



*Save to grow*  
Deloitte's third biennial  
cost survey: cost-  
improvement practices and  
trends in the Fortune 1000

# Contents

---

|    |                             |
|----|-----------------------------|
| 1  | Executive summary           |
| 2  | Fast facts                  |
| 3  | About the survey            |
| 5  | Findings                    |
| 17 | Choosing the right approach |
| 20 | Contacts                    |

---

# Executive summary

Businesses today are just as committed to cost reduction as they were in the depths of the global recession. The main difference now is that many are focused on cost-cutting as a way to drive growth, rather than as a way to survive or avoid insolvency. This was one of the key findings from Deloitte's third biennial cost survey of companies in the Fortune 1000.

In this year's survey, 63% of respondents report an increase in annual revenue during the preceding 24 months — compared to only 32% in 2010. Yet 76% of respondents expect their companies to reduce costs over the next 24 months — roughly the same number as in previous years. This continued focus on cost reduction combined with a new emphasis on growth represents a significant shift in business strategy and mindset. In the past, cost reduction was largely associated with companies that were struggling or in distress. Now, growing companies are just as interested in reducing costs as those with declining sales — if not more so. In fact, according to the survey, the likelihood of cost reduction over the next 24 months is even higher for companies with rising sales (78%) than it is for companies with sales that are flat or down (70%).

Looking across the set of surveyed companies, the top strategic priorities cited for the next 24 months were product profitability (43%), sales growth (36%), and organization & talent (15%) — all elements of a growth-oriented business strategy. Only 7% of respondents are focused on other cost-related strategic priorities such as balance sheet management — compared to 20% in 2010. This change suggests that the vast majority of companies may be more comfortable with their balance sheets and may be using cost reduction as a growth lever to improve the efficiency and effectiveness of their businesses, and to generate cost savings that can be reinvested in growth initiatives such as new product development, innovation, research and development, and expansion into new markets.

According to the survey results, the top three drivers for cost management are “to gain competitive advantage” (65%), “required investment in growth areas” (54%), and “unfavorable cost position” (35%). Two years ago, there was significantly less emphasis on competitive advantage (52%), and the other top drivers were “reduction in consumer demand” (42%) and “decrease in liquidity and tighter credit” (33%). These numbers reinforce the notion that the strategic focus for many companies has shifted from financial survival to using cost reduction as a competitive weapon to drive growth.



# Fast facts

- In 2010, the recession and macroeconomics were the external risks that surveyed executives were most concerned about (73%). Now, these executives are just as concerned about political and regulatory risks (58%) as they are about macroeconomic factors (59%). This is especially true in financial services and healthcare, two sectors that face significant increases in government regulation and reform.
- Every year that Deloitte has conducted its biennial cost survey, executive respondents have reported a higher failure rate for their cost initiatives. In 2008, the failure rate was 14%. In 2010, it was 37%. And in 2012, the failure rate climbed to 48%, meaning that nearly half of all cost initiatives now fail to achieve their goals.
- The biggest barriers to effective cost reduction cited by respondents are “lack of understanding” about the need for cost reduction (74%), and “erosion of savings” (73%) resulting from cost improvements that are not feasible or sustainable.
- Survey respondents indicated that their companies are attempting to overcome the barriers by focusing more attention on change management (52%), clearly defining goals and objectives (41%), and communication (32%).
- The fundamental problem is that many companies focus their cost reduction efforts on the same business areas year after year — among those surveyed, administration (75%) and operations (67%) lead the way. They also continue to focus on the same tactical cost reduction approaches — process streamlining (54%), organizational streamlining (50%), and external spend reduction (41%). This makes it increasingly difficult to find new ways to save.
- Strategic cost improvements — such as changing the business configuration and increasing the level of integration — are often more complex to implement and are therefore not as prevalent as tactical cost reduction approaches, despite offering potential savings that are larger and more sustainable.



# About the survey

Deloitte Consulting LLP (Deloitte Consulting), in conjunction with Ipsos, a global market research company, recently conducted its third biennial cost survey of major US companies in the United States. The in-depth survey and analysis took place in the fourth quarter of 2012 and included 153 senior executives who were directly involved in cost management strategies at Fortune 1000 companies.

Primary survey objectives were to:

- Understand the factors, approaches, actions and targets related to cost initiatives
- Assess the effectiveness of cost initiatives, including lessons learned from previous deployments
- Understand the drivers and the scope of future cost initiatives

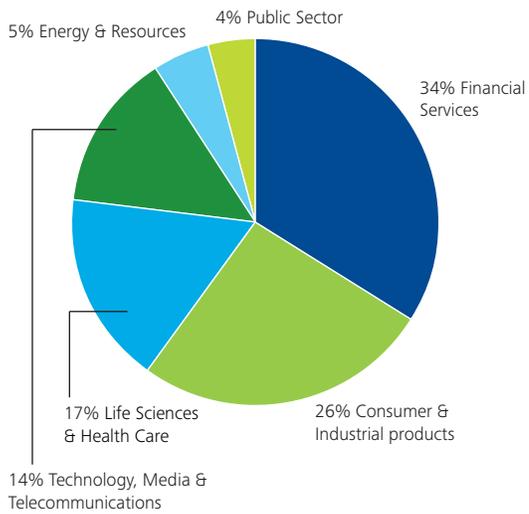
This year's survey provides valuable insights into how cost initiatives have evolved since 2008 and 2010 in response to changing market conditions. It also offers a glimpse into where things are headed in the future.

