



2011 WINNING CASE STUDY
Platinum Award and
Change Management in the Private Sector
Boxwood with Carphone Warehouse



Building a cost-conscious culture at the Carphone Warehouse

Executive Summary

In the fast-paced and unrelenting retail environment, speed and flexibility are vital. But those qualities are just as important for consultants working with retail businesses as they are for their clients. Boxwood's experience with leading UK retailer Carphone Warehouse is a case in point.

Over a sustained period of rapid growth inefficiencies had crept into the Carphone Warehouse operation. Early processes had scaled beyond their ability to keep track with an ambitious and dynamic business, resulting in additional costs.

In the face of a severe economic recession, Carphone Warehouse identified a need to reduce costs substantially - and immediately. They engaged Boxwood to help them simplify the business and reduce costs. The target was an in-year saving of c. **£50 million** (around 15% of operating costs) - whilst protecting core competencies and creating a leaner, more effective organisation.

Meeting this ambitious goal required a transformational approach – but it also had to fit the abbreviated timeframe and the Carphone Warehouse culture of „here and now“ action.

An intensive workshop with the executive team identified immediate, substantial savings through a radical restructure of the entire business. This was supported by a series of fundamental improvements to core processes to achieve further reductions.

The approach was exactly right for the client. An ambitious target was not only achieved but exceeded, with **in-year savings of some £60 million**. Not only that, the creation of a new operating model led to **a further £30 million in savings** in the following financial year.

Project and approach

The client problem

With 830 stores in the UK Carphone Warehouse had enjoyed many years of growth in a competitive retail environment. But relentless competitive pressure meant it was often more important to do things quickly than efficiently. In the haste to get things to market a number of ad-hoc processes and manual ways of working had developed, which were adding significant cost but little value.

In December 2009, with the economic situation deteriorating rapidly in the wake of the global financial crisis (and needing to maintain competitive advantage), Carphone Warehouse identified the need to make immediate - and considerable - cost savings.

To reduce operational expenditure to the required level, cost savings in the region of £50 million (around 15% of operating costs) needed to be made – all within the 2009/2010 financial year. To add to the challenge, an earlier cost reduction had already achieved the „obvious“ savings – so only a transformational approach would succeed in achieving the scale of savings required.

Fitting the approach to the client

Boxwood used their significant experience in the UK retail sector to adapt their approach to the Carphone Warehouse culture. The business was used to operating in short timeframes and preferred specifics and action to „blue-sky“ discussions. That preference shaped the delivery of the programme.

Making immediate savings was important, so the first step was an intensive two-week workshop process. Boxwood consultants and the executive team identified areas where substantial cost could be taken out of the business. This involved categorisation into:

- Business-critical areas, which were to be protected and invested in
- Non-core areas which could be outsourced, scaled back or discontinued, and
- Areas where simplification and re-engineering could deliver significant cost savings.

This process allowed the team to plan and execute a radical restructure of the entire business, driving substantial, immediate savings through restructuring and other initiatives. This was supported by an extensive process re-engineering programme right across the business, to sustain the initial benefits and create further savings.

The approach for the re-engineering exercise was a bottom-up, project-by-project implementation, with activity happening in short bursts - a good fit with the organisational culture. Rather than a conventional top-down, design-led approach, a „future state“ for each process was outlined, with solutions being developed in conjunction with those parts of the business that were affected - creating a high level of buy-in.

Re-engineering the business

The re-engineering effort was split into seven work streams, with joint Boxwood – Carphone Warehouse teams working on each:

1. “Right first time” – improving the delivery of new propositions to stores. More accurate delivery reduced the volume and cost of advertising and promotional materials as well as reducing re-orders.
2. Simplification – optimising store layouts and improving the planning process, to reduce the effort required to get new propositions to market. This also improved the customer experience through better presentation of products and offers.
3. Store productivity – matching staffing patterns with activity in stores. This allowed staff to be more productive, while also providing better service to customers.

