

TIPS TO BEAT A DOWNTURN



Taking decisive action now will leave your business well placed to succeed when the market improves. David McGee, director, PricewaterhouseCoopers Retail & Consumer Group looks at how companies within the sector are responding to the current environment.

A CHANGED LANDSCAPE

The new consumer priority is to save money. Consumers are less prepared to pay a premium and the excesses and conspicuous consumption of the boom period is now well and truly over. In response to this change in consumer behaviour, businesses need to be flexible and to reintroduce some basic management disciplines, which may not have been areas of focus during the growth years.

With a positive attitude and good understanding of all areas of your businesses the downturn can be used as an effective driver of change. The current environment also presents clear opportunities for businesses that are prepared to embrace them. So how are retail and consumer companies responding to the challenges of the current environment?

PwC have hosted cost reduction workshops for over 30 companies over the last six months, many of whom operate in the retail and consumer sector.

BUCKETS OF COST

Consumer goods companies and retailers need to be innovative when addressing cost reduction. Companies are re-examining their costs and value proposition from a zero base. Ensuring clear focus on cost of goods, sourcing arrangements, labour costs and overheads (especially energy) require different

mindsets. The old "rules of the game" around relationships between the parties are being torn up. There is also a need to embed sustainable cost reductions as opposed to short-term measures, which may damage long-term growth.

In addition, spend and cost need to be individually categorised and analysed. This sounds easy but can pose challenges in defining where a cost sits, how it's categorised, or what is a hidden cost. Understanding where a cost sits and assigning associated ownership is critical. A number of consumer goods companies we spoke to, had no owner assigned to inventory obsolescence so inventory levels weren't monitored or managed, resulting in significant cost. Once these costs are identified and measured, they can be managed.

PROCUREMENT & SPEND

As certainty of business is crucial, a window of opportunity now exists to re-negotiate favourable contracts with all suppliers. In analysing procurement requirements, opportunity exists to reduce the number of suppliers; to consolidate spend across group or partner companies; to renegotiate both

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Expert Advice

rates and terms; to challenge the service being provided; and to solicit innovative solutions from 'supplier partners'. Whilst considering cost, don't forget to challenge internal usage.

OWNERSHIP & ACCOUNTABILITY

Unless every cost has an owner, it won't get managed. Common examples of ownerless costs include buyers not measured on stock obsolescence; procurement contracts not managed; treasury charges not challenged. Every element of cost; every pricing decision; every contract; every resource needs to be challenged for relevance and value.

The measure for each of these elements needs to be agreed by management ensuring alignment with the strategic objectives of the company. Aligning ownership and accountability for every bucket of cost to the performance measures of individual managers drives improved performance.

METRICS

Our reviews indicated significant deficiency in the manner in which metrics are used to manage business performance. In many cases there were either not enough or too many metrics; they were not aligned to strategy; not every key cost driver was measured or had an owner; it was not possible to produce appropriate reports on a timely basis. Significant investment is now being made in getting this right – management

FOUR KEY FACTORS THAT COULD HELP YOU RIDE OUT THE RECESSION...

- 1 Be ultra-efficient. Carefully focus on the management of your store portfolio and control your supply chain
- 2 Understand your customer and give them what they want
- 3 Make sure that what you're offering is value for money whether that's through competitive pricing or by justifying a premium
- 4 Avoid the undifferentiated mass market.

FOOD FOR THOUGHT

Purchasing behaviour is changing. Increasingly consumers are seeking out bargains, shifting from 'discretionary' to 'essential' purchases. For example, in our recent PwC consumer survey...

- 58% of respondents said that they would buy fewer items
- 57% of respondents said that they would spend more on promotional items
- 51% of respondents said that they would buy cheaper alternatives.

Recent trends such as these represent new challenges for retailers and consumer goods companies.



are focusing on a small number of key metrics and red/amber/green ratings are forcing them to address the problem areas. Aligning personal ownership with these metrics also retains management attention and focus.

The recent emphasis by retailers on value ranges, cash-saver items and investing in promotional offers, is one example of where such attention is required. While funding price reductions and value lines are appropriate strategies for maintaining consumer footfall and market share position, the right management information and budgetary system need to support these initiatives to ensure they meet margin and profitability objectives. Now more than ever, clearly defined key metrics are essential to ensure that profit improvement initiatives effectively add value.

THE ROLE OF FINANCE

The finance function in many organisations largely reverted to a controlling and transactional driven operation. Business insight is now required to support operations in understanding their performance at a granular level, and identifying and supporting initiatives to improve performance.

Investment in management reporting tools and finance skills may be required to adequately support this change in focus.

CULTURE

Without consistent and unequivocal leadership from the top, change won't happen – senior management need to maintain focus and momentum in taking out cost. Employee involvement is key for two reasons – employees are at the coalface and often see opportunity not visible to management. Asking employees for input conditions them for the change that will inevitably follow.

Cost needs to be tackled from all angles. Challenging the business model is the first step and getting an independent perspective on options is usually insightful, be it from a peer, a non-executive director, or an external expert. Agreeing a plan and ensuring there is ownership, responsibility and accountability is a great next step... n