The survey data was supplemented with Deloitte Consulting's analysis and experience helping many of the world's leading companies design and execute sustainable cost-improvement programs.



**Figure 1. Distribution of respondents' companies by industry**

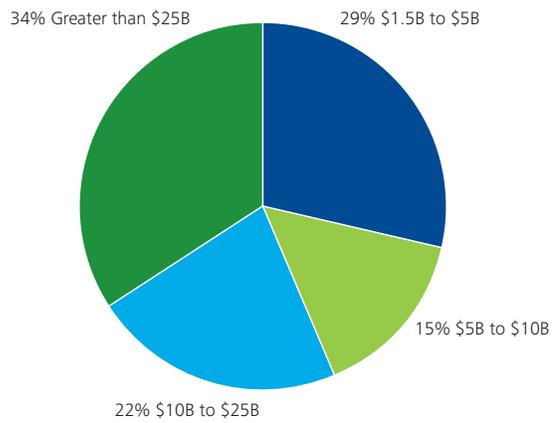
% of respondents (n=153)



Participating businesses represent a broad range of industries. All are publicly-traded companies with annual revenues in excess of \$1.5 billion. Many also have a global footprint with extensive operations around the world.

**Figure 2. Distribution of respondents' companies by revenue**

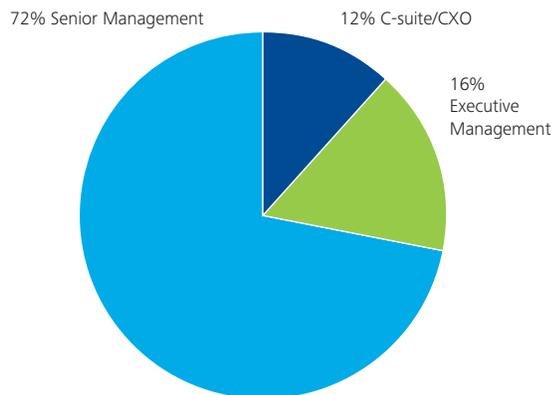
% of respondents (n=153)



Survey respondents were all senior executives, including CXOs (CEOs, CFOs, CIOs, and Board members), executive leadership (e.g., business unit presidents) and senior management (e.g., VPs and Senior VPs) who were directly involved in cost management programs with their companies.

**Figure 3. Distribution of respondents' levels**

% of respondents (n=153)



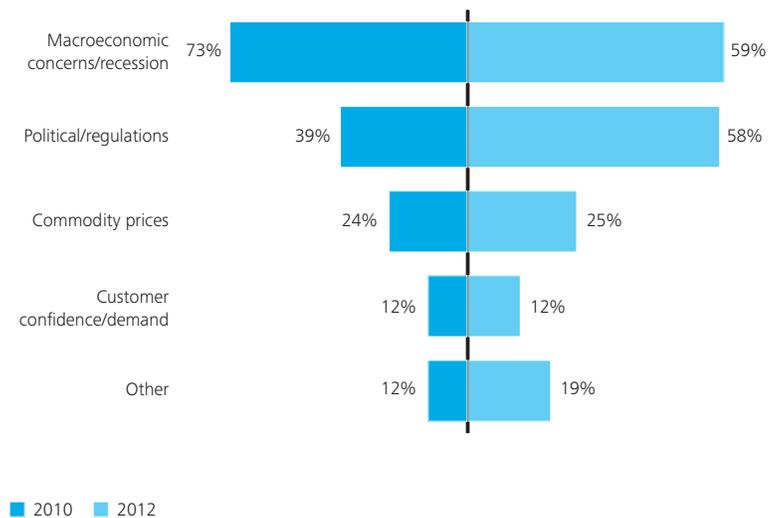
# Findings

## Business conditions remain highly uncertain

According to this year's survey, recessionary pressures and other macroeconomic issues continue to top the list of external business risks. However, they are less of a concern for respondents than in 2010, down from 73% to 59%. At the same time, political and regulatory concerns have risen sharply for respondents, from 39% to 58%. This shift is especially relevant in financial services and healthcare, two sectors that face intense government scrutiny and pressure to reform.

In addition, a significant number of surveyed executives cited political uncertainty in the Eurozone as a major risk.

Figure 4. Top external risks in next 24 months

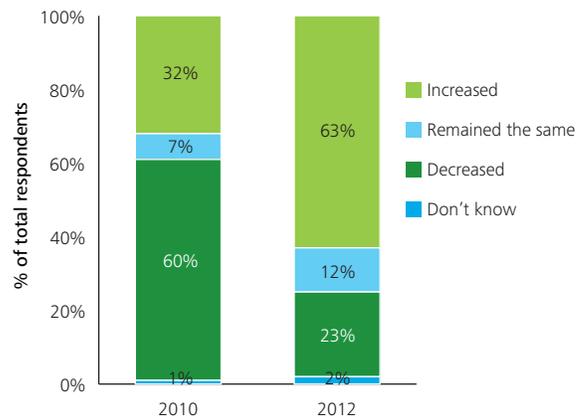


Many businesses continue to worry about commodity prices and customer confidence/demand, likely due to a global economic recovery that has been uneven and difficult to predict. Consumer products companies in particular continue to be challenged by the overall economy.

