

**INDUSTRY**

Retail

**SOLUTION**

Consulting

**PRODUCTS**

Operations and Technology

**CLIENT STORY**

Total Cost Modeling = Efficient Procurement:

## Unknown Costs Can Be . . . Costly

How much does it cost?

It's an easy question to ask if you're buying a loaf of bread, but the question gets vastly more complicated if you're like this client -- a large consumer products retailer with complex procurement and inventory needs. The company was great at tracking acquisition and warehouse-related costs, but a complete inventory management cycle includes so much more: merchandising, administration, and management of product sitting on store shelves, just to name a few. With no effective mechanism to track other cost factors, the company was relying on speculation and guesswork to guide purchasing. To compound the challenge, business units had settled into a compartmentalized, siloed culture that didn't share data in any meaningful way. Our task: deliver a solution to the client that would put them back in control of their spending.

Our analytics team performed detailed process mapping and profit and loss (P&L) research to create a holistic, total cost model that explores every touchpoint in the product's life cycle. Stakeholders from the disparate teams were brought together into a collaborative effort that improved transparency and communication. Together, the team identified three key areas of the product life cycle to model:

- **Corporate:** Planning, procurement, merchandising, marketing, administration, etc.
- **Distribution Center (DC):** Warehousing, transportation, distribution, etc.
- **Store Functions:** Monitoring / maintenance of stock, in-store merchandising, returns management, etc.

Now that the company had achieved a complete, continuous understanding of costs relating to each stock keeping unit (SKU), workflows could be optimized and purchasing decisions would be better informed. The heightened internal cooperation uncovered the inefficiencies and redundant tasks and that existed between business units. For example, when one group created more SKUs than were needed for a product line, downstream resources used to manage the superfluous SKUs were wasted. Tighter controls on SKU management resolved the problem. In addition, marketing and merchandising costs could now be considered as part of the true cost of each product. The models brought a needed dose of reality into the client's inventory management – it could now be determined if the total life cycle costs of buying in greater quantities resulted in an actual cost reduction, or simply a perceived savings.

One of the most dynamic benefits for the company is that predictive modeling can now be used to guide purchasing choices before they are made. "What if" scenarios can be tested to determine true costs, and also to show where those costs fluctuate during a product's life cycle.

**RESULTS**

True cost knowledge guides  
**accurate decisions**

Collaboration between business units  
**reduces waste**

**Purchasing decisions**  
can be tested before they're made