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A career retailer who is widely known and respected in the Australian FMCG industry with extensive experience in department stores, DDS, liquor and supermarkets. Peter has been working with suppliers and retailers developing business, category, customer and channel strategy and competitive points of difference for almost 10 years.

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About ShopAbility

ShopAbility helps improve manufacturer and retailer thinking and doing capabilities for increased sales in category and channel. Its offers span research and insight, strategy and planning, activation and implementation, and capability and training. It works with senior executives, sales departments, category/customer/trade marketing departments, insights people and brand marketers for an integrated 360-degree picture. Call ShopAbility on 1300 88 56 44 to discuss your needs.

Fundamental principles for restructuring your business

ShopAbility has teamed up with the Bevington Group, Australia's most experienced process and productivity improvement specialists.

Coupling the experience of ShopAbility's senior strategy team – all of whom have decades of CEO and Board level experience in retail and FMCG companies – with the Bevington Group's experience in improving business operational processes, we can deliver a unique suite of services that centre on real organisational insight using XeP3.

The organisational insight approach using XeP3 consolidates lessons from more than 400 assignments in some of Australia's largest and best recognised companies, and ShopAbility is exclusively licensing Bevington Group-patented technology and expertise for use in the retail and FMCG sector.

Here in our second of a series of six insightful and interesting articles, Roger Perry, CEO of the Bevington Group, discusses the fundamental principles behind restructuring your business in a changing and improving trade environment.

Back to thinking about unit costs

Most of us will be now be convinced that the Australian consumer is a much more conservative spender than in the heyday of retail. To add to that, the nature of retail business models seem to be changing at a rate that continues to accelerate: the rise of internet shopping and supply change transformations are examples of this phenomenon.

For some organisations margins are under pressure, for some volumes. For many, both margins and volumes are under increasing strain.

So many of you will have already been thinking about costs, and many will have been doing something about it. However, there are different ways to conceptualise the cost challenge: some of which can get you over a short-term challenge, or can lead to a downward spiral, or perhaps lead to genuine innovation and creativity.

In this article I will endeavour to provide you with some brief insights into all three scenarios. In this review there is both good and bad news for the executive team considering

costs. Starting with the bad news, I will describe how even apparently simple changes can have materially negative consequences.

However, the good news is that, done properly, a real review of costs can lead to lasting benefits, whereby costs are truly aligned to value creation and the nature of enterprise you wish it to be.

For convenience, we shall start with cost cutting to deal with a short-term challenge. In this case, executive decision makers are looking for costs that can be dialled up or down for short-term benefit.

For many, this is the classic review of discretionary expenditure, literally by looking at cost categories within the profit and loss statement. This cost category-focused analysis can address such small changes as cutting the biscuits in the coffee room or terminating newspaper or article submissions, but it can also cut more deeply, for example, by reviewing buyer expenses or addressing sales force expenses such as mobile phone costs.

Short-term action might include the reduction of entertainment or catering budgets. In many senses this is the simplest of the cost-cutting scenarios. Unfortunately, even this apparently easy approach to cutting costs carries inherent dangers.

Firstly, some of the changes may in fact reduce morale without having much impact on costs. One needs to be very careful in deciding whether the action being taken is a signal to staff, or a real cost-cutting activity (ie, it delivers a real financial return).

For example, if done clumsily, the cutting of sales force expense budgets can punish both those who behave appropriately and those who are more profligate in their spending relative to the market they are serving. The end result might be a sales force that feels it is not trusted, and shackled from doing the job that they are supposed to do.

Cutting the staff's biscuit allowance or reducing meeting catering seem like the most inconsequential of changes. However, one must question whether it is worthwhile raising the hackles of staff without a significant financial return.

Assessing the costs

In some of these cases you will need to assess the costs of

productivity losses against the savings of the actions you undertake.

For example, I was invited to a client conference last week where catering was not available. This is fine in a low-cost culture, but such a culture had not been imbedded. As the cost reduction was implemented overnight, with poor messaging, much of the time taken in the day was a debate about the merits of a 'no catering' policy.

This was not a discussion that had much strategic value. Indeed, we lost the cost of a cut lunch many times over in missed opportunities to cover big issues.

It is not all bad news, though. Much of the success you can achieve at the smaller item end of cost reduction comes down to the strategy you are pursuing.

For example, if you wish to build a sustainable cost-conscious structure in a low-margin industry, then you can use the current downturn to create a rationale that takes staff with you on a journey to cost consciousness.

If done with plenty of explanation and communication, if done intelligently (by assessing the value of the costs, not just their absolutes), then cost-cutting activity can help you create much greater commercial awareness in the workforce.

For many, this is the real game. It is about creating a sustainable cultural and capability change. Now, to do this means you need to go at cost reduction more carefully, with more analysis and a lot more communication. This can be a great opportunity.