### Revenue is on the rise

Despite ongoing challenges in the global economy, 63% of respondents surveyed this year said their companies enjoyed rising revenue over the preceding 24 months — nearly twice the number that reported rising revenue in the 2010 cost survey (32%).

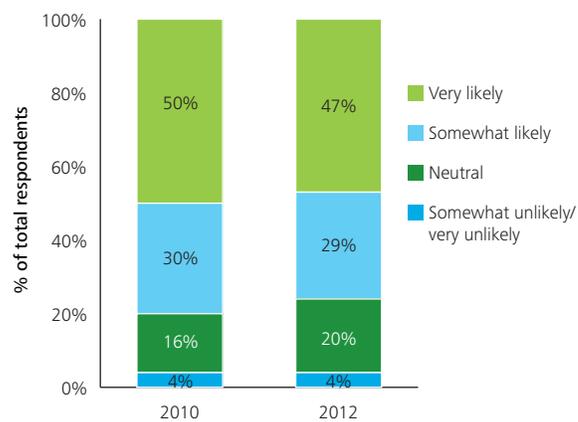
Figure 5. Annual revenue, past 24 months



### Cost reduction remains a major focus

Despite the current growth trend, the number of respondents that expect to undertake cost management initiatives over the next 24 months has barely budged (76% in 2012 compared to 80% in 2010).

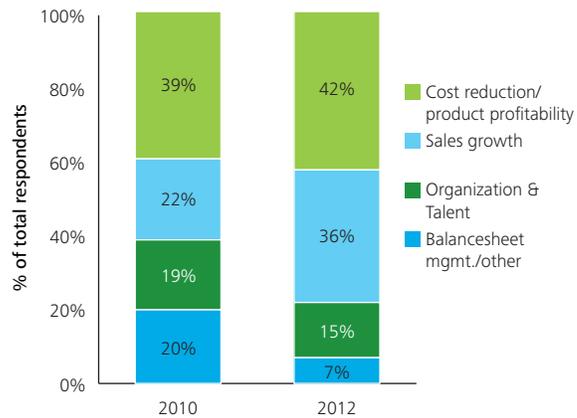
Figure 6. Cost management initiatives in next 24 months



**The new cost reduction paradox: “save to grow”**

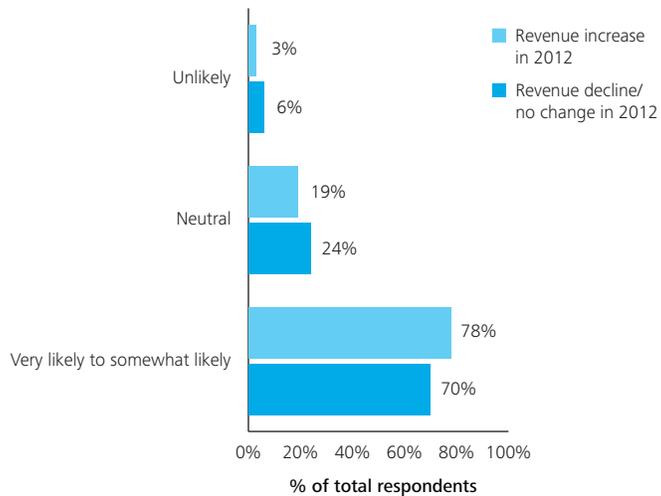
What’s different now is that many companies are using cost reduction as a way to drive growth — not just as a survival technique or as a means to avoid insolvency. In this year’s survey, 36% of executives cited sales growth as their top strategic priority, compared to only 22% in 2010. Meanwhile, the number of respondents focusing on other cost reduction priorities such as balance sheet management fell sharply from 20% to just 7%. This suggests that the vast majority of companies are reasonably comfortable with the health of their balance sheets and are less worried about becoming insolvent. Instead, they are shifting their attention to growth.

**Figure 7. Strategic priority in next 24 months**



In fact, according to this year’s survey data, companies that saw their revenue increase over the past two years are even more likely to pursue cost reduction than their less fortunate counterparts (78%, compared to 70% of companies with flat or declining revenue).

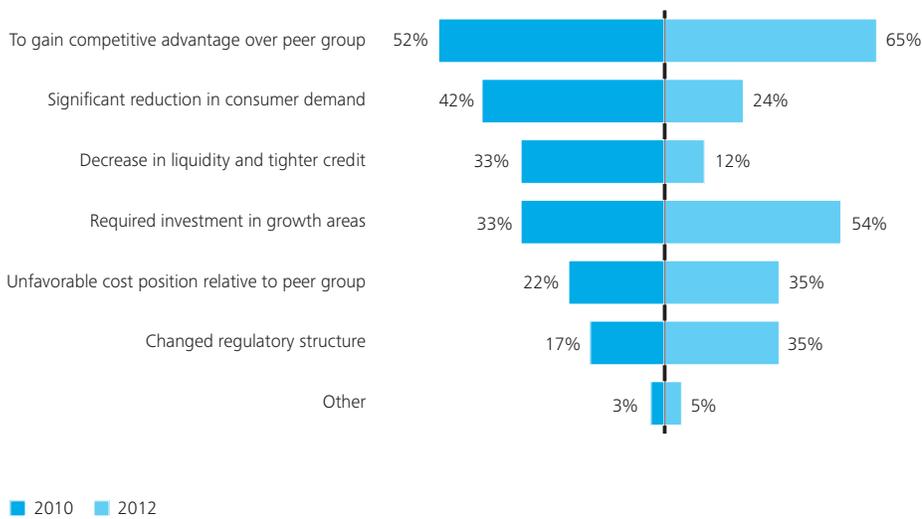
**Figure 8. Likelihood of cost reduction in next 24 months**



