



CRACKING THE GLOBAL BUSINESS SERVICES CODE FOR RETAILERS

Abstract

The retail industry is facing several challenges, including ever-changing consumer preferences, the rise of small and medium-sized enterprises (SMEs) and the post-pandemic impact on supply chains. These challenges are leading to shrinking margins and increased pressure to maintain profitability. One way that retailers can improve profitability is to consolidate operations and create shared services. This can help in generating cash and freeing up resources for transformation and innovation. Whilst a lot of retailers have embarked on this path, it is limited to enterprise support functions like Information Technology, Finance and Accounting, Human Resources, Customer Service, and Data. Core functions like Planning and Buying seem to be relatively un-explored due to reluctance and perceived risk.

Read this paper to find out how shared services can be integrated into business operations to help retailers achieve better profitability while accelerating their digitisation journey.



Introduction

A new world is emerging from a global reset caused by recent black swan events. Supply chains that were stretched to their breaking point during the COVID pandemic are getting back to normalcy. Global leadership has changed hands, causing a shift in political equations and business alliances. Recent geopolitical conflicts have polarised the planet and strengthened nationalist fervour. If organisations and governments could be considered to possess a psyche, these events would have had lasting effects on them, particularly in their evaluation of trade risk.

At the same time, Gen Z is coming of age during this period of global turmoil and redefining the paradigms of shopping. Their shopping preferences are unrecognisable from those of previous generations, as they have been hugely influenced by the turbulence of the world.

As we embark into 2024, according to EIU, a slowdown in inflation will strengthen

retail growth to 6.7% and 2% in volume terms. However, reduced savings, high food prices and the effects of climate change are likely to have a diminishing impact.

For retailers to deal with these fundamental shifts on both sides of their business spectrum – their supply chain partners and end consumers – the implications are profound. They will need to renew their understanding of their shoppers, re-evaluate supply chain risk and create new supply channels in the light of changed geopolitics. They will also need to acquire new capabilities to stay on the right side of changing regulations and essentially reinvent themselves to stay relevant to the realities of this world. These are times for ringing in massive changes.

Change, however, needs to be funded. Whether it involves remodelling store formats for a smaller urban footprint to increase local presence, setting up dark

stores for stronger last-mile reach and 1-hour delivery capability, or shifting the base from Chinese vendors to local suppliers – all these activities require cash, which can be generated through one or a combination of the following:

Driving efficiency

Organisations can run their operations with better efficiency, utilising fewer resources, by tapping into the increasing sophistication of technology, and driving deep automation initiatives across process chains. Intelligently designed automation programs, which incorporate principles of simplification and standardisation before automation, and are supplemented by strong change management programs, can lead to productivity improvements upwards of 35%.

Consolidating services into shared services and optimising the delivery location are potent efficiency boosters. For instance, silos like dedicated reporting structures,

¹https://www.eiu.com/n/campaigns/consumer-in-2024/?utm_source=google&utm_medium=paid-search&utm_campaign=industries-in-2024&gad_source=1&gclid=EALalQobChMljvre-ef0ggMVtixLBR2rfw14EAAYAAEgKzkPD_BwE

²As per author's experience

prevalent in many organizations, often underperform. Consolidating all data-related activities under a single horizontal service provides scalability and cost savings, especially when strategically located.

Organisations also possess treasure troves of data that can be harnessed for superior decision-making. For example, sophisticated marketing mix optimisation initiatives can be implemented to maximise the value of investments, or inventory can be optimised through differential stock-norms definition for the same product near different demand centres.

Driving effectiveness

Data-driven decisions can multiply the effectiveness of an organisation and increase revenue. For example, merchandisers can curate revenue-boosting assortments by analysing

high-margin products, factoring in promotions and supplier incentives. Category managers can enhance their sales by making more frequent and profitable pricing decisions with near real-time awareness of their competitors' active promotions. Insights into shoppers' purchase journeys and key decision points can help site merchandisers devise suitable interventions or nudges (e.g., displaying a "Help me pick a personalised gift" window if the shopper has been browsing a particular category beyond a threshold time limit) to convert propensity into purchase.

Innovation

Innovative organisations develop new revenue streams, adding crucial dimensions to their survive-and-thrive toolset. Retailers, for example, have goldmines of data on shopper behaviour. Insights on purchases, decision points,

influencers, prices, promotions, and product combos are invaluable for vendor-partners. Monetizing this data offers high ROI and an additional revenue stream.

The advent of generative intelligence, distributed ledgers, and augmented and mixed reality has sparked much discussion and debate among retail specialists about disrupting traditional ways of conducting business. Organisations need to invest quality research time into these initiatives for effort to bear fruit. Design thinking workshops, inviting ideas from the shop floor, are a great way of inspiring a grassroots innovation culture.

Business organizations, typically laser-focused on stability, often need a co-pilot for transformation. Global Business Services (GBS), the evolved Shared Services, have stepped up to take this role in recent times, driving change initiatives alongside traditional business operations.

