

# BCG

OPPORTUNITIES  
for ACTION

CONSUMER



■ Retailers are looking for accelerated bottom-line results, and our experience indicates that most companies can deliver a 4 to 6 percent improvement in EBITDA in just a few months by revisiting certain core practices and processes

■ Revenue-enhancing initiatives, such as cross-selling of high-margin products, can deliver especially quick profit improvement, whereas cost-reduction initiatives generally take more time to produce results

■ To enable change without disrupting day-to-day operations, retailers need to be realistic about what they can and cannot do with the resources they have or can get on short notice

■ Companies that determine exactly how soon they need to produce results and then manage their initiatives accordingly will enjoy rapid profit improvement with minimal risk

## Rapid Results in Retail

Retailers' margins are always under pressure from rising costs. Now, with private-equity players stepping up their investments in the sector and shareholders continuing to expect strong quarterly earnings, accelerated bottom-line results are at the top of many retailers' agendas.

Yet retailers that rush into profit improvement programs without first addressing a few central questions are unlikely to realize the immediate results they seek. Which programs, for instance, have the most potential? Will the improvement be sufficient, and can it be accomplished quickly enough? Can the company pursue the program without disrupting the organization? How will its impact be tracked and monitored?

These are fundamental questions, and they go to the heart of a program's likely success or failure. In helping clients to find the right answers, The Boston Consulting Group draws on many years of experience assessing the magnitude of potential benefits and objectively analyzing clients' current resources and limitations. This work has led us to identify dozens of initiatives that make use of classic revenue-enhancing and cost-reduction levers to achieve real and rapid profit improvement without risk to an organization's day-to-day operations.

Of course, not every initiative is right for every retailer, and not every organization is capable of meeting every challenge. Choosing the right levers to pull will depend not only on the industry sector but also on a company's specific culture, operations, and competitive environment. However, our experience indicates that most retailers are capable of delivering a 4 to 6 percent improvement in earnings before interest, taxes, depreciation, and amortization (EBITDA) in just a few months. Although well-established clients often tell us that they have undertaken some of these initiatives in the past, they are invariably surprised by how much benefit they can generate by revisiting certain core practices and processes.

### Focus on the Top Line First

Retailers in need of quick bottom-line improvement should look first to revenue-enhancing initiatives. They can have a

rapid and direct impact on EBITDA, whereas cost levers generally take more time to produce results. (See the exhibit “Some Levers for Bottom-Line Improvement Produce Better Results in Less Time.”) The following are some top-line actions that we’ve found to be especially effective in rapidly improving revenue.

**Encourage cross-selling of high-margin products.** This is a fast and effective strategy for many retail formats. A telecommunications products retailer, for example, asked its supplier to fund a promotion of one of its mobile-phone products. Then, by offering sales consultants higher commissions (thus pulling another classic revenue-enhancing lever) and employing customer prompts, the retailer was able to cross-sell the phones with high-margin accessories and insurance products. As a result, it boosted its EBITDA by 1 percent in a matter of weeks.

**Readjust prices and discounts.** Retailers that carefully adjust the pricing and discounting of products that are judged to have low elasticity can realize quick increases in sales and margins. By simply reducing the total number of discounts (and, in particular, the level of discretionary discounts) by 20 to 30 percent, a retailer may be able to improve its EBITDA by at least 2 to 3 percent without significant impact on top-line sales.

**Use promotions as a strategic tool.** Promotions can do more than increase sales of an individual item: when a promotion is focused on traffic-generating products, it can improve overall store sales and provide a quick boost to the bottom line. We worked with a convenience

store retailer that boosted its sales and profits by persuading a supplier to increase its support of promotions of fresh coffee (a frequently purchased item). That action rapidly generated more foot traffic and enlarged the average size of customers’ baskets.

**Improve the availability of best-selling products.** In stores with high turnover, the most popular SKUs are often unavailable. That signals a good opportunity for rapid improvement through out-of-stock reduction, even if some supply-chain adjustments are required. We helped an apparel retailer increase the availability of its best-selling items by 1 percent, boosting revenues by 2 percent.

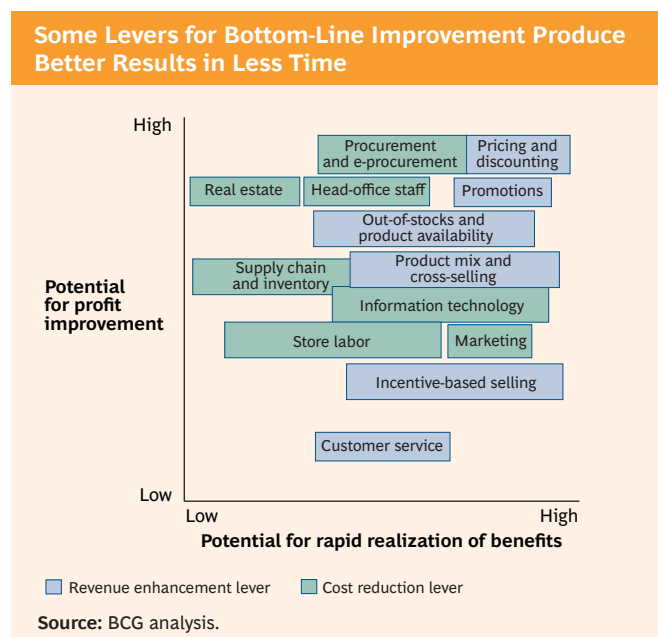
### Look for Quick Cost-Cutting Opportunities

As noted above, most cost-reduction initiatives rarely produce results quickly enough. For instance, it takes time for a head-office staff reduction to deliver cost savings, particularly where laws require the employer to notify employees weeks or months in advance of their termination. Decreasing supply chain costs entails time-consuming collaboration with suppliers to work out process changes. Improvements in staff efficiency typically call for changes in scheduling, processes, and company culture that can take 12 to 18 months to realize. And postponing short-term initiatives or discretionary spending in any cost area rarely generates a significant impact, especially at the end of the year, when most of a company’s budget is already spent.

