

Retail in Transition

How AI Can Pave the Way to Cost Excellence

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Introduction: Cost Pressures are a Fundamental Challenge in Retail

The economic uncertainty of recent years has fundamentally changed market conditions in the retail sector. High inflation has **driven up costs across the entire supply chain**, with wage demands posing a particular challenge for retailers. To make matters worse, rising prices have also forced consumers to opt for cheaper products, focus more on promotions or turn to discount offerings—further **intensifying the pressure on retailers**.

At the same time, discounters are aggressively competing on price, and so further heightening competition.

This trend is particularly evident in markets like Poland and Switzerland, where established retailers are being forced to adjust their pricing strategies to avoid losing market share. Given these challenges, **cost reduction and margin protection** have become even more critical for retailers. However, the measures taken should not only serve short-term profit protection. They should also help retailers future-proof their business models, and invest in growth areas such as **digitalization, automation and sustainability**.

Against this backdrop, this report aims to highlight key levers for the sustainable optimization of retail cost structures. In theory, there are a wide range of options available—whether that’s optimizing the product range, store deliveries and warehousing; more efficient personnel deployment planning at the POS; measures to in-

crease energy efficiency, or anything else. In particular, we will examine the **role of artificial intelligence** in unlocking new potential across different areas of retail businesses.

This report focuses on three central levers that promise both a quick implementation and significant impact:

1

Optimization of Direct Procurement

2

Increasing Process Efficiency

3

Savings in Indirect Procurement



How AI Can Support Sustainable Cost Reductions



Lever 1: Optimize Direct Procurement

The most effective lever for cost reduction and efficiency gains in retail is the **optimization of direct procurement**. Since merchandise expenses account for **60-75% of retail revenue**, even a small percentage improvement in this area can have a **significant impact on profitability**.

However, unlocking this potential has become increasingly challenging because procurement requirements have

evolved significantly in recent years. In addition to traditional factors—such as **price, quality and availability**—retailers now also need to consider aspects like **sustainability and capital commitment**.

As a result of this growing complexity, many procurement teams are seeking **greater support in preparing for negotiations** to navigate these new challenges effectively.

BCG project experience shows a clear picture of the key challenges procurement professionals face in optimizing direct procurement:

- **86%** of buyers feel overwhelmed by other tasks during annual negotiations, leaving them with little time for thorough preparation.
- **72%** would like to incorporate more data and factual arguments into negotiations to strengthen their position.
- **72%** also admit they lack the necessary analytical skills to gather detailed insights and fact-based arguments for negotiations

To address these challenges and meet the evolving needs of procurement teams, retailers should place a stronger emphasis on **digital solutions, data-driven decision-making and cross-functional collaboration**. The right digital tools can significantly ease buyers' daily workload, enabling fact-based- and data-driven negotiations. In today's challenging market environment, this is becoming an increasingly critical success factor.

A **deep understanding of supplier performance**—particularly **3N profitability** (net sales, net profit, and net margin)—is essential. By analyzing supplier performance at the individual product level—and comparing it with other vendors in the same category—buyers can derive fact-based negotiation demands, ultimately leading to better terms and stronger procurement outcomes.

Automated analytics can help buyers quickly **identify key levers for negotiation** and cost optimization. Some of the most high-impact areas include:

- 1 Evolution of Raw Material Costs**—Tracking the price trends of essential raw materials and their impact on product costs at the individual item level.
- 2 3N Margin Differences Between Articles/Suppliers**—Identifying margin discrepancies at the product level by comparing similar items from different suppliers within the same category.
- 3 Differences in Customer Relevance**—Understanding the relevance of individual products from a customer perspective to prioritize negotiations on high-impact items.
- 4 Differences in Supplier Support**—Monetizing supplier support for new product listings, shelf space allocation, product positioning and promotional activities.

- 5 Increased Competition Through Private Labels**—Using the introduction or expansion of private label offerings as leverage to enhance the competitiveness of national brands.

- 6 Differences in Collaboration Models**—Establishing Preferred Supplier Programs and other customized initiatives to optimize business relationships between retailers and manufacturers.

By integrating these **data-driven insights** into procurement strategies, retailers can achieve better negotiation outcomes, strengthen supplier relationships and drive sustainable cost reductions. In an increasingly volatile market, **raw material costs** have become a key focus area for retailers. Our recent experience shows that the current deflationary trend in commodity markets is creating new opportunities—making professional cost management a critical success factor.

