum cost reduction
	<b>5 Cost management focus:</b> Vigilantly controlling costs with rigorous identification, analysis, and monitoring
<b>Engineering</b> Manage and optimise how service is provided to customers, including use of technology, channels to market, and deploying automation and data to drive productivity	<b>6 Digitisation and operational efficiency:</b> Leveraging digital tools to streamline processes and boost operational efficiency
	<b>7 Channel optimisation:</b> Enhancing in store and online channels for efficiency and cost-effectiveness
	<b>8 Organisation design and people:</b> Fine-tuning structure, capabilities and resource management for productivity and cost control, especially in store and warehouse
	<b>9 Technology optimisation:</b> Maximising cost efficiency through technology asset optimisation
	<b>10 Asset optimisation:</b> Reducing real estate costs through consolidation and renegotiation for both stores and DCs
	<b>11 Vendor and sourcing management:</b> Strategically managing suppliers for cost reduction and supply chain efficiency, to improve overall cost to serve for stores
	<b>12 Regulatory, governance &amp; risk compliance (incl tax &amp; legal):</b> Ensuring tax compliance and reducing liabilities while efficiently managing legal expenses

## Contact us

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