That said, we offer three initiatives that have helped our clients realize cost savings of 10 to 15 percent in less than six months. These initiatives make use of the procurement, marketing, and IT cost-reduction levers.

**Reduce indirect spending on goods not for resale.** When looking to reduce costs through procurement, most retailers focus on the products they buy to sell, and they overlook opportunities for savings on products they purchase to use, such as office stationery, plastic bags, and computers. Yet by consolidating these costs and managing them more carefully, retailers can save as much as 15 percent almost immediately.

A leading European retailer, for example, saved a significant amount on the paper it used for its marketing pamphlets by consolidating purchases across its



divisions. Another retailer, which thought it had been ruthless in reducing its costs, discovered that for every employee at its headquarters, it had purchased 1.5 computers—and among those computers, there were 15 different models with 15 different service contracts. This discovery provided an opportunity to save by reducing the total number of computers as well as the number of suppliers.

The Internet offers another effective route toward reducing costs rapidly. Managed carefully, purchasing products such as office supplies through online auctions can deliver immediate savings of 10 to 30 percent.

**Explore marketing budgets for unspent resources.** Often when companies go looking for savings, they discover that the funds allocated to marketing budgets have not been entirely spent. This is an opportunity to make some smart choices, especially because the last 10 percent of marketing projects that get funded tend to have lower or negative returns compared with higher-priority programs that are funded earlier on. Retailers should consider whether the return on a television sponsorship, say, will exceed the benefit of having the funds from that investment available for immediate use.

**Troll the list of IT projects for savings.** Eliminating low-return IT projects can deliver savings quickly because such projects often involve contract labor rather than staff employees. Most companies will find it worth their while to go through the IT portfolio and challenge assumptions about potential benefits. Freeing up funds from projects with the lowest benefits can yield high returns in cost savings.

## Guarantee a Smooth Implementation

Identifying opportunities is just the first step toward rapid bottom-line improvement. The key to success is enabling change without disrupting the organization. That calls for being realistic up-front about what the organization can and cannot do with the resources it has or can get on short notice. Those resources include IT capabilities, training programs, and effective communication processes. There are also organizational limitations to consider, such as supplier agreements, which might require renegotiation.

A drugstore chain we worked with illustrates the importance of identifying initiatives that can produce rapid results without significantly interfering with the

business. The retailer needed to generate a 1 percent increase in its EBITDA very quickly. It discovered that many of its beauty products were at the end of their fashion cycles and were taking up precious space in the warehouse and on store shelves—space that could be better used for up-to-date products that customers were more likely to buy. This was an area ripe for rapid improvement. But what to do with the older stock?

The solution was to target price-conscious consumers through a different channel: the Internet. The store chain operated a “super discount” Web site for two months under a different name, linking to another site for low-cost products. In less than 30 days, the retailer had liquidated most of its stock by offering the outdated products at three standard prices and requiring shoppers to purchase a minimum quantity to cover shipping. Costs went down, and shelf space was freed for higher-margin products, which led to a sizable increase in EBITDA.

That initiative was easy to implement, generated results quickly, and did not disrupt the underlying business. Moreover, unlike other initiatives the retailer might have undertaken, this one required no substantial changes to company processes and capabilities. The extremely basic Web-site design was outsourced, and a third party advertised the link on its low-cost-products site. Once the economics of the proposal were modeled and validated, setup took less than two weeks. The fact that the retailer was able to identify bottlenecks (such as internal IT constraints) early in the process and work around them was critical to the effort’s success.

## Best Practices

Delivering profit improvement by the next quarter calls for a tightly controlled process from beginning to end. We recommend the following actions for ensuring success with fast results:

- *Determine the time frame.* Decide how soon you need to produce results (within three months? six months?), and clarify your priorities.
- *Develop a shortlist of quick-hit prospects.* Interview managers to identify top- and bottom-line opportunities beyond cost reduction. Review current initiatives for possible bottlenecks, but avoid time-consuming, comprehensive, activity-based assessments.

- *Prioritize initiatives.* Look for efforts that will produce the quickest results, but make sure that there are no operational constraints.
- *Revisit past cost-cutting and revenue-enhancement programs, and measure their success.* Often, potentially successful programs are curtailed before they've had a chance to deliver full benefits. Restarting programs undertaken during the most recent three years could produce quicker results with fewer resources than coming up with a whole new set of programs.
- *Establish mechanisms for rapid decision making and communication.* Meet at least once a week with senior managers, and set up an efficient communication system with stores for direction and feedback.
- *Ensure tight control of implementation, and monitor results daily.* Delivering results quickly requires an intense focus on progress. When everything depends on only a few initiatives, setbacks can't be tolerated.
- *Watch for unintended consequences early in the process.* Establish baseline requirements for revenue and cost components, and track measures daily for unanticipated consequences and secondary effects. In trying not to

run short of top-selling items, for example, a store could neglect to keep other items in stock, thus inhibiting potential sales opportunities.

Rapid enrichment of your bottom line *is* possible. The question to ask is not *whether* your organization will meet its goals but *how* it will meet them. You can enjoy fast results with minimal risk if you choose your profit-improvement initiatives with an eye on the clock and manage them accordingly.

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