It's essential to be proactive. Retailers need to monitor price fluctuations continuously and **react quickly** to market changes. This is where **automated, AI-powered raw material tracking** becomes a game-changer. With AI-driven cost intelligence, retailers can capitalize on deflationary trends, secure better pricing and safeguard their margins in unpredictable market environments.



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Raw Material Costs: Automated Raw Material Tracking

Initial Situation and Solution Approach

One of our clients—a leading non-food retailer—faced the challenge of low margins and rising costs, particularly for national brands. The company lacked a proactive raw material tracking system and had limited visibility into the profitability of its individual products. Our solution involved implementing an automated, workflow-based raw material tracking system, alongside developing the necessary internal capabilities within the organization.

Results Achieved

- 2-3 percentage point improvement in addressed merchandise costs
- 3-4x faster identification of cost-saving opportunities
- Enhanced understanding of cost drivers and the development of new negotiation strategies

By leveraging AI-powered cost intelligence, the retailer not only optimized its procurement but also strengthened its ability to react proactively to market fluctuations.

Key Benefits of the Tool We Implemented:

- Dynamic cost breakdowns by product
- Should-cost tracking based on raw material indices
- Gap analysis between actual costs and target costs
- Quantification of negotiation levers by category/supplier
- Generation of materials to support negotiations
- Proactive alerts on key price changes

How Other Retailers Can Leverage Such Tools:

- Identify and prioritize negotiation opportunities based on the latest raw material trends and pricing insights
- Engage in fact-based discussions with suppliers to drive cost reductions or counteract price increases
- React swiftly to commodity market shifts to gain a sustainable cost advantage and improve margin management

AI-powered tools are not just transforming raw material price tracking—they are now playing a **crucial role in every stage of supplier negotiations**. Whether it's formulating fact-based demands, clarifying supplier queries or identifying relevant data to support a stronger negotiating position, AI is becoming an indispensable asset for procurement teams. Moreover, AI can now recommend effective negotiation strategies, helping buyers refine their approach and set the right tone in emails and messages to facilitate successful deal closures. This also makes it easier to engage with smaller, often overlooked 'longtail' suppliers, frequently yielding even higher success rates in negotiations.

Our experience of working with retailers has shown that AI-powered tools alone are not enough to drive sustainable procurement improvements. A key success factor—accounting for up to 70% of the impact—is **effective change management**. Organizations must be equipped with the skills and processes necessary to fully leverage newly implemented tools.

2

Lever 2: Boost Efficiency Further through Process

Beyond direct procurement costs, **labor expenses** represent the other significant cost pillar in retail. Yet, advances in automation and generative artificial intelligence are opening up immense opportunities in this area, enabling retailers to **streamline operational processes, reduce labor costs and so improve overall effectiveness**.

The most substantial benefits from AI arise when companies undertake **end-to-end transformations of entire business functions**. Leading retailers are already implementing AI-driven transformations—in key areas such as procurement, supply chain, customer service and marketing—to secure long-term competitive advantages. A prime example of this transformation is the end-to-end overhaul of marketing functions through the integration of generative AI into core processes. Tasks that previously took weeks or even months—such as campaign planning, production, localization and optimization—can now, in theory, be executed within a single day.

However, to unlock AI's full potential, companies must **move beyond isolated automation projects**. Our research has identified around 40 different AI use cases in marketing operations and the marketing funnel. While, individually, these use cases may deliver limited measurable results, when implemented as part of a holistic functional transformation, they can drive significant impact:

At Boston Consulting Group, we address this challenge with our **'Advanced Buying'** approach. We guide our clients through six key phases—from data collection and negotiation preparation to building a sustainable tracking system. This approach is tailored to the unique dynamics and capabilities of each procurement team. Ultimately, it enhances collaboration with suppliers by integrating procurement, category management and supply chain considerations into negotiations. Also, regular monitoring, controlling and direct communication ensure that savings are sustained over time.

A **structured, data-driven approach** provides procurement teams with a solid factual foundation to identify weaknesses, reduce costs and unlock strategic advantages in negotiations. By optimizing procurement strategically, the function evolves from a purely administrative role into a central strategic hub that significantly influences overall business success.

