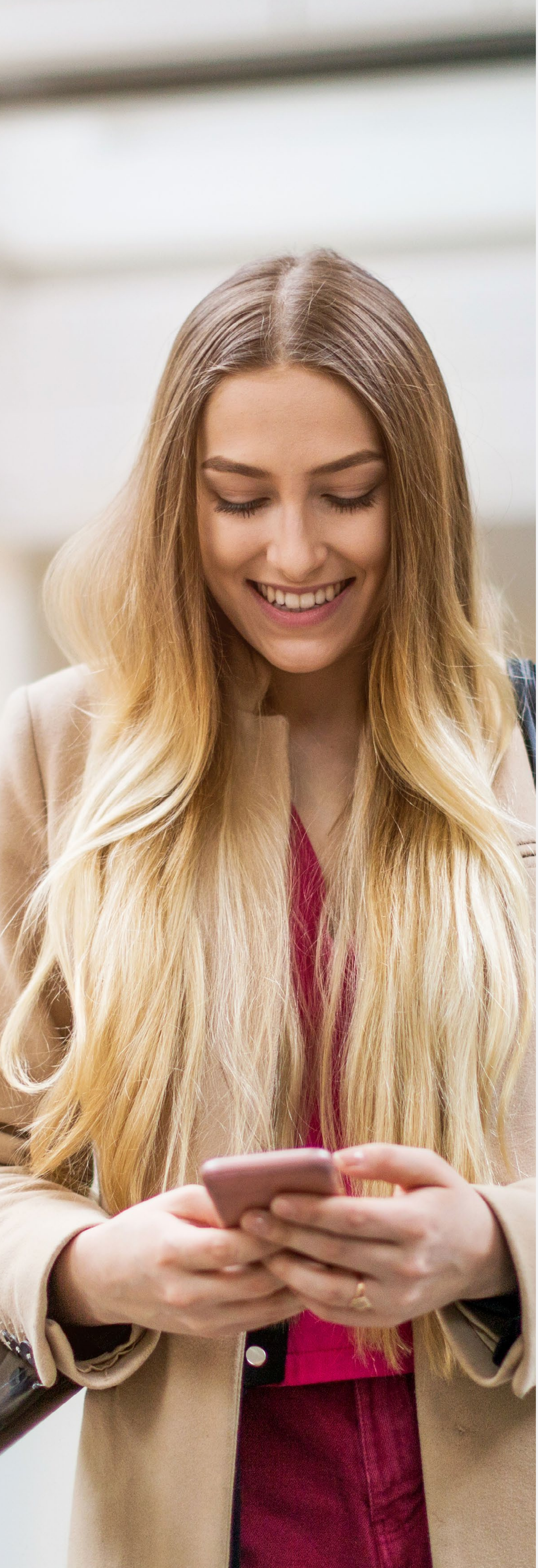
Enhance Profitability with End-to-End Thinking

Capgemini invent



Five tried and tested *operational principles* for retail resilience

From inflationary pressures and rising operating costs to ongoing consumer behaviour shifts and global supply chain disruption, the margin for error is smaller than ever. Geopolitical tensions and trade policy fluctuations – particularly those affecting import-heavy supply chains – further highlight the importance of building resilience into operations. For retailers reliant on international sourcing, cost escalation and supply risk are constant considerations, reinforcing the need for agile, diversified strategies.

The Great British Squeeze

Many consumers continue to feel the strain of the rising cost of living, with over half telling us they are deeply concerned about their personal finances. The resulting shifts in purchasing behaviours, like trading down to own-label products, delaying discretionary purchases, and reducing basket sizes, all have immediate implications for margins.

Digital: invest to grow or scale back to protect margin?

eCommerce is still the fastest-growing retail channel, but with it comes significant profitability challenges. In grocery, digital often lags in operational maturity, leading to rising fulfilment costs, margin dilution, and difficult trade-offs between speed, service, and efficiency. In non-food, return volumes continue to surge, particularly online, creating operational drag and unplanned cost.

Shrinkage, pinches, and pressure

UK retail shrinkage has risen by over 30% since 2018, with shoplifting up 25% in the past year – intensifying pressure on store operations and profit protection. External cost pressures, including changes to non-domestic business rates and employer's national insurance have added millions to retailers' operating costs, limiting reinvestment and stretching already thin margins.

