

CASE STUDY

DRIVING ENTERPRISE COST SAVINGS IN UNCERTAIN MARKET CONDITIONS

The client is a national grocer operating hundreds of stores under several distinctive banners tailored to specific customer segments. Its stores stock the traditional grocery products of meat, dairy, seafood, frozen food, deli-bakery, health, and pharmaceutical.

THE CHALLENGE

In late 2007, the US economy was already slowing, creating an environment that would eventually claim victims such as well-known retailers Circuit City and Linens n' Things. As consumer spending fell and fuel costs rose, retailers struggled with pinched margins and a declining customer count. Grocery stores not only had to deal with higher transportation costs, but food costs were trending upwards as well. In anticipation of this economic downturn, the grocer sought a financial insurance policy—specifically one that would provide options for the company to protect its bottom line in looming market uncertainty.

THE SOLUTION

In response, the grocer's executive committee opted to launch an enterprise-wide cost reduction initiative as a contingency plan to protect future earnings. However, the directive was not only to identify cost savings opportunities, but also to prioritize the cost takeouts in order of their recommended implementation. This way, with any fall in earnings, the grocer could respond by making a corresponding cut in costs. To assist with the execution of this cost-cutting initiative, the grocer engaged North Highland consulting. The primary goal was simple—every budget line must be examined from a focused perspective: **Can this cost be eliminated? Reduced? Delayed?**

THE CLIENT

A leading supermarket operator with over 1,500 stores in 16 states.

THE CHALLENGE

Rising costs and market pessimism necessitated a financial insurance policy to protect earnings in the wake of continued market uncertainty.

THE SOLUTION

A three-phase enterprise-wide cost reduction initiative resulted in:

- A quantified list of cost savings opportunities, including quick hits
- Financial and operational analysis of each cost savings opportunity
- A finalized list of cost savings recommendations and an implementation schedule

THE VALUE

The finalized list of cost savings recommendations included 172 fully developed opportunities totaling over \$25M in first-year savings and over \$100M in future years.

UNIMAGINABLY ACHIEVABLE

When you engage North Highland consulting, you can rest assured that we will deliver an innovative solution to the project. We are driven in our pursuit of unique, creative answers, tailor-made to your specific needs. However, we are also diligent in making sure that any implementation is based in reality. What we propose must always be achievable and work in concert within your enterprise as a whole.

“North Highland provided expertise to create efficiencies and contain costs, which ultimately allowed us to deliver our targeted financial results.”

PROGRAM SPONSOR

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Working side by side with the grocer, North Highland consulting provided the necessary independent expertise to work with cross-functional leaders to investigate functional areas that were tangential to their prior roles in the organization. This allowed the team to investigate each cost savings opportunity with fresh eyes while leveraging members' knowledge of their respective areas. The project team used a time-tested approach with three phases:

OPPORTUNITY IDENTIFICATION

Interviews were conducted with senior leadership, budget owners, and line associates to identify opportunities. In every case, the interviewee was asked, “If you had to cut costs by 25%, what would you cut in your department?” and “What would you cut in the departments of your business partners?” Using these tactics, fresh eyes brought to light many opportunities for quick wins. Are landlords being paid for property no longer occupied? Are travel & expense policies being monitored for compliance? Are storage costs being paid for out-of-date equipment and technology when such items should be disposed of instead? Are there organizational functions that should be outsourced or in-sourced for cost savings?

OPPORTUNITY ANALYSIS

The accumulated list of opportunities was then tested and validated through detailed financial analysis. Why not eliminate marketing campaigns that fail to generate returns to exceed their costs? Are research associates needed in three different departments? Can low volume SKUs be eliminated to reduce shipping and handling costs? What is the differential cost for printing signage at stores instead of at the corporate level?

OPPORTUNITY QUANTIFICATION & DEVELOPMENT

Every validated opportunity was then categorized based on the financial impact, ease of implementation, impact to the business, level of risk, impact on associates, impact on customers, and the potential timing of capture. After the opportunities were fully developed, they were presented to the budget owners, allowing for feedback prior to the final presentation.

After a final brush-up, the final list of recommendations was delivered to the grocer's Executive Committee, and the team hit a home run!

THE VALUE

In the first few weeks of the project, North Highland and the project team turned over a significant number of quick hit savings opportunities. Over the course of the twelve-week project, roughly 350 cost savings opportunities were identified, of which 172 were fully developed and presented to the Executive Committee for implementation as market conditions necessitated. The total cost savings equaled in excess of **\$25 million in year one** and exceeded **\$100 million** in future years. The project's success provided the grocer a financial insurance policy as well as the flexibility to make corporate investments and preserve financial results in challenging market conditions.