### Today's cost reduction drivers emphasize growth

The business drivers that are prompting companies to pursue cost management further illustrate the shift from survival to growth. According to the survey data, businesses today are increasingly driven by the need to gain competitive advantage relative to their peers and the need to make required investments in growth areas. These factors are clearly consistent with an emphasis on growth. Businesses are also trying to avoid getting caught in unfavorable cost positions, and to keep pace with regulatory changes such as healthcare and finance reform that require an efficient cost structure.

Figure 9. Drivers of cost reduction



At the same time, many companies today seem to be feeling less pressure from reduced consumer demand, decreased liquidity, and tighter credit — cost drivers that tend to be associated with companies in distress.

### Cost management in financial services

In financial services, the external risk cited most by surveyed executives is political and regulatory risk. This is not surprising, given the government and public scrutiny focused on the sector in the wake of the global financial crisis. Financial services executives are also worried about the overall economy and continued recessionary pressures.

Despite these intense external pressures, survey data indicates that most financial services companies aren't just saving to survive — they are saving to grow. Although cost reduction and product profitability is the top strategic priority (58%), a significant number of financial services executives surveyed (24%) say their primary focus is on sales growth.

Figure 10. Top external risks, financial services

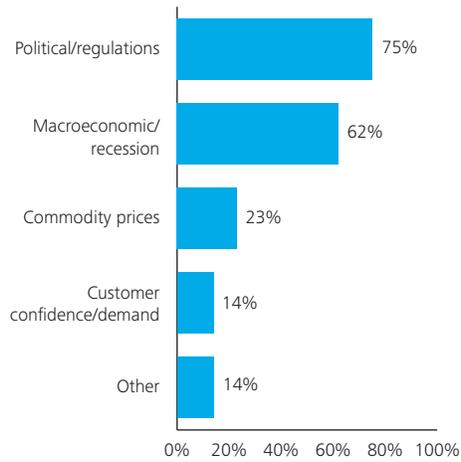
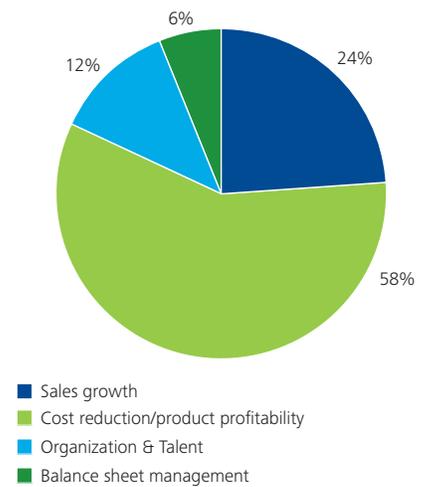


Figure 11. Strategic priority, financial services



### Cost management in healthcare and life sciences

In the healthcare and life sciences sectors, political and regulatory risk tops the list of external concerns identified in the survey, likely driven by healthcare reform, which continues to define and shape the future business environment despite numerous legal and political challenges.

Cost reduction and product profitability is the top strategic priority for respondents, but sales growth is a close second. Organization & talent is also considered very important. This balanced set of priorities perfectly illustrates the “save to grow” strategy.

Figure 12. Top external risks, healthcare/life sciences

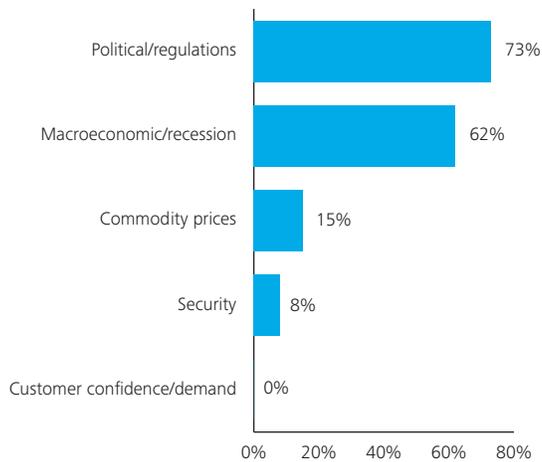
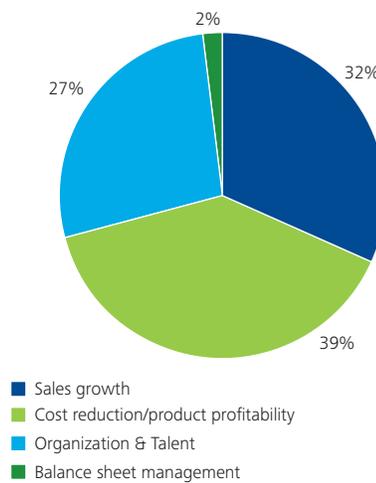