- 1 Simplification of Content Creation:** Generative AI enables the automated production of ad copy, images and videos. While traditional processes can take several weeks, AI can generate complete campaign materials within hours. This reduces the dependency on external agencies and can lower production costs by up to 50%.
- 2 Acceleration of Campaign Cycles:** From planning to execution, marketing campaigns can be launched significantly faster. The time required for concept development and implementation is reduced from several weeks to just a few days, enabling companies to respond with greater agility to market changes. This leads to cost savings and improved audience targeting.
- 3 Automation of Hyper-Personalization:** Generative AI enables the creation of highly personalized content that's tailored to individual customers' needs. This automation not only reduces manual effort but also boosts conversion rates, leading to higher returns on marketing investments. Studies show that AI-powered personalization can increase conversion rates by up to four times.

Process optimization through AI leads to reduced effort and opens up opportunities to reduce personnel costs in marketing. For example:

- **Capacity Reallocation:**

Automating administrative tasks, such as content localization, enables resources to be shifted from operational tasks to strategic initiatives. This can increase the time for strategic work to up to 80%, while minimizing manual processes.

- **In-House Production:**

By bringing previously outsourced tasks in-house, retailers can not only reduce costs but also gain greater control over their brand content and marketing processes.

- **Renegotiation of Agency Contracts:**

Generative AI significantly enhances the efficiency of various process steps at agencies. These productivity gains should ultimately translate into cost reductions for retailers through renegotiated terms.



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Automated Campaign and Asset Generation

Initial Situation

One of our clients from the consumer industry faced a complex and time-consuming process for campaign creation across its digital channels. Identifying trends and consumer signals required extensive manual analysis and was largely outsourced to agencies. Additionally, the involvement of multiple stakeholders and iterative approval processes led to long development cycles for content such as social media posts, videos and product pages.

Solution Approach

We helped the company enhance its marketing efficiency by leveraging Generative AI. The goal was to develop an AI-powered tool that:

- Identifies trends and consumer signals in real time and derives actionable insights
- Automates the creation of campaigns and marketing content (images, text, videos, 3D assets)
- Shifts certain agency tasks in-house to reduce costs and coordination efforts

- Ensures a consistent brand presence across all channels

The tool implementation was accompanied by adjustments to the operating model.

Results Achieved

The new AI-powered platform delivered significant efficiency gains:

- **Time savings** where campaign development was reduced from several weeks to just 2–5 days
- **Automated content creation** for social media, landing pages, emails and blogs
- **Improved brand consistency** with unified messaging across all channels
- **Optimized end-to-end marketing ROI** through data-driven decision-making

With this AI-driven approach, the company was able to respond more quickly to market trends and significantly enhance the effectiveness of its campaigns.



Lever 3: Unlock Cost Savings from Indirect Spend

In addition to direct procurement and process costs, indirect costs—commonly referred to as **‘Goods Not for Resale’** (GNFR)—also significantly impact retailers’ profit and loss statements. Indirect costs include all the non-merchandise expenses that are essential for business operations and continuity, yet are not directly related to product sales. These costs typically account for 10-15% of total retail revenue.

Despite their financial impact, **GNFR cost optimization is often overlooked**—yet it presents substantial savings opportunities. While direct procurement optimization typically yields just 3-5% savings on the addressed cost base, improvements in indirect procurement are often much higher, frequently reaching double-digit percentage savings:



Logistics: Despite ongoing challenges in the logistics sector, savings of 12-15% are still achievable. Cost reductions can be realized through demand consolidation, targeted right-sizing and service level optimization. Strategic tenders, combined with systematic rounds of negotiation and detailed lane benchmarking, are essential for maximizing efficiency.



Facilities Management: Standardizing services and consolidating suppliers can unlock savings of up to 12%. The key to success lies in establishing a preferred supplier pool through strategic tenders while optimizing and consolidating tail-end spending.



Marketing: Optimizing media planning, encouraging structured pitching processes to increase competition among agencies and leveraging vendor KPIs to enhance agency efficiency can drive cost savings of up to 16%.



IT: Taking a rigorous right-sizing approach for IT hardware specifications and ensuring effective demand management for software licenses—particularly by eliminating unused yet costly licenses—can result in savings of up to 15%.