One eye on the environment

Increasing scrutiny around environmental and social responsibility means cutting costs must go together with cutting carbon and waste. And customers, while price-conscious, are watching how brands uphold their values. Retailers must therefore balance affordability with ethical responsibility – offering competitive pricing while reinforcing trust through sustainable, transparent operations.

The next big retail evolution?

While the landscape may appear daunting, history shows that retail has always evolved under pressure. Many of today's most profitable operating models were forged during periods of uncertainty. The challenge now is to adapt with purpose – shifting from reactive cost-cutting to proactive, insight-led transformation that helps you take back control of your operational costs and build resilient, profitable models for the future.

The question is, how?

Five operational principles for driving profitability

Armed with deep industry expertise and shop floor experience, Capgemini's Retail team has helped some of the largest global retailers respond to continued financial pressures by identifying new ways to maximise profit, reduce costs, enable all-channel growth, and connect with customers. It's through this experience that we've identified five operational principles to drive resilience and profitability:

1. Think end-to-end

No more siloed cost-saving initiatives. Instead, take a step back to see the full picture, and be able to model the impact of holistic decisions throughout the value chain by connecting the data and your teams.

Understanding the bigger picture means looking beyond just the cost of goods. It's about having a clear view of the full cost to package, transport, store, and replenish a product. True product-level profitability thinking also requires factoring in the opportunity cost of slower-moving inventory, along with the downstream impact on stock rotation, markdowns, and waste throughout the product lifecycle. This starts to surface an end-to-end view of product profitability across the full lifecycle. Rretailers who lack an end-to-end approach may miss significant margin-growth opportunities across the supply chain, potentially addressing only minor issues with quick tactical fixes.

We partnered with a leading grocer to consolidate key operational cost data – spanning transport, storage, labour, and wastage – and brought it to life through a tailored, interactive dashboard that put actionable insights at their fingertips. The tool included scenario planning and optimisation – highlighting to business users where profit was leaking and which interventions to take to improve by pulling on different operational levers. The grocer had never seen the full picture of the costs that take product from their suppliers to the end customer. The advantage of surfacing historically siloed data was that it brought the teams together, as well as the data. For the first time, there was a shared awareness and appreciation of how decisions impact the 'Product Profitability' across Commercial, Retail & Supply Chain.

This is no longer a daunting or labour-intensive task. You can begin with less complex activities and leverage AI to automate data-gathering tasks. By gaining a clearer understanding of the stock flows to model, the operations involved and the data available, it's possible to start small then scale the sophistication rapidly. If you can't build a live data model yet, even connecting data in offline spreadsheets can have its advantages. You can use this exercise to get a rudimentary view of achievable cost-saving goals and use that to unlock the necessary resources and inputs for further refinement and/or execution. Executives may be surprised with what (potentially deep) pockets of opportunity this exposes.

2. Align on a margin measure

Often, organisations place undue focus on gross profit rather than net, which doesn't tell the whole story (although it has its place). Net margin measures typically include apportioning costs which are not directly or easily addressable and usually do not go down accurately to a SKU level.

Where 'Cost-to-Serve' is considered, it's often a siloed measure (e.g. Logistics Cost to Serve). Where we have seen initiatives focused on profitability implemented most successfully is where retailers build on step one to apportion operational cost data down to the individual product and fulfilment location level to calculate a new operational margin measure . This distils operational cost data into more digestible, actionable insights. From this, we've been able to see the difference in profitability of selling the same product, but in different locations with varying shelf space allocations and rates of sale, or the impact on a product's case size or routing (e.g. national versus regional).

Implementing a business-wide, universally-understood operational margin KPI used for reporting throughout the business is a robust way to break down siloes, embed end-to-end thinking, and drive data-driven decision-making. Executive objectives should be directly linked to this well-defined KPI, guiding decision-making at all levels, allowing you to better prioritise initiatives that drive a more effective output and cost-savings.

3. Get granular

We do mean granular. Once you have visibility of these costs down to a product level, you need to work out where the key cost drivers are coming from.

Do you have problem categories? SKUs? Stores?

How does the fulfilment route impact costs?

How does the case size impact profitability?