Figure 13. Strategic priority, healthcare/life sciences

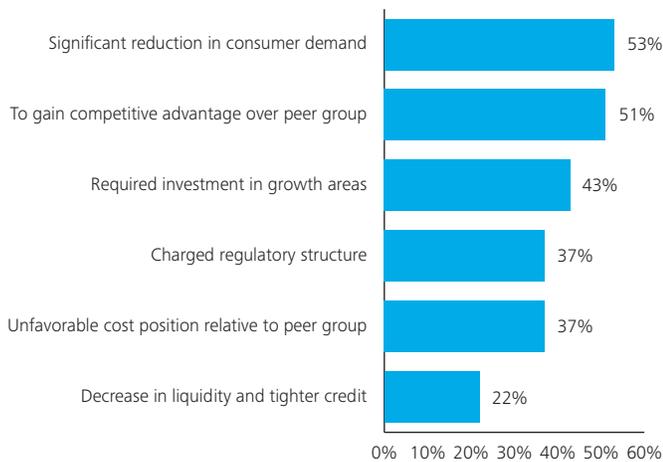


### Cost management in consumer & industrial products

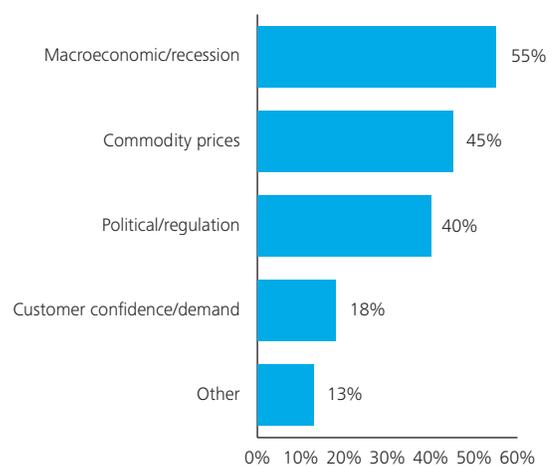
In consumer & industrial products (C&IP), recessionary pressures and other macroeconomic issues top the list of external risks identified in the survey. Many companies in these sectors are still suffering from the effects of the global downturn, and have yet to find solid footing for renewed growth. Also, many are concerned about commodity price volatility.

Although sales growth is a top strategic priority, many companies are still trying to make up the ground they lost during the global downturn. As such, cost reduction and product profitability is also a high priority.

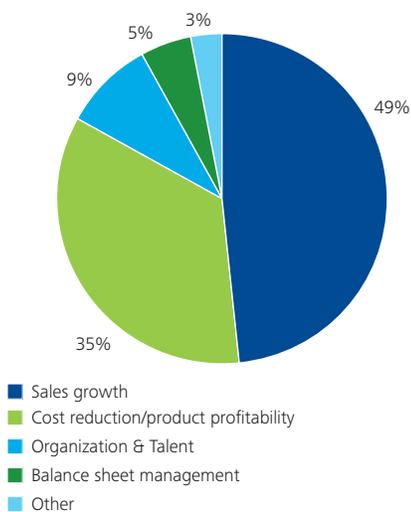
**Figure 14. Drivers of cost management, consumer & industrial products**



**Figure 15. Top external risks, consumer & industrial products**



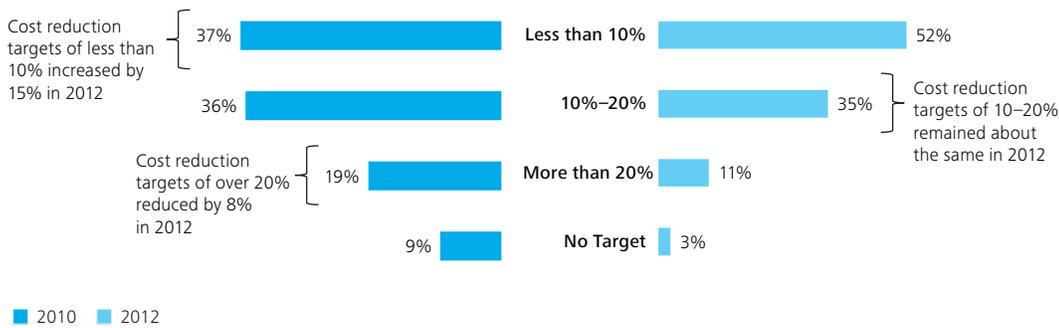
**Figure 16. Strategic priority, consumer & industrial products**



### Cost reduction is becoming more difficult

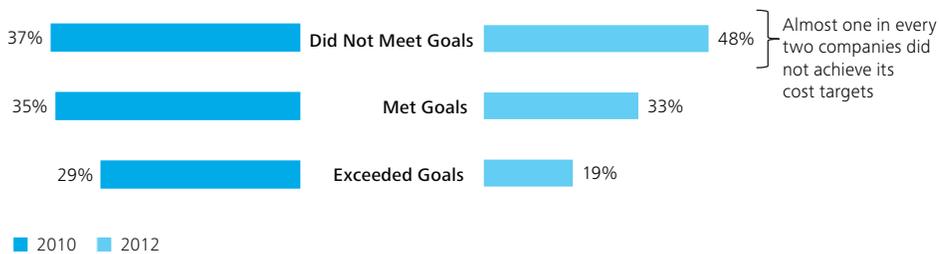
According to this year's survey, although cost reduction is being done broadly by most companies, these companies are generally setting less aggressive cost reduction targets than in year's past. Only 11% of executives surveyed say they are pursuing cost reduction targets in excess of 20%, compared to 19% in 2010. At the other end of the range, 52% of the executives surveyed this year are pursuing cost reductions of less than 10%, compared to 37% in 2010. Notably, the percentage of respondents pursuing cost reductions of 10-20% remained about the same (36% in 2010 and 35% in 2012). Overall, roughly half of the respondents (46%) are still focusing on structural cost reduction targets that exceed 10%.