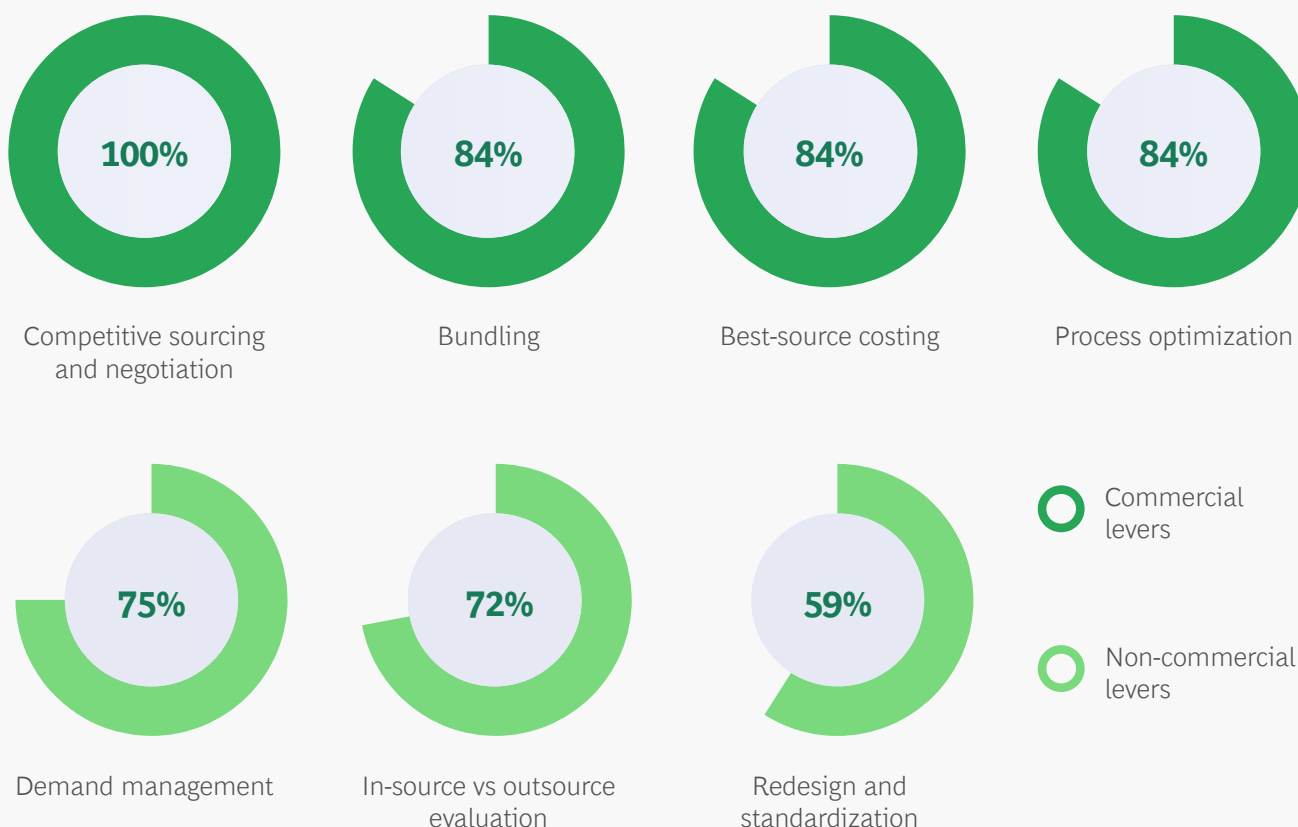
With rising competition and increasing cost pressures in the retail industry, optimizing indirect procurement has become a critical lever for margin protection. However, the complexity of these expenditures presents significant challenges for businesses. Since indirect costs span multiple departments and processes, companies often face the following issues:

- **Lack of Transparency:** Without a clear overview of total cost structures and supplier contracts, potential savings often remain hidden.
- **Decentralized Procurement that’s Not Well Coordinated:** Individual departments making isolated purchasing decisions without centralized oversight or alignment prevents optimization. This so-called ‘Maverick Buying’ leads to inconsistent pricing and inefficient spending as opportunities for volume bundling and economies of scale are missed.

- **Unverified Demand Fulfillment:** Indirect procurement needs are rarely scrutinized or systematically reviewed, leading to unnecessary expenditures and inefficient resource allocation.

AI can make a significant difference in optimizing indirect procurement by enabling fast and targeted cost reductions. Through detailed cost analysis and AI-powered data processing, businesses can gain full transparency over indirect expenditure. In practice, AI often reveals that up to 40% of costs can be reassigned, allowing for more precise control of cost drivers. Additionally, AI helps identify and reduce hidden extra costs—so-called ‘shadow costs’—by approximately 5%, particularly in transportation, warehousing and marketing.