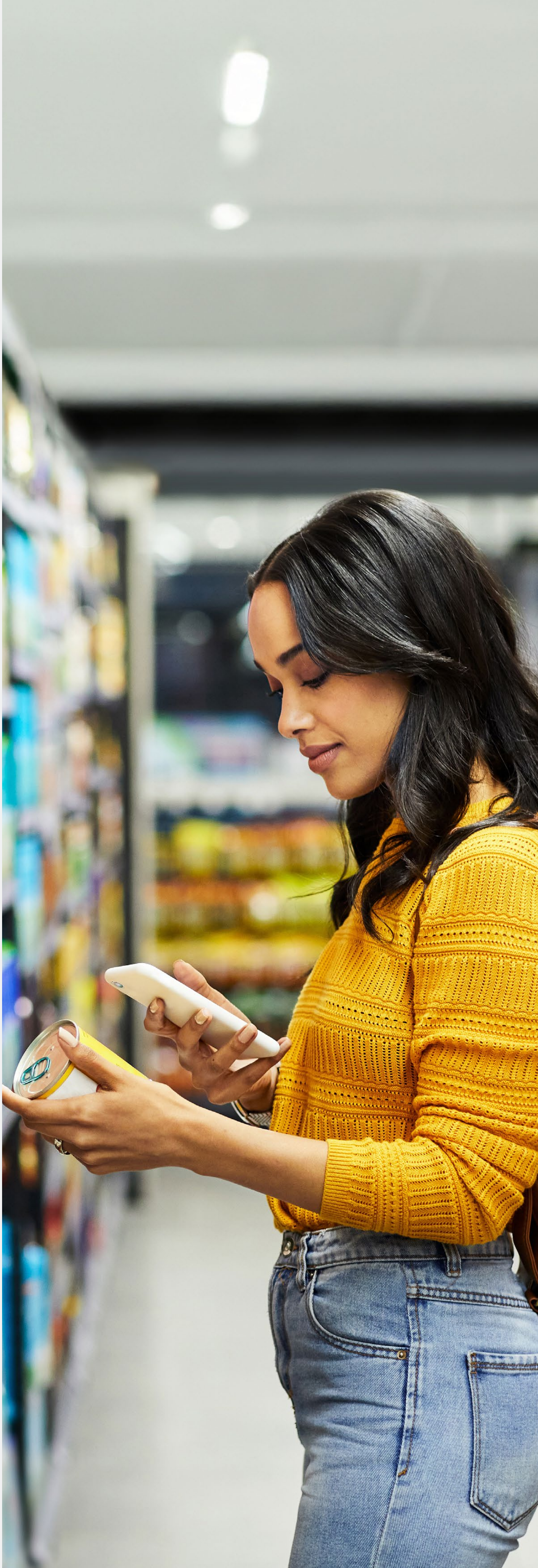
How big a problem really is wastage on your fresh products?

Taking a critical, investigative lens to understanding your cost base will stand you in good stead for tackling these cost challenges head-on.

We worked with a UK fashion retailer who was trying to balance availability and markdown by optimising case sizes and the mix of boxed and hanging product. Size complexity, especially in their footwear, lingerie, and tailoring departments, exponentially increased the volume of data and analysis required. Critically, however, it demonstrated the power of insight-based trading and supply chain decisions across more than 100,000 individual SKUs.

However, this only stands if the data is accurate and reliable. Retailers should invest in improving data quality and maturity to gain full trust in the insights surfacing and make targeted, impactful changes with certainty about the accuracy of decision-making. From our experience, many retailers base decisions on historical data, as opposed to real-time insights, which becomes even more of a challenge when working with multiple, disconnected data sources.

It's critical to integrate and synchronise these disparate sources to enable a more precise understanding of cost-to-serve and product profitability. From here, you need to harness the data available, understand the cost levers and take decisions that align to strategic goals. Whilst this may seem complex, collaborating with experts who possess deep knowledge and expertise in building advanced product profitability models will allow you to access a level of richness to the insights that static calculations can't get to. Ensuring your data infrastructure maturity supports your business ambitions is a worthwhile investment to help you achieve your goals. "Data is king", after all.



4. Understand the true ‘why?’

Getting access to data is just the start. The real value lies in asking the right questions, interrogating the insights, and modelling the scenarios that matter. This is where you can move from static reporting to actionable intelligence – challenging assumptions, surfacing hidden cost drivers, and identifying new levers to optimise profitability.

To make data meaningful across the business, it’s critical to explore the ‘why’ at three distinct levels:

Strategic – for CxOs and Exec Sponsors

At the strategic level, data can inform decisions around category strategy, warehouse design, and even store format or macro-space planning. For one retailer, we modelled the impact of shelf space allocation on product profitability, revealing that an entire category was structurally unprofitable. This insight triggered a review of their macro-space strategy and ultimately drove a redesign of store layout and assortment to restore profitability.

