

# The retail CFO

Making capital  
decisions in an  
omnichannel world

EY-Parthenon consumer  
products and retail sector





# Introduction

Shopping has never been easier for consumers. Thanks to the e-commerce revolution, consumers can order online in the morning and pick up their merchandise in-store by lunchtime, or receive personalized coupons on their mobile phones while strolling the aisles.

But for executives behind the scenes, digital advances have created complexity. Consumers don't think about channels, they think about what's most convenient and inspiring in different shopping contexts. It takes an omnichannel approach to meet those demands, requiring companies to retool their strategies and operating models in areas such as marketing, merchandising, store operations and IT.


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As the world has digitized, the tools and structure of retail organizations have changed dramatically. Numerous retailers have significantly reorganized their merchant and marketing teams to consolidate or coordinate online and store strategies and organizations. Likewise, IT organizations, once considered back-office utilities, have become strategic business partners.

These changes, in turn, have driven multiple new capital requirements. This creates a unique set of challenges for the CFO in managing the internal competition for capex amid the migration from historically recognized investments. Instead of more stores, more inventory and more single-channel distribution capabilities, there is a switch to expenditures that will better support e-commerce and omnichannel enablement.

In the omnichannel era, getting a better return on capital requires a multi-pronged approach – and new ways of thinking.





## Omnichannel: creating a coherent customer experience

E-commerce is not just evolving, it is expanding. The growth of digital commerce is far outpacing traditional retail, a trend that seems sure to continue. Yet digital-first brands, subscription services and peer-to-peer sales, and auction platforms are increasing competition and putting additional pressure on margins.

Consumers can now shop through various channels, often using six or more touch points before making a purchase. The term “omnichannel” often sparks debate, but retailers broadly agree that their organizations must deliver a consistent experience across each touch point.

Virtually all omnichannel capabilities require technology investments. Most are not channel-specific but instead impact the entire technology infrastructure. CFOs, however, are still determining how to best define these investments’ impact on sales by channel, which then makes measuring return on capital that much harder to calculate – especially at the channel level. There is a growing lack of clarity around performance and management accountability.

As channels have blurred, time-tested retail metrics have lost some of their meaning and value. For example:

- ▶ Same-store sales: online purchases, ship-to-store and ship-from-store omnichannel practices can skew this number beyond its original intent.
- ▶ Gross margin return on inventory investment: crossover makes it more difficult to measure the productivity of various inventory deployment strategies.
- ▶ Returns percentage: returns are no longer contained within a single channel.

Each channel yields data that makes it easier to track customer behavior, and marketers are using emerging sales attribution models to better allocate marketing spend. These models – single-channel, last-click, multi-touch, multi-channel and the like – could be adapted for broader use in informing capital decisions as well. By getting more specific about where and how sales originate, finance teams can better estimate the real margins and profits from different touch points. This will lead to more informed decisions of how to deploy scarce capital.

Omnichannel – the seamless integration of physical and digital worlds to create an outstanding, cohesive shopping experience.



## Enabling omnichannel strategy through technology and measuring the impact

Capital allocations should align with business strategy, but technology changes so rapidly that it is tempting to take a wait-and-see approach. Delays, however, could put a retailer at a competitive disadvantage.

Unified inventory management systems and integrated distributed order management systems are examples of platforms that harmonize order fulfillment, regardless of channel. Mobile investments can help retailers coalesce new digital strategies while providing experiences unique to mobile.

Other investments include:

- ▶ Customer journey and touch point mapping
- ▶ Managing web properties for optimal customer experience
- ▶ Global payment and content management systems
- ▶ Process and technology investments to support cross-channel fulfillment

The question is, which options are the most advantageous, and how do you measure the impact? The shift from well-documented investments to harder-to-forecast investments makes return on capital and other projections difficult.

Return on invested capital has traditionally been used to measure the attractiveness of store investments. But in an omnichannel environment, parsing out returns and costs across the business becomes trickier:

- ▶ **Sales:** intertwined channels make attribution difficult.
- ▶ **Cost of goods sold:** costs may differ by channel.
- ▶ **Operating cost:** costs spill over to multiple channels due to fulfillment complexities.
- ▶ **Depreciation:** rapid innovation makes it hard to determine how long technology will remain relevant, and it is often unclear whether new digital innovations will have the impact projected in the business case.

