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3 WAYS FOR RETAILERS AND WHOLESALEERS TO REDUCE COSTS





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RETAIL AND WHOLESALE businesses have always paid close attention to margins. With the financial crises of recent months, competition is getting tougher and margins are being squeezed further. Pressures are growing on small retail and wholesale enterprises and are coming from many directions – suppliers, banks and customers - as well as the competition. In the UK alone there was a 23.9% increase in the rise in failures among retailers in 2008 compared to 2007¹.

However, it is not all bad news. For example, the UK Office of National Statistics reported some recovery in household goods as well as non-store retail and repair in January 2009 according to the UK retailers' key publication, Retail Week (February 20th 2009). The recovery in sales of household goods was the largest increase in sales since August 2007.

Given the limited ability to grow margins today, an important contribution to the survival of retailers is to reduce costs to the business. These companies are confronted with a wide range of challenges to deal with which directly impact on the cost - and ultimately the profitability and survival - of their businesses.

Information from a recent independent study conducted by Research International across Europe among retailers and wholesalers with between 20 and 250 employees suggests that improved communications technology in particular can help such companies reduce costs. However, it has also shown that this sector has not yet fully grasped these benefits.

For example, only a quarter of retail and wholesale decision makers interviewed, considered that communications technology was extremely important to the everyday running of their business, compared to some 36% of small and medium businesses as a whole.

So What Can Enhanced Use Of Technology Do For Retail?

Retail businesses have particular challenges as regards technology. For medium-sized retail and wholesale organisations, the technology professionals in the organisation will often be based at head office rather than instore. Smaller retailers may have no IT specialists in house at all. This makes implementation and support even more challenging across a geographically widespread chain of retail locations.

There are other issues also specific to retail. Retail hours can be longer than the conventional 9-5, creating additional IT support issues. So the role of the network and the ability to share and manage information is particularly important. Value-added resellers (VARs) and network specialists are therefore invaluable in providing the level of support retailers need.

Decision makers in this sector are also much more likely to replace network and communications equipment when it has failed rather than investing proactively. This hampers their ability to control unexpected costs – and they can miss out on ways to potentially reduce their costs.

With good advice from VARs and network specialists, retailers and wholesalers can harness networking and communications technology to help reduce costs in three key ways.

Improving Security

The most obvious cost impacts in this area relate to stock shrinkage and customer data security. However, when surveyed only 7% of retail and wholesale decision makers considered that improving security was a key benefit that deployment of technology brought to their



needs to be used as effectively as possible. Often retail units are leased rather than owned, and there may be legal or physical limitations to installation of cabling and networking equipment.

Wireless systems for phone and data networks are a practical benefit to retail and wholesale operations enabling use in warehouse and storerooms, as well as saving retail floor space by avoiding the need for dedicated cable runs.

The Research International study shows that the adoption of wireless solutions has been more actively embraced in the retail and wholesale sector than others. Almost three quarters had already invested in such solutions, and future intention to invest was ahead of other sectors too.

What Next For Retail And Wholesale?

A quarter of retail and wholesale businesses see technology as a way of helping them save money – higher than other sectors. But active investment has been much more cautious than in other industries, perhaps because it is seen as a back office function and thus viewed as non essential in some way. Historically, too, many retail and wholesale businesses have been reluctant to invest in newer technologies, waiting for systems to fail before they replace them.

In these financially turbulent times it is challenging for retailers to extract additional margin. Shrewd investment in technology is increasingly relevant to reducing a wide range of costs, from shrinkage through to phone call costs and staff training. Some sources of cost, such as shrinkage, also threaten to increase in the current economic environment. In the future, looming Payment Card Industry (PCI) compliance deadlines also pose the risk of increased transaction costs or even fines for smaller retailers and merchants.

Such investment in technology can thus help maintain a key competitive edge, if not survival, for retailers and wholesalers.

¹ Business Failures Report, Equifax, 2008

² Centre for Retail Research, February 2009

³ Current Crime Trends Survey, RILA, December 2008

This article has been prepared by Research International. It is based on an independent research programme conducted among small and medium enterprises (20-250 employees) in Europe commissioned by Cisco, and conducted by Research International in 2008.

Independent research commissioned by:



businesses. This was less than half the level of companies from other sectors interviewed.

According to the second Global Retail Theft Barometer², retail shrinkage totalled over \$37 billion – or 1.3% of total sales – in Western Europe in 2007. This included over \$6bn in each of France, Germany and the UK. Retailers in most countries felt that customer theft was the most prevalent problem; however, in Europe employees were responsible for some 30% of the shrinkage.

There is also evidence from a recent study in the US³ that the financial crisis is contributing to an increase in shoplifting, fraud and organised retail crime which may be reflected shortly in Europe.

Cost effective solutions for monitoring stock and people activities, in the warehouse and in store now use high quality digital video surveillance. They are easy to implement and use for small businesses, and live footage can be accessed from anywhere over the internet.

According to the Research International survey, investment in network security which might prevent fraud in both traditional and online retail environments is lagging. While almost a fifth were looking at investing in network security, in other sectors the equivalent proportion of small and medium businesses considering further investment in this area was in excess of a third.

Diversification into web-based sales often exposes companies, and their customers, to new threats which they are ill-prepared for. There have been some very high profile breaches of customer information for example, which can tar the reputation of the retailer or wholesaler. Companies in this sector especially need to ensure that website security is high, and that data storage is robust, where customer information is concerned.

Lowering Communications Costs

Retailers have a wide range of communications costs to deal with. These include the cost of the network, phone system and phone call costs, as well as less obvious areas such as staff travel costs between stores. Many of these can be reduced by the introduction of new technologies.

Evidence from the Research International study is that retail and wholesale are somewhat behind the curve in terms of adopting some of these technologies. For example, only a third have invested in Voice over IP (VoIP) to date, compared with some 42% of small and medium businesses overall. However, future intentions to invest are now similar to the levels seen in other sectors, indicating that they see the advantages to their business in adopting such technologies.

Implementing a unified phone system and data network brings a range of cost benefits to retailers and wholesalers, especially if they have multiple stores. Apart from only needing to install and support a single unified network, retailers could benefit from reduced call costs between stores. Other related benefits include the ability to access information quickly over the network, from head office and between stores. Voice and video conferencing can also be used to deliver training, without the costly need to take staff away from the store.

Such capabilities also enable stores to communicate rapidly about organised crime activities in their vicinity – for example on returned goods scams and recently stolen cards.

Saving Valuable Floor Space

Floor space is both a key cost and a key source of profit to the retailer – and every square metre