Tactical – for Commercial, Supply Chain, and Ops Leaders

At the tactical level, scenario modelling can inform smarter ranging, promotional planning, and inventory allocation. Questions like “What is the true cost of running a particular promotion?” or “Why are two similar products driving different operational costs?” can lead to more data-informed decisions that preserve margin while protecting customer value.

Operational – for Store and DC Managers

At the operational level, the insights help teams understand labour productivity, stock rotation, and wastage patterns so they can take practical action on the shop floor or in the distribution centre. For example, identifying underperforming SKUs that drain capacity or spotlighting store processes that consistently create unnecessary shrink.

5. Adopt a mindset shift

Having the data but not acting on it is no better than not having the data in the first place. But bringing the business on that change journey is often the hardest part. From buyers to space planners, logistics and store managers, the mindset of looking beyond their function in isolation can be significant.

When end-to-end decisions are being made about what is ranged, how it is displayed, how it is flowed, cost considerations should always have a seat at the table, alongside the customer. Having an ability to model different scenarios, alongside a shared KPI, can help take emotion out of the process.

Whilst working with a specialist general merchandise retailer, we built a model that visually illustrated the cross-functional impact of strategic decisions such as the mix of own-brand and branded products and different customer returns propositions. The executive team could not only see the predicted impact on their functional cost base and their people, but also that of their peers. This enabled them to work more effectively as a leadership team, having a much better view of end-to-end implications.

Regardless, it’s imperative that everyone is brought on the journey as this will drive fundamental shifts in ways of working and how the business operates. Engaging teams in the creation and rollout of this KPI will help with buy-in as they will understand how they can impact the outcome and become champions for change within their departments to achieve their goals.

AI: Unleashing the power of your data

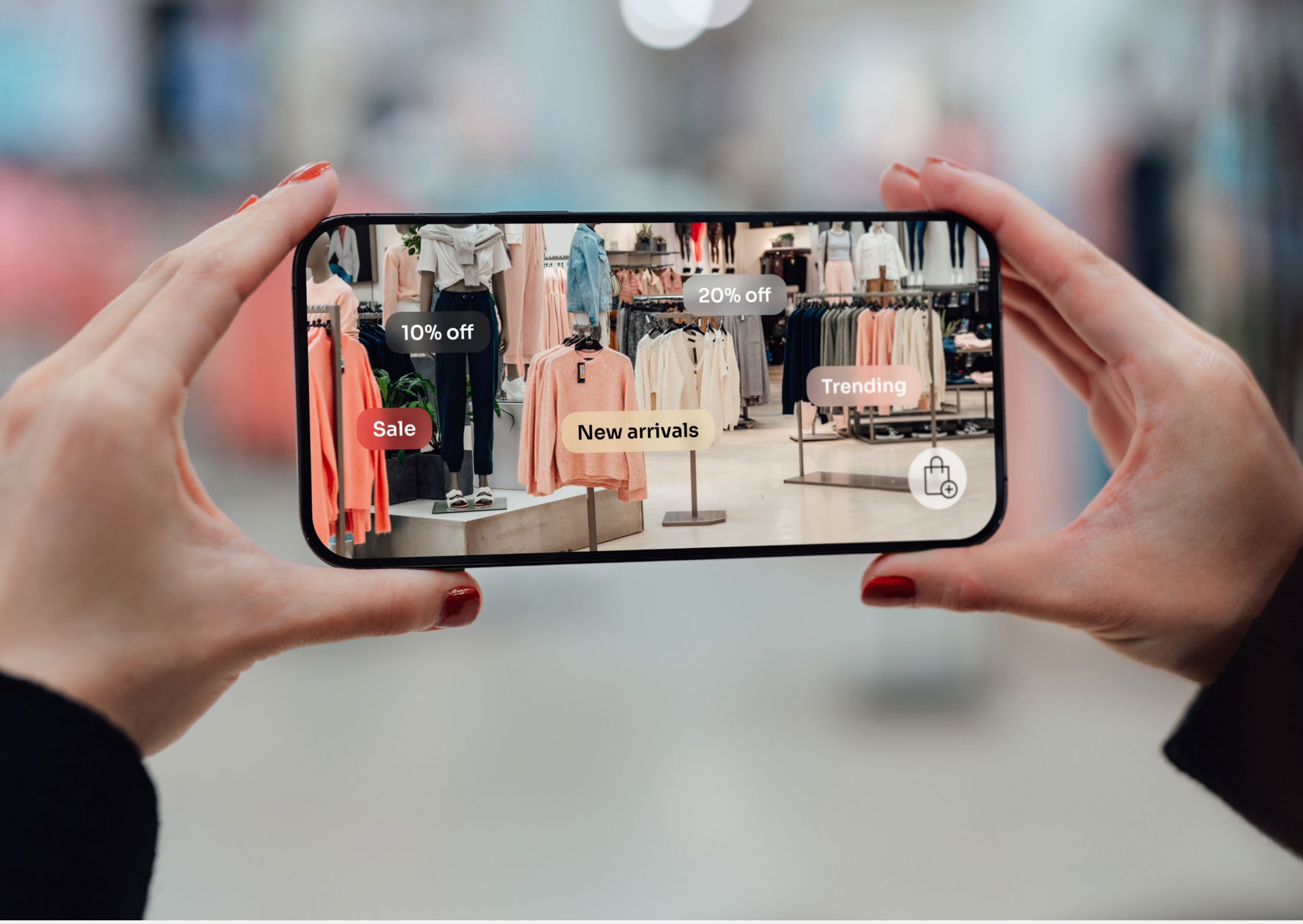
Whilst the five principles can be applied with traditional business intelligence and dashboarding tools, and bottom-line benefits can be delivered, the reality is that with millions of SKU-store combinations, supply chain routes and cost drivers, it can be difficult to fully exploit the value of your granular product profitability data.