What makes Global Business Services so effective?

Retailers have been receptive to the idea of generating efficiencies by creating shared services for a long time now. The first application of shared services concepts was seen in some form as early as the 1980s, in companies like General Electric and Baxter.³

Today, the approach towards such consolidation has acquired a more holistic perspective through GBS, allowing for deeper penetration and more strategic impact of shared services in the organisation. Some retailers have already taken the lead in this area. For instance, Target, Tesco, and Lowe's have developed multi-tower shared services centres, and have consistently been in the top rankings for the world's best-run GBS organisations. But what do such organisations do differently that allows them to outperform

their peers and competitors, and extract greater value from their shared services initiatives?

Reaching beyond the low-hanging fruit

Traditionally, companies have considered carving out shared services from functional areas that focus on both internal and external services, such as IT, HR operations, finance, and customer care. This is because these areas have been viewed as easy opportunities for headcount relocation. However, successful companies have broken down roles into activities and classified them as candidates or non-candidates for consolidation. This approach enables organisations to drive the efficiency of shared services deeper into functional areas that were previously considered off-limits. With this strategy, functions like merchandising, product

management, legal services, compliance, and even retail operations would begin to yield benefits from a shared services perspective.

Increase the percentage of specialists over all-rounders in the team

Retail is a demanding business that requires superstar all-rounders at all levels of the organisation. However, such talent is hard to come by and even harder to manage and retain.

One way to address this challenge is to deconstruct roles at the activity level. This allows organisations to separate the different skills required to service them and hire accordingly.

For example, the role of a buyer can be broken down into objective data-based analysis, strategic decision-making

³<https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/finance/SSC-Handbook-%20Hit-the-Road.pdf>

activities, standard operating procedure-oriented master data setup activities, and relationship management. By recruiting different people for each of these activities, retailers can simultaneously expand their talent pools, expedite their recruitment timelines, enhance their teams' job satisfaction, and elevate the effectiveness of their teams.

Amplify efficiency and effectiveness with the power of digital

Digital investments generate non-linear growth in returns with scale and scope. A smartly designed shared services organisation collects similar activities from across different roles to facilitate this. It is also important to apply intelligence and consciously implement the right digital tools to support individual activities. For example, organisations have been observed spinning their wheels while attempting to automate their ever-growing catalogue of reports or engaging in internal battles to standardise reporting templates across functions. Instead, the right question to ask in such situations would be whether the consumers of

these reports are working with the correct data, at the right level of granularity, and within an acceptable data latency. This would have led to the discovery that the organisation truly needs an analytics solution with an automated backend, rather than a standardisation and automation solution.

Location strategy

Intelligently designed GBS organisations are structured in a fit-for-purpose Hub Spoke Edge model, with roles requiring critical decision-making and close collaboration being co-located with business, and asynchronous activities being managed from a global hub location. The choice of these locations – the hub and the spokes – needs to be based on a variety of factors.

Examples of such considerations include the obvious – how much labour arbitrage exists between onshore and offshore locations, the quality of talent available in the location, language considerations that need to be addressed, etc. – and the significant but not obvious – the political stability of the geography, infrastructure

development, the country's performance on various social and growth indices, etc. Just the site selection strategy of a GBS organisation can improve operational costs by 25-35%.⁴

Continuous improvement mindset

Besides driving big-bang business transformation initiatives, a GBS unit helps the business inculcate and develop a mindset of relentless improvement. A framework needs to be developed to continuously examine and evaluate different dimensions of business excellence. For example, the process efficiency, extent of process fragmentation, and penetration of automation, to name a few. This evaluation should be institutionalised as a continuous evaluation mechanism, as opposed to an infrequent audit, so that it fosters a culture of continuous improvement. Bridge initiatives which address the findings of the evaluation and inspire the elevation of processes to the next level of maturity should be owned and driven by the GBS with support and sponsorship from operations.



⁴As per author's experience

Way forward

The retail industry is facing several challenges, including increasing competition, rising costs, and changing customer demands.

According to Gartner⁵ often siloed behaviour, talent gaps, resistance to change and competing priorities have impacted the pace of digital transformation in retail. Shared services can help retailers address these challenges by providing several benefits including cost savings, efficiency, driving cross-functional collaboration in operations and improved customer service.

According to Technavio⁶, shared services are expected to grow at a rate of >17% between 2021 and 2026, and retail is going to be one of its major drivers. This means that there is a significant opportunity for retailers to improve their performance by adopting shared services.

However, it is important for retailers to have a long-term vision about the design and implementation strategy of their shared services organisations. This will ensure that they can reap the full benefits of shared services and achieve their business goals.



⁵<https://www.gartner.com/en/industries/retail-digital-transformation>

⁶<https://www.technavio.com/report/shared-services-market-industry-analysis>

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