

Retail Transformation Drives Cost Reduction at Meijer

Capgemini's comprehensive Retail Transformation initiative helped supercenter operator Meijer reduce its SG&A costs and create a "culture of thrift."

The Situation

Meijer Inc. is a large retailer based in Grand Rapids, Michigan, operating more than 160 supercenters across the Midwestern region of the United States. The stores feature a full supermarket (covering health and beauty care and pharmacy) plus more than 40 hardline and softline departments, including fashion, automotive, home decor, electronics and pet. Facing increasing margin pressure due to an aggressive expansion of national discount retailers into its region, Meijer needed significant and sustained reduction in its cost of business to enable future growth.

The Solution

Meijer and Capgemini implemented a wide-ranging Retail Transformation program that covered the entire enterprise. The program was organized around four broad areas: store operations, merchandising, supply chain and finance/administration. The objective was to achieve sustainable improvements in Meijer's cost structure while maintaining its established quality and market appeal. The company set an aggressive goal of sustained Selling, General and Administrative (SG&A) cost reduction, to enable greater expansion and become more price competitive in the market.

"Our goal was to take costs out of the company. With Capgemini's help we are succeeding in doing this. But the actual company benefits go beyond the results linked to the program. The transformation has created a 'culture of thrift,' which affects day-to-day decision-making and prioritization around spending."

– Jim Postma,
Senior Vice President, Meijer Inc.



The Result

At month 18, the company is approaching its goal of sustained SG&A reduction, and has validated this reduction in the P&Ls as directly linked to the Retail Transformation program. Additional significant value has been delivered under other financial value classifications such as SG&A avoidance, carrying costs and margin improvements, which have enabled more competitive pricing. The program is projected to deliver the full SG&A reduction by month 28, when all rollouts and follow-on improvement cycles are completed.

How Meijer and Capgemini Worked Together

Meijer Inc. has long been a powerful force in the retail grocery and general merchandise business in the Midwestern region of the U.S., having pioneered the supercenter concept in the U.S. in the early 1960s. Its supercenters average more than 200,000 square feet. The stores feature expansive product selection and eye-catching promotions.

In recent years, the company has faced increasing pressure from national discount retailers, which have expanded rapidly in the Midwest, challenging Meijer's growth. To continue to thrive and expand in this highly competitive environment, Meijer turned to Capgemini to assist them in implementing a comprehensive Retail Transformation program.

Meijer chose Capgemini based on its deep understanding and experience in the retail industry and in transformation programs. Additional factors included Capgemini's operational focus, the depth of experience among its engagement team, its end-to-end approach and its proposed team organization, which effectively aligned with Meijer's management team structure.

To address Meijer's two main requirements — that the approach be comprehensive and that the time to benefit realization be rapid — Capgemini's solution entailed elements from several of its transformation methodologies:

- A **Model Store** approach, which involves validating and implementing relevant best practices in one store and then rolling them out through "Learning Center" stores before ultimate rollout across the chain.
- **Financial Transformation**, which examines design and performance of all support and administrative functions, addressing such factors as division of work, reporting relationships, "span of control," performance measurement and organization structure.
- **Accelerated Solutions Environment (ASE)**, which drives companies toward collaborative solutions and ensures buy-in within a compressed time frame.
- **Low Cost Pursuit**, Capgemini's signature value-measurement approach, which ensures

the projected value derived from the transformation initiatives materializes in the company's operating statements.

The project began with a six-week diagnostic and ASE session designed to validate, quantify and consolidate transformation opportunities into an integrated program. After achieving two-thirds of the projected savings, a second ASE was conducted at month 15. The follow-up ASE was conducted to reinforce the capture of the remaining first-ASE savings and to add the required transformation line items, which would ensure the achievement of the SG&A goal.

Key opportunity areas of the full program included:

- Store operations process simplification, methods improvement, shift definition, organization change (both field and within stores), production planning, inventory management and front-end efficiency.
- Retail merchandising approaches and execution designed to reduce many of the stresses imposed on stores by labor-intensive tactics. This included the rationalization of planogram changes, price changes and promotional setup.
- An end-to-end re-examination of product flow through the supply/demand chain to

rationalize handling patterns, delivery schedules, service requirements, load density and store receiving touchpoints.

- Transformation and reorganization of all support areas, including non-merchandise sourcing, IT support and infrastructure, risk management, properties management and real estate portfolio management.

Critical to the success of Meijer's Retail Transformation was the rapid realization of benefits. Tangible, measurable savings started accruing 10 weeks after the start of the program. This was partly due to the program's intense focus on business value. All initiatives of the program had to be defined around three questions: "**How much? How sure? How soon?**" Measurability and accountability were the foundation success factors that drove results. An additional success factor was the collaborative approach to managing the program. This ensured the rapid transfer of ownership to Meijer's management team.

While Meijer's Retail Transformation program is succeeding in achieving the company's cost reduction goal, it has also created a "culture of thrift" that affects day-to-day decision-making and work prioritization. As a result, Meijer expects to be in a much stronger growth position in the years ahead.



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Through commitment to mutual success and the achievement of tangible value, we help businesses implement growth strategies, leverage technology, and thrive through the power of collaboration.

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