Capgemini Consulting

Finance in Multichannel Retail

Improving the Customer Proposition through Effective Finance and Enterprise Performance Management

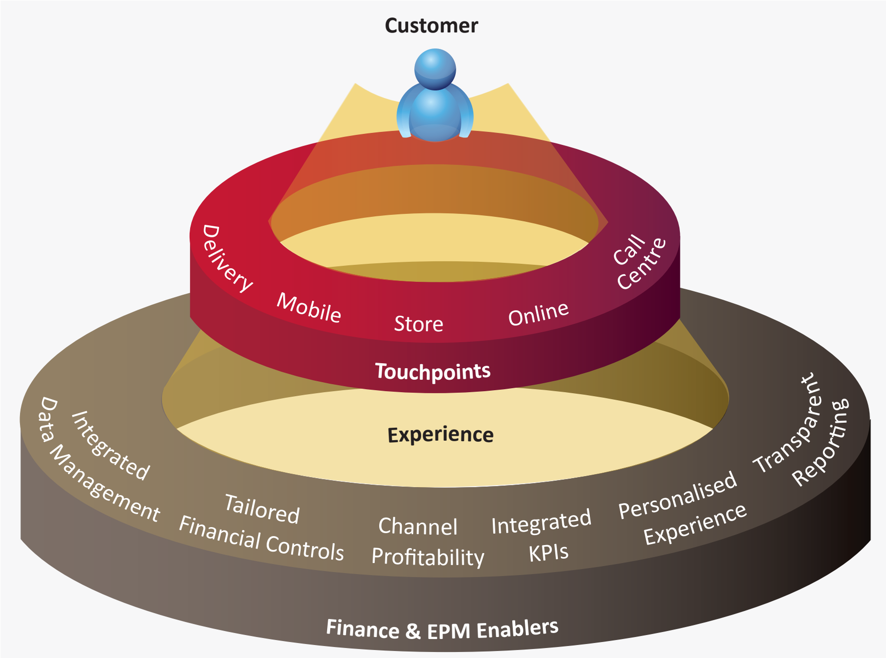
In the digital world, customers expect an increasingly sophisticated shopping experience. Retailers that have met these expectations by delivering a seamless, consistent proposition across all channels are securing a competitive advantage. Leading retailers are further enhancing their customer's experience by leveraging Finance and Enterprise Performance Management ("EPM") in their transition to operating in a multichannel environment.

High performing finance functions support the move to multichannel by ensuring that back office processes enable the customer experience. Further, they help shape a P&L structure that encourages growth across the whole channel portfolio by incentivising the right behaviours in senior management.

New multichannel behaviours are being reinforced through robust Enterprise Performance Management solutions. Finance teams are using multichannel performance targets to break down the old, channel-based silos and behaviours. Additionally, they are seeking to develop a clear view of relative channel profitability in order to optimise the channel mix.

Engaging finance teams in facilitating the multichannel journey, is resulting in better customer experiences and stronger profitability for retailers.

Figure 1: EPM and Finance enablers underpin delivery of a customer centric multichannel experience



Finance and Enterprise Performance Management Opportunities

Capgemini Consulting has identified a number of ways in which finance and EPM can contribute to the success of multichannel retailers:

- Developing a multichannel mindset
- Nurturing channel development
- Optimising channel strategy
- Enhancing customer experience by enabling personalisation
- Maintaining financial control in a more complicated environment
- Harnessing customer data to drive improvement

Developing a multichannel mindset

Becoming an effective multichannel retailer is about more than growing an online sales channel. It should be a portfolio play delivering growth to all channels by providing the customer with maximum flexibility about how they buy and receive their goods.

To be able to deliver this channel agnostic customer experience retailers need to break down channel silos and encourage staff to think differently.

Traditional P&L structures do little to foster the cross channel cooperation required in the development of multichannel customer propositions. Take the example of Click & Collect where store operations fulfil orders made online.

If that sale were recognised solely as an online sale there would be no incentive for store operations to develop and deliver the service. Channel managers would continue to see themselves as being, to some extent, in competition for the same customers rather than working together to develop a seamless cross channel customer experience to the benefit of all channels.

This mindset can be exacerbated through the performance measures used in the business. Typically these entrench a siloed view of the organisation by providing management with channel specific targets. Only by setting and measuring performance against overarching multichannel targets can retailers be sure to incentivise employees to adopt a new, channel agnostic set of behaviours.

Nurturing channel development

The integration of new channels in to the planning, budgeting and forecasting process can be challenging as newly launched channels are likely to need a different degree of attention to the steady state business. More regular review will initially be required as, due to unpredictable early growth, accurate forecasting is difficult.

As the channel becomes more established the finance function will be expected to continuously improve forecasting performance so that the channel can be fully integrated with standard planning, budgeting and forecasting processes.

While the new channel is becoming established, management will also need to decide whether to shelter it from normal multichannel performance targets and expectations, focusing instead on channel specific development and growth in the short term.