**Figure 17. Annual cost reduction targets**



Despite these lower targets, significantly more surveyed companies are falling short of their cost reduction goals than in past versions of the survey. In fact, nearly half of the executives surveyed (48%) did not meet their cost reduction objectives — up sharply from 37% in 2010, and 14% in 2008.

**Figure 18. Meeting cost reduction goals**



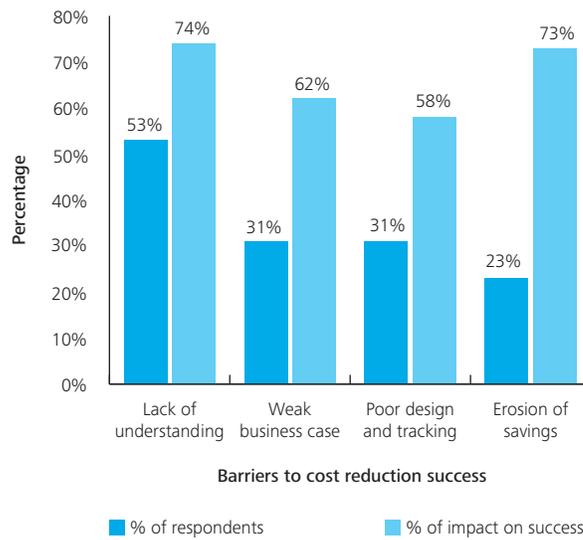
### Barriers to effective cost reduction

According to survey participants, the biggest barrier to effective cost reduction is lack of understanding: many employees don't understand the need for cost reduction and how the proposed cost improvements can help the business. This barrier tends to have the largest impact in the early stages of a cost reduction effort.

Erosion of savings is another high-impact barrier. This problem generally arises in the later stages of a cost reduction effort when an organization discovers that its expected savings are less than projected, either because the reduction targets were not feasible to begin with, or cannot be sustained over time. This is often a problem with across-the-board cost-cutting where the technical details and implementation strategy may not receive sufficient attention.

Other common barriers include a weak business case, and poor design and tracking. These are execution issues that can be effectively addressed through improved program management and by architecting an effective cost reduction program from the very start.

Figure 19. Barriers to effective cost reduction

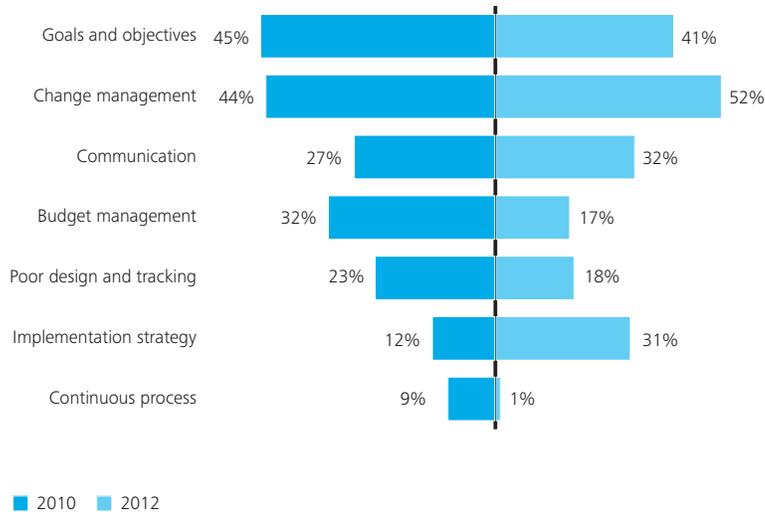


### Lessons learned

To overcome the barriers, companies are making a strong effort to learn from the past. This year, change management was cited as an important lesson learned by 52% of participants, up from 44% in 2010. Similarly, communication was cited by 32% of participants, up from 27% in 2010. Finally, setting realistic goals and objectives, cited by 41% of participants, remains an important lesson learned, although it is down slightly from 45% in 2010. Improved practices in these areas can help employees and managers better understand the cost reduction program.

Implementation strategy was also cited as a lesson learned. In fact, it rose from 12% in 2010 to 31% in 2012, more than any other lesson over the past 24 months. An improved implementation strategy can reduce erosion of savings by targeting and executing cost reductions in a way that is more practical and sustainable.

