

ZEN AND THE ART OF COST CUTTING

In some instances over 30% savings on per-store capital spend is achieved when the simplification / standardisation journey is successfully negotiated.

Retail property teams are under severe pressure to drive capital efficiency and reduce costs. One consequence is that consultants across the property value chain are facing downward pressure on fees - Tesco's 20% to 50% cuts being the most public example. So how can retailers find a sustainable balance that enables cost reductions and drives efficiency?

WHEN COST CUTTING WORKS...

EC Harris carried out a poll of major UK retailers and two themes emerged:

Standardisation:

Cost cutting is effective when the delivery approach and processes are streamlined and store formats are thoroughly standardised (see figure 1). Sainsbury's 'Deliver for Less' programme has made significant improvements in these areas over several years, thereby reducing external consulting requirement in both scope and complexity.

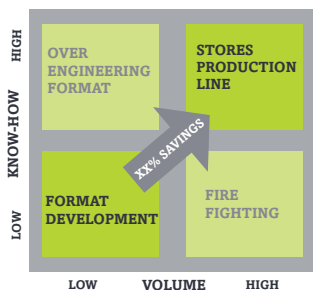


Figure 1:

Moving to a store rollout production line: standardisation of store formats and processes.

Implementation:

In a similar vein, Asda's property team have developed a highly effective programme and supply chain setup that makes it easier for external consulting teams to deliver projects. Lower fees have been a rational outcome, alongside an increase in the volume of projects as they become more affordable to the business.

The most compelling insight is what happens to programme spend when the simplification / standardisation journey is successfully negotiated. In some instances, 30% savings on per-store capital spend are achieved.

WHEN COST CUTTING DOESN'T WORK...

As all seasoned programme managers recognise, if the knowhow around format and implementation is not captured or communicated effectively with delivery partners, the likely outcome is painful, prolonged fire fighting. Teams find themselves overwhelmed with day-to-day project issues and no time to fix the programme foundations. In this environment, aggressive cost cutting can make matters worse.

The second scenario is less common, but we have all seen it. Teams get so involved in developing the 'perfect' format that the retail vision is lost and an overengineered format becomes cumbersome and expensive, making it impossible to transition into a cost effective production line. This 'gilding the lily' approach is resource intensive on all sides, making the pressure on fees counterproductive unless the fundamental requirement to simplify and standardise is tackled first.

ACHIEVING HEALTHY AND SUSTAINABLE RETURNS

The bottom line is clear - leading retail property teams will take the current drive for value as an opportunity to revisit and improve the fundamentals of delivery i.e. streamlined end-to-end processes; an industrial strength supply chain; clear roles and responsibilities; robust handovers and decision gateways; strong supporting technology; tight performance management and, of course, the right skill sets within the business.