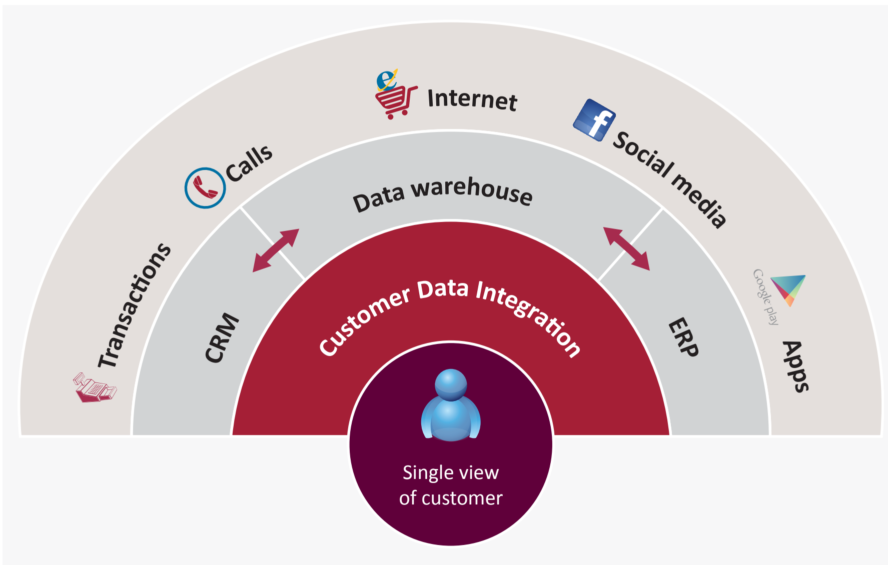
Where retailers develop their channel portfolio by acquisition, a different set of channel integration challenges can arise. Due to the different cultures in the acquiring and acquired companies it is likely that the usual channel silos will be more entrenched than usual. In addition, post merger integration challenges around people, technology and business processes increase the difficulty of quickly integrating the new channel with existing processes and of establishing a multichannel framework for the management of different channels.

Optimising channel strategy

An understanding of customer profitability by channel allows the retailer to prioritise hannel development based on projected ROI and to improve margins by encouraging customer usage of more profitable channels.

However, channel profitability cannot be properly understood without a single view of customer interactions across different channels. This requires robust data management to ensure that consistent information is available across channels and dimensions.

Figure 2: Robust data management is required to build a consistent customer view across multiple channels



This should be augmented by a chart of accounts and cost centre structure that supports allocation of revenue and cost appropriately between channels.

In addition, even with these prerequisites in place, the following areas will need to be addressed to develop a clear understanding of channel profitability:

- Rules on sales recognition to provide clarity on the allocation of revenues in an environment where taking the order and order fulfilment can occur in different channels
- Cost allocation rules that apportion costs between channels involved in the customer interaction
- Rules determining when a sale can be recognised where there is a time lag between the order being placed, transfer of legal ownership of the goods and, if different, payment being taken

All of these considerations come together in the context of the customer returns process. Retailers need to provide customers with a process that fits around them – processing the return quickly through whichever channel the customer chooses. The back office must be able to support the customer experience through quick return of payments for returned goods and both allocate the customer credit and the cost of serving the customer to the appropriate channel(s).

Enhancing the customer experience by enabling personalisation

Customers expect an increasingly sophisticated degree of personalisation in their interactions with retailers. In the long term this could lead to individually tailored basket prices for customers at check-out based on personalised discounts. More immediately retailers could improve their customer experience by introducing the automatic application of discounts and vouchers to the online basket at checkout and offer complete transparency in pricing.

Pricing in the multichannel environment is no longer static whether due to channel specific pricing such as online differential pricing or personalisation. If the finance back office is unable to adequately deal with the increased complexity in pricing, the customer experience may be negatively impacted.

Maintaining financial control in a more complicated environment

Whilst the back office must be able to support delivery of the customer experience it must do so without comprising the financial control environment.

To illustrate the point, consider promotions.

These are an integral part of the customer value proposition but setting them at a level which is simultaneously attractive to customers but does not throw away unnecessary value for the retailer is a difficult balancing act which finance must help the retailer to get right. The cost of getting it wrong, like Hoover's free flights fiasco in the early 1990s, can be severe.

Customer invoicing provides a further example of the importance of the finance back office. The move to multichannel may result in increasing invoice volumes particularly where a retailer moves from B2B to B2C by using the online channel to engage directly with customers. The finance organisation and systems must be able to cope with this increased volume to ensure that customers are invoiced correctly, cash is managed and the customer experience is not adversely affected.

When dealing with multiple channels it is unlikely that one set of financial control processes will be suitable across the board. Finance will need to develop and test suitable controls for each channel especially in relation to cash management and liabilities to ensure an appropriate level of financial control within the company. Similarly, the level of fraudulent activity will differ between channels. Retailers therefore need to determine the right balance between lost sales due to overly stringent fraud checks and exposure to fraud risk on a channel by channel basis.

Harnessing customer data to drive improvement

In multichannel retail there is a high volume of data generated by each customer across numerous touchpoints with your business. Further, with the rising importance of social media as a customer engagement tool, not all of these touchpoints are controlled by the retailer.

To draw actionable insights from the available data, both structured and unstructured, can be a significant challenge.

The benefits of successfully leveraging this customer data are clear: developing a better understanding of the customer is central to intelligent customer segmentation strategies which can maximise customer profitability through improved marketing targeting.

In addition, Finance may benefit from social media monitoring to uncover areas where finance processes have led to negative customer comments about the customer experience.

Why Capgemini?

Capgemini brings cross-functional business expertise enabled by a technology implementation capability. This end to end capability provides us with a unique insight into the challenges of simultaneously delivering a rich customer experience in a multichannel world while still growing margins. In recent years we've brought this insight to 27 of the world's top 30 retailers making us one of the world's leading partners to the retail industry.

Our dedicated Enterprise Performance Management and Finance Transformation teams have the capabilities required to support clients with these challenges:

- Sector experience, understanding of the retail business model and proprietary retail reference model defined with leading retailers
- A track record in profitability management, performance reporting & analysis and the development of group planning and budgeting
- Experienced practitioners to support development of innovative solutions
- The cross-organisation functional knowledge required to design management reporting and incentives that break down silos

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