Figure 20. Lessons learned, past 24 months



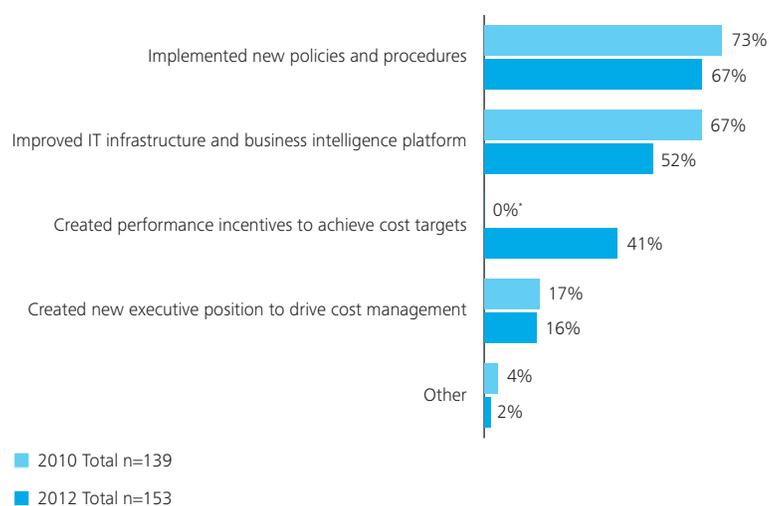
Design and tracking appears to be receiving less attention than in previous years (18% in 2012, compared to 23% in 2010), despite being identified by respondents as one of the top four barriers to effective cost reduction. This suggests that companies may not have sufficient resources to address all of the critical challenges they face.



### Improved cost reduction capabilities

Many companies are actively working to develop and improve their cost reduction capabilities. New policies and procedures continue to top the list of improved capabilities (67%). Improved IT infrastructure is a close second (52%). Performance-incentives explicitly linked to cost targets are another emerging area that can have a dramatic impact on benefits capture—new to the survey as a potential response in 2012, 41% of survey respondents said they are using these incentives to improve cost reduction capabilities.

**Figure 21. Capabilities developed in 2012**



■ 2010 Total n=139

■ 2012 Total n=153

\*Response was not included in 2010 survey

### Traditional approaches to cost management may be running out of gas

Improved capabilities and methods can increase the effectiveness of cost reduction programs. However, in many cases, the fundamental problem is a company's overall cost reduction strategy and approach. Many respondents say their companies tend to focus on the same cost reduction areas year after year — especially administrative costs (75%) and operational costs (67%) — using the same old approaches. So each year, it can naturally get harder to capture additional savings.

According to the survey, the three cost actions that companies are most likely to undertake in the next 24 months are tactical in nature, with a focus on streamlining processes, reducing headcount, and cutting external spend. These types of cost initiatives are popular because they are familiar, easy to understand and implement, and provide immediate results. However, their overall potential for cost savings is strictly limited — particularly after multiple rounds of cost-cutting.

Figure 22. Cost actions viewed as most likely in next 24 months



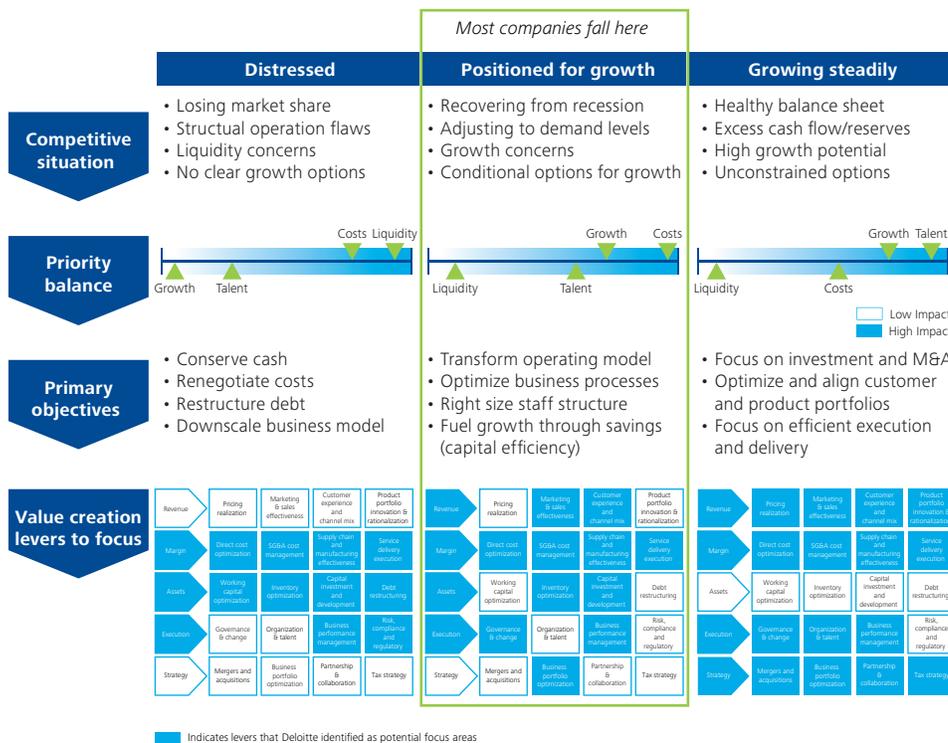
Strategic improvements — such as changing the business configuration, increasing integration, and outsourcing or offshoring business processes — are less popular and can be more complex and challenging to implement. However, when done correctly, they have the potential to be much more effective than tactical improvements — and to provide benefits that are both larger and more sustainable over time. This is especially true for the many organizations that are struggling to meet their cost reduction targets and to achieve the levels of improvement required to compete effectively. At their fullest, strategic improvements may include redefining or resetting a company's overall business model, which can result in lasting improvements to the company's cost structure.

# Choosing the right approach

A major implication of the “save to grow” trend is that every company should be worried about cost reduction — even companies that are focused on growth and not just survival. To be effective, all businesses should have efficient cost structures that are at the very least competitive with those of their peers.