Once **transparency over indirect expenditure** has been established, companies can implement targeted cost-saving measures. A 2024 BCG survey provides insight into the extent to which different cost-saving levers are being used in the North American retail sector:



Source: [Indirect Spend Retail CPO Survey 2024](#)

While classic approaches such as supplier consolidation and price negotiations are widely used, other cost-saving levers and their potential are often underestimated. However, these too can be taken to the next level with the help of AI, as the following examples illustrate:

Demand Management—Critically Assessing and Consolidating Needs

Demand management is one of the most powerful levers in indirect procurement because it goes beyond traditional purchasing activities. While conventional methods such as negotiations, re-specification or bundling focus on optimizing existing needs, demand management takes effect earlier: it reduces the volume of required services and products directly at the source. The goal is not just pure cost reduction but a fundamental reassessment of the actual necessity of each individual expenditure. By applying a targeted value-analysis approach, companies can optimize the balance between output and quality by allocating budgets more efficiently and eliminating unnecessary standards.

This not only generates savings but also positions procurement as an active driver for cost-effectiveness in indirect spending. The complexity and savings potential of demand management largely depend on the heterogeneity of demand structures. Particularly in organizations with decentralized specifications—where different locations have individual quality and performance requirements—harmonizing demand is the first necessary step. Only after achieving this alignment can companies implement quick and straightforward optimizations, and realize sustainable cost reductions.

Competitive Procurement—Leveraging Competition and Strategic Negotiation

Effective negotiations are a critical lever for cost reduction. Companies benefit the most when they strategically design their tenders and deliberately encourage competition between suppliers. Instead of relying solely on traditional price negotiations, it's more effective to use detailed cost breakdowns to introduce fact-based arguments into the negotiation process.

However, in some cases, a purely competition-driven procurement approach may reach its limits. Here, exploring strategic partnerships with key suppliers can be a worthwhile alternative. Long-term collaborations—such as preferred supplier programs or purchasing alliances—can help secure stable prices and foster innovation. Additionally, a systematic tendering strategy allows businesses to incorporate alternative suppliers, thereby reducing dependency on single providers.

Process Automation—AI as a Driver of Efficiency

The use of AI-driven solutions and digital tools can significantly reduce process costs in indirect procurement. Particularly in administrative areas such as invoice verification, contract management and order processing, automation can lead to substantial efficiency gains. Spend analyses and AI-powered benchmarking help identify hidden cost drivers and address them systematically. Moreover, data-driven cost management enables more precise control over indirect expenditures, ensuring smarter, more efficient procurement processes.



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AI-Based Cost Analysis for Optimizing Indirect Procurement

Initial Situation and Solution Approach

A leading retailer faced challenges with an opaque cost structure and misallocated expenditures. The lack of visibility made it difficult for the retailer to critically assess and optimize its indirect spending.

Our solution involved a granular cost analysis powered by AI-driven data processing, which made the indirect cost base fully transparent. Additionally, we implemented a user-friendly dashboard to systematically identify and realize the savings opportunities.

Results Achieved

By analyzing all transactions, 40% of the expenses could be correctly reallocated. This enabled precise control of the cost drivers. In addition, shadow costs of around 5% were identified, mainly in the areas of transport, warehousing and marketing. The newly gained transparency led to savings of over 10% in the first year and made a key contribution toward the goal of reducing costs by €180 million over three years.

Thus, with the help of the dashboard that we introduced, the retailer was not only able to make its indirect expenses more transparent, but also reduce them in a targeted manner. This enabled a sustainable optimization of the cost base and created additional financial leeway for strategic investments along the following lines:

- **Efficient Cost Management:** By precisely categorizing expenditures, the company was able to prioritize its cost optimization efforts
- **Improved Negotiations:** Data-driven insights strengthened supplier negotiations, leading to better contract terms
- **Proactive Cost Control:** Continuous monitoring and benchmarking via AI-powered dashboards significantly enhanced long-term cost efficiency



Conclusion

There is no doubt about it: While the retail industry is increasingly facing rising costs and intensified competitive pressure, a retailer's long-term success requires more than just reducing its cost base. Nevertheless, **optimizing the cost structure remains a crucial lever** for securing margins and creating financial flexibility.

This, in turn, will free up resources that companies can reinvest in generating additional value. By strategically **leveraging AI tools** and transforming entire business and functional areas, retailers can significantly enhance their cost efficiency.

The hype around AI in retail is justified—provided it is **implemented strategically and with a clear focus**. Retailers who use AI to both achieve short-term cost reductions and also to invest in long-term growth opportunities—such as improving price competitiveness, enhancing personalization or scaling retail media offerings—can establish a **strong foundation for sustainable success**.

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