This is where AI models come to the fore – be them traditional, generative, or agentic – enabling dynamic decision-making at scale and acting as a co-pilot to commercial, supply chain, and store operations teams .

For example, AI agents can autonomously run hundreds of simulations, assessing the different trade-offs and suggesting the best course of action. This multi-agent team could, say, determine the right case size for a SKU by assessing the impact any change may have on end-to-end costs, availability and waste, and therefore the profitability of the item. All in the blink of an eye. Agents can also do the heavy lifting behind the scenes, ensuring the latest and cleanest data is used and costs are allocated in a way that maximises the value of the insights.

Generative AI also transforms the way teams interact with their data, allowing them to probe with questions such as “which stores are running with high waste during a promotion, and crucially, why?” The conversational nature of these interactions helps people feel more comfortable with AI models and embrace the value they bring.

AI is not the silver bullet, but it goes beyond traditional analytics by explaining, recommending, and acting in a way that maximises product profitability. The opportunity is significant, but it’s important not to lose sight of these five operational principles which look at the organisation, the people and the measures of success…not just the data.



How to start applying the five operational principles.

These shifts in mindset and approach will help you streamline your priorities and focus on the value-adding activities to achieve your long-term goals. To ensure they're successfully applied, it's imperative there is a strong vision and leadership sponsorship.

Although it may not be realistic to start with the end goal and immediately build AI agents that optimise operational profitability, it's possible to start small. Pulling together a group of motivated individuals who collectively represent the end-to-end stock flow is a good start. Collaboratively mapping out the different stock routes and buckets of operational cost is an even better start. Engaging your data team to support you in identifying the operational cost data available and taking an extract for you to play around with will help you to understand the scale of the task, but also the scale of the opportunity.

It's at this point the fun starts and you can put your analytical skills to the test by building simple AI models – allowing you to think about what logic you'd like to replicate as you start to broaden your horizons.

One final word of warning: don't forget the bigger picture. Taking a holistic approach to shifting the focus of the business towards operational profitability is critical and carefully managing the change journey will make sure all your hard work isn't for nothing.

How can Capgemini help?

Driving any change alongside business-as-usual is a squeeze. That's why we created our Product Profitability Accelerator – a scalable solution designed to help retailers start small, move fast, and deliver in-year, realisable value to the bottom line.

Capgemini brings together deep AI and analytical capabilities and a breadth of real-world retail expertise, from former operators who've run stores and supply chains to consultants who've delivered complex transformation at scale. We understand where the value lies and what it takes to unlock it.

As an end-to-end partner, we combine this industry know-how with advanced data and applied analytics, increasingly supporting retailers harness the power of AI – from surfacing margin leakage in real time, to simulating operational levers and automating decision-making across the product lifecycle.

Get in touch if you're looking to take control of operational costs and turn insight into action. We'd love to help.

To learn more about *how we can solve your biggest challenges,* head to our dedicated retail page or get in touch:

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About Capgemini

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