Counting the cost of Click 'n' Collect

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By Andrew Davidson

Hardly a week goes by without another retailer announcing a move to offer a click and collect service, but are retailers fully aware of the cost of offering this service? Although cross-channel selling has many attractions, a key challenge for most UK retailers is to ensure that they offer attractive customer propositions while remaining profitable. In this multi-channel era retailers need to be cautious and ensure that good financial principles are applied when battling for a share of the customer's wallet.

The majority of UK retailers are now well placed to exploit their multi-channel offer and click-and-collect has been a major success: it has driven an increase in footfall and also generated some remarkable in-store growth through customers' impulse purchases (within one large department store we surveyed there was a sales uplift of more than 15 per cent for customers collecting in store).

However, typically a retailer will be converting up to 5 per cent of store sales space to manage click and collect, with appropriate staff to handle the service - particularly the returns, as these range from 35 to 50 per cent of items ordered online – so all these costs must be included in the equation.

From our research, we found instances where it would have been cheaper and less disruptive to the bricks and mortar business, to deliver the goods to the shopper direct than offer a click and collect service; and there were worse case scenarios where the cost of fulfilling an online order was more than the value of the sale.

As multi-channel retailing becomes the new norm, there is greater need to analyse and understand the total cost of sale of a product, which takes into account all the activities of meeting customers' needs and their associated costs. An analysis of these costs reveals the impact of product attributes, business processes and customer behaviour on total costs, and presents a view of costs and profitability by customer type, product group and channel.

The cost base to be analysed will include all the costs of relevant head office functions as well as supply chain and store operations. Resources consumed (e.g. salaries, rent, rates, cost of goods, distribution costs, utilities etc.) are then allocated appropriately to the relevant activities that they support (e.g. develop products, market products, procure goods, manage suppliers, process orders, manage logistics, provide customers service, manage inventory, handle returns etc). These activity costs are then allocated, based on the driver of volume, to specific customers, products and channels to give accurate information on the costs associated with revenue streams.

Studies we have undertaken have identified direct savings of between 20 and 30 per cent through a better understanding of the total cost to serve – as well as opportunities to grow revenues.

By interrogating the total cost to serve, retailers then have access to vital information to help them take more informed decisions in areas such as:

• Range planning by channel - in which products and channels should investment be made? • Pricing - what prices will ensure profitability once all related costs are considered? • Cost reduction - where can processes be simplified, and what benefits can be delivered? • Organisation design - how can structures and processes be better aligned?

The provision of timely, insightful management information, including periodic updates of cost to serve analysis, is an area where the finance function can enhance its level of support to the business. Today, it is necessary for the finance team to move away from the more traditional focus on the "accounting" view of costs to an "activity" view of costs.

In our experience, many organisations are "flying blind", determining strategy and making operational changes without the correct information. The business intelligence gained from a cost to serve analysis provides an understanding of true product, channel and customer profitability, together with an activity-led view of cost consumption.

By designing the cost to serve model to answer specific questions and needs of management, the output can be converted quickly from information to actions and the delivery of benefits. The analysis can then be further developed and become a sustainable part of the operating model.

Among the additional benefits that could be delivered are insights to inform the longer term supply chain strategy, a better understanding of the benefits of integration of store and online channels and opportunities to improve in-store and online availability.

As retailers continue to transform their operating models to integrate multi-channel strategies and plan for an ever-changing operating environment, the value of robust cost to serve analysis has never been greater and can be expected to deliver a robust return on investment.