4. Returns – the returns process was a complex one which included many bottlenecks. Simplifying the process reduced the effort required and freed up value from products that were being held up in the process and depreciating.
5. Business Performance Measurement – introducing a balanced scorecard and a set of Key Performance Indicators used by the UK Executive to manage the business going forward.
6. Outsourcing – identifying non-core areas which could be effectively outsourced to reduce costs.
7. Trading workflow – reviewing and optimising the supplier management and supply chain processes.

Each work stream had an executive sponsor, who also met regularly as a steering group. While they provided overall direction the project team played an important role in challenging their thinking, highlighting additional cost reduction opportunities and continually testing their assumptions about what was possible.

Challenges and success factors

Along with the goal of meeting a very large target in a very short space of time, the project team had a number of other challenges. The way these were resolved was a major factor in the success of the programme.

Looking past the present

One of the major challenges faced by Boxwood and Carphone Warehouse was to think about how things **could be**, rather than how they **are**.

In the high-pressure retail environment that Carphone Warehouse operates in, the focus is always on the “here and now.” As a result the outlook of necessity is relatively short-term. Boxwood drew on its extensive experience and knowledge of best practice in retail and other sectors to stimulate new ideas and new thinking. This challenging of assumptions and boundaries drove the business to develop new and more efficient ways of working in many areas – and an increased willingness to look for new solutions.

Executive sponsorship

No transformational change programme of this nature and scale can succeed without strong and visible support at the highest levels. The programme provided an object lesson in the importance of sponsorship. Neill Whittaker, Boxwood’s Engagement Director for the programme, says the leadership displayed by the Carphone Warehouse executive team was vital. “The initial workshopping process was a significant commitment of time and a clear signal about the importance of the project. Then, once the plan had been agreed we hounded them day and night to do what they’d committed to do – and they responded magnificently. Every one of them was prepared to lead their team into doing some very difficult things, and inspired them to go beyond previously accepted limitations.”

Clear focus, ruthless execution

In successful change projects, execution is everything - especially with such a challenging target to be achieved in such a short time. The programme team ensured that the single goal of reducing costs drove every discussion, every activity and every output. They were also relentless in following up to ensure agreed actions were taken. The business commented that the execution of this programme was the most effective they had seen.

“Without Boxwood's excellent guidance and tenacity it quite simply would not have happened.” – Paul Davis, UK Finance Director.

Pull not push

Adapting the approach to suit both the objective, and the culture of the business, was a major factor in the success of the programme and achieving buy-in. The bottom up approach created a “pull” from the business which helped create commitment, and short bursts of project activity created a momentum that helped to sustain the pace required to achieve the goal.

Outcomes

Meeting a challenging target – and then some

The overriding objective of c. £50 million in-year reduction in operating costs was achieved and significantly exceeded - the actual cost reduction achieved was some £60 million.

The programme was also instrumental in creating a major shift within the organisation towards a cost-conscious culture – doing things efficiently as well as quickly. As a result, an additional £30 million of savings were included in the following year's budget.

Streamlining the business

Along with the cost savings, the programme significantly simplified the way the business worked, and delivered real benefits for Carphone Warehouse customers in the process. For example:

- The Store Productivity project changed the mindset of the business. It brought a more scientific approach to how the business implements routine change across its entire Retail estate. This way of working is a unique combination of the Carphone culture, smart process and an ambition to better the customer experience day in, day out.
- By standardising and optimising store layouts, the Simplification project made it easier for customers to find what they were looking for in any Carphone Warehouse store. As a result, the stores that piloted this new process recorded increased revenue.

While operating costs were reduced by 15% within a 6 month period, Carphone Warehouse experienced one of its best Trading performances for many years – a testament to the success of the project in transforming the entire business.

Building on the successes

Following the success of the project, Boxwood has been engaged to help Carphone Warehouse build on what has been achieved. The next step is to further embed the culture of cost consciousness by aligning the organisational structure with the new processes and ways of working.

“The programme run by Boxwood transformed CPW UK’s operations and culture in only 6 months. Operating costs were reduced by 15% during the year and the operating model was radically changed. The most impressive part of this achievement is that it was done in a business whose processes and culture was set up for growth rather than control and cost reduction.”

Paul Davis, UK Finance Director.