There are genuine examples of using hardship for real and positive change. One supply chain client:

- Has spent time travelling the country explaining the financial challenge
- Has talked to personnel about the need for a different way of thinking
- Has stressed that leadership is determined that the organisation will once again thrive *but* that they need help from staff.

On the back of this communication a range of cost-cutting measures were taken, but they led to no noticeable reduction in productivity or decrease in staff goodwill (indeed, shrinkage reduced).

This starts to take us to the second cost-cutting scenario, whereby

the executive led the team into a downward spiral. This is the challenge of the old adage, 'It is hard to shrink to prosperity' – note, it is not impossible to shrink to prosperity, just very hard.

Vicious cycles can emerge, many of which are difficult to foresee, simply because the world is so complex. For example, we might look at training expenditure. This is an absolute classic for short-term spending reductions.

You will have all have seen situations when the training budget is seen as one of the real discretionary spends, which can be dialled down to help meet the budget gap.

Now, in situations where training is ill conceived and not fit for any purpose, then cutting the training budget might be valid (I will come to this point later, because often role design, not training is the problem) but, in many cases, cutting training is just a downward spiral.

For example, one organisation had reduced its sales force training consistently for three years. The consequences were far from happy because the sales forced ended up with:

- Insufficient product knowledge
- Insufficient understanding of the processes for ensuring timely and accurate product delivery
- Little understanding of the way in which the brand was to be represented.

As you can imagine, this led to declining sales, poor information capture at the sales front end (leading to delivery delays and errors), and even to problems in brand perception.

In this case, the training really was worth the money, and the first round of cuts only led to a vicious cycle of later cuts as the organisation tried to shrink in order to make profit objectives.

It transpired that the sales staff was spending much more time correcting delivery errors than planning and executing sales activity. This was happening for two reasons:

1. The organisation's processes just did not work well
2. Many members of the sales team had become more comfortable with customer service than with sales.

Under these circumstances, this enterprise had the opportunity to make a real breakthrough by concentrating on *the value of its costs*. Actually, the sales force cost a great deal more than the training, and most of the sales force time was not spent on selling. So, taking the whole story into account, the costs needed to be *restructured* not just reduced.

So what did they do? Well, the logical steps were taken:

1. A customer service team was built in order to take on those 'service recovery' tasks that had been previously conducted by the sales force
2. Process improvement was deployed to dramatically reduce the incidence of customer service failures (because the costs of many customer service failures are hidden, but they get you in the end)
3. Training was redesigned and initiated for the sales force
4. Sales activity and closure targets were reset to take the sales team to real sales growth.

The end result of this story was increased sales. Actually, some of the sales team left (because they did not want to do the new job) and some of the sales team really found their wings. Customer service problems reduced over time but, in the meantime, a customer service team dealt with more of the issues at a lower real cost than using the sales force.

Overall, costs reduced significantly as a percentage of sales.

This is an example of digging deeper into the cost problem by seeing it for what it often is, a business design problem. In this case, if your business has designed the wrong role for the sales team, it is going to consistently underachieve.

Another example may help to further illustrate the point. Offshoring of administrative and customer service activity is common (indeed increasingly so). It can deliver significant benefits but often the control costs are very high.

What I mean by this is that the process of handing off to the offshore partner, and of controlling the quality of the deliverables, becomes much higher than anticipated in the business case.

In one example we saw up to 30 per cent of the activity that was sent offshore was returned to personnel in Australia with a query. This is just a complete waste of money and, of course, time. In this case, the enterprise was paying for offshore time and for the time of onshore personnel.

This is a classic business design problem that must be solved by looking at the root cause of the problem, which may be in process, form design, training and/or behaviour, etc.

Once resolved, this can liberate costs, free up time and improve customer service. It is not an examination of the P&L by itself that has driven this opportunity, but an examination of the way the business works. It is a design issue. It means asking more questions to dig deeper.

The Bevington Group has conducted hundreds of studies with many of Australia's largest and most respected organisations.

All have had opportunities to save costs, all have had opportunities to lift service, and many have had opportunities to lift revenue. The message that we would send today is that these are intimately connected factors, so much so that it is possible to reduce unit costs and raise revenue through the right business design.

However, the only way to get to the opportunity is to consider the underlying causes of some of your costs and to ask more questions.

This provides the opportunity to understand the value of your spend and design a more effective business solution. Of course, this questioning should not constitute an excuse for analysis paralysis. This journey must be pursued with a sense of urgency, so the quick changes can still be done.

A little time is taken to design the right communications and to target the culture you really want, though.

Opportunity abounds in most businesses: the right mindset (one of business design), the right questions (to dig deeper) and using the right people (experienced and knowledgeable) will maximise the returns for any business no matter how well they are currently performing – even yours! ■



Roger Perry
CEO
Bevington Group

BEVINGTON GROUP

The Bevington Group is a productivity improvement service provider. The Group was established in 1993, and has refined its methods in more than 400 assignments. Bevington's core services are: Process Improvement and Restructuring; Continuous Improvement; and Change Management.

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