The ongoing demand for investment, coupled with less predictable returns on capital, create tensions for CFOs that will continue to increase as more consumer spending migrates to digital.

# An approach for taking the lead

To implement a successful omnichannel strategy, retail CFOs should consider the following strategies:

**1** Adopt a multidimensional perspective when making omnichannel investment decisions

### Develop a channel-agnostic view of the consumer

Use each interaction to build one-on-one relationships and advance the brand under a unified umbrella.

### Foster channel collaboration with shared objectives

Combine physical and digital operations to create a more coherent experience and maximize profitability by:

- ▶ Installing chief omnichannel officers
- ▶ Restructuring buying teams
- ▶ Retooling marketing and supply chain organizations
- ▶ Bolstering analytics teams and decision support
- ▶ Building more direct fulfillment capabilities

### Define the right metrics and key performance indicators

Consolidate revenue from online sales and physical stores. Holistically examine the profits and losses more by region and product classification, less by channel. Analyze cross-touch point experiences to develop actionable insights. Monitor these metrics to understand revenue and cost implications.

**2** Enable timely decision-making with the right capital governance model

### Assemble key operational and commercial stakeholders

Understand interdependencies and downstream impacts, then create a cross-functional team with clearly defined roles to participate in decision-making.

### Gather data that will support a multidimensional approach to investing

Leverage advanced analytics for insights on how investments will affect the consumer and operating models.

### Consult with all teams who may be impacted

As channels and technologies become more integrated, so should the team involved in the capital decision-making process (see Figure 1).

Figure 1: evolution of technology investment decisions

**Then** Technology was primarily used to support a business initiative and viewed as an indirect cost.



**Now** Technology is now a strategic business initiative and viewed as a channel for revenue.

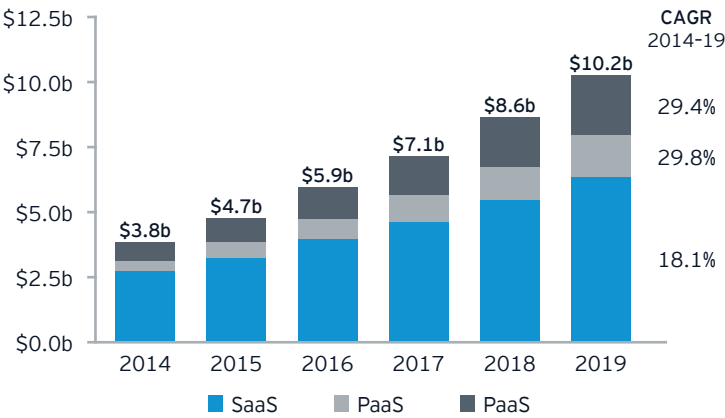




### 3 Utilize available technology business models by shifting to cloud-based platforms

Changing the technical architecture to support an omnichannel environment gives CFOs an opportunity to rethink capital allocations by revisiting relationships with technology vendors. Emerging IT pricing and business models – software as a service (SaaS), platform as a service (PaaS), and infrastructure as a service (IaaS) – can reduce the capital outlay and allow CFOs to convert their IT expenditure to an operating expense. The latter can scale up or down more readily with the business (see Figure 2).

Figure 2: global cloud computing market in retail sector



Source: IDC

### 4 Expand your digital capabilities to be at the forefront of digitization

EY-Parthenon surveyed 769 finance leaders across the Americas, Europe, the Middle East and Asia for *The DNA of the CFO* study. Fifty-eight percent said they need to better understand digital, smart technologies and sophisticated data analytics. To remain a strategic leader in the omnichannel era, retail CFOs must continually broaden their personal knowledge of technology, becoming familiar with and building teams skilled in:

- ▶ Customer location-based technologies
- ▶ The Internet of Things
- ▶ Predictive analytics
- ▶ Blockchain

Some of the same leaders from the CFO's cross-functional team will be instrumental in showing how the technological landscape is evolving and what strategic investments will support growth.

## Striking a balance

The transformative effects of digitization in retail will continue for the foreseeable future. The finance organization will need to redeploy capital from stores and inventory to riskier, hard-to-measure investments in new enabling technologies and related processes. As the leaders of finance organizations, retail CFOs will need to develop new tools, techniques and skills in order to stay at the forefront of this revolution while still delivering attractive returns on capital.

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