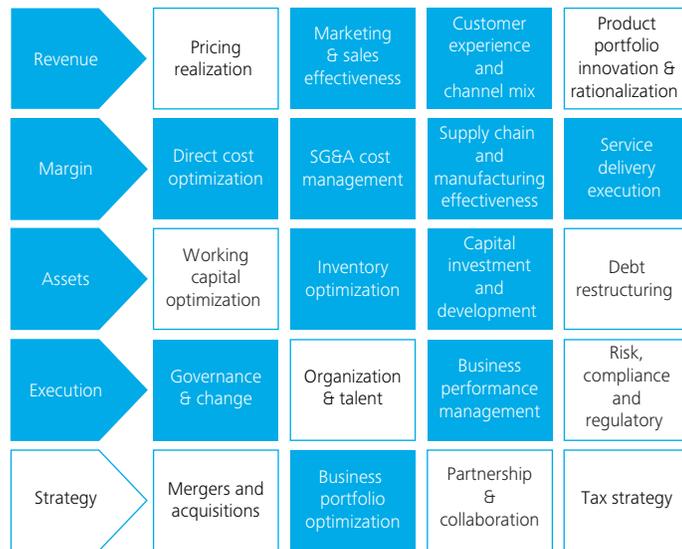
That’s not to say that all companies should approach cost reduction in the same way. Different situations present different needs and priorities. For example, a company “in distress” should focus on short-term survival and balance sheet improvement. A company “positioned for growth” should choose the right operating model and then find ways to save money to support its growth initiatives. And a company that is already “growing steadily” should look for ways to ratchet up its performance and strengthen its competitive advantage through smart investments, M&A, and management of customer and product portfolios.

Figure 23. The cost improvement continuum



Deloitte's *Enterprise Value Map* highlights 20 main "levers" that companies can use to create business value through cost reduction. However, only a subset of the levers may be relevant for a particular competitive situation. For example, companies that are "positioned for growth" will most likely want to focus on the 11 levers highlighted in figure 24.

**Figure 24. "Positioned for growth" — value creation levers to focus on**



 Indicates levers that Deloitte identified as potential focus areas for companies positioned for growth

### Taking the test

The following questions can help you determine which levers to focus on for your business. Note that if your answers in four or more of these areas suggest a need for action, you may want to consider a more systematic and structural approach to improving your company's cost position:

- Are we getting the most out of our sales and marketing spend by attaining a high ROI? Do trade and promotions spend result in measurable "revenue lift" or results?
- Are all of our major channels, customers or categories profitable? Do we know which customers and segments are profitable? Do we have strategies to increase profitability or rationalize unprofitable customers or segments?
- Are our costs-of-goods-sold or costs-of-operation competitive with the industry? Do we have appropriate procurement and sourcing strategies to ensure our "unit cost" of operations is as low as it can be? Do we have the right demand management programs to ensure efficient utilization of resources? Do we have hedging and alternative strategies for high-impact and high-volatility commodities?
- Are our general and administrative (G&A) costs competitive to peers? Do we get the appropriate value-add from G&A expenses? Is our G&A cost structure scalable? Have we fully embraced shared services, outsourcing, and centers of expertise in administration?
- Are we using leading supply chain processes? Do our distribution and network systems increase efficiency? Are our supply chain processes in sync with sales and finance? Is supply chain a competitive advantage for us?
- Do we have efficient services? Have our internal processes and services been rationalized to balance cost with service? How do our services and processes compare to the competition in terms of output and non-cost metrics?
- Is our inventory supporting superior working capital performance? Is inventory tied to financial and efficiency metrics? Have we integrated our supply chain with suppliers and clients? Do we have the right systems in place for proper visibility over inventory?
- Do we have effective processes to rationalize and prioritize investments? Do we track results from investments? Do we provide consistent guidance to the business over investments or divestments?
- Is our company's decision making efficient and effective? Have we rationalized roles and responsibilities between corporate and business units? Do we have leading governance practices — such as forums, councils, policies and clear roles — to support effective and efficient decision making?
- Do we have the right tools, systems and technology to support analytics, decision support and decision making?
- Do we have the right portfolio of businesses and services to compete and grow in the market?

The right approach can put a company on track to sustained competitiveness. The wrong approach can leave it vulnerable to the ups and downs of the business environment. Focusing on the cost reduction approach and levers that are most relevant to your company's situation can deliver greater cost savings while requiring less time, money and effort than an arbitrary or across-the-board approach.

# Contacts

## Deloitte Consulting LLP

### Omar Aguilar

Principal and Enterprise Cost Management Market  
Offering Leader  
+1 215 246 2382  
oaguilar@deloitte.com

### Scott Bearse

Director  
+1 617 437 2453  
sbearse@deloitte.com

### Jean-Emmanuel Biondi

Principal  
+1 404 631 2503  
jebiondi@deloitte.com

### David Brainer

Principal  
+1 513 784 7230  
dbrainer@deloitte.com

### Bruce Brown

Principal  
+1 313 324 1136  
brubrown@deloitte.com

### John Daab

Principal  
+1 973 602 5424  
jdaab@deloitte.com

### Don deCamara

Principal  
+1 216 830 6601  
ddecamara@deloitte.com

### Rick Ferraro

Director  
+1 703 251 3685  
rferraro@deloitte.com

### Neal Ganguli

Director  
+1 313 324 1464  
nganguli@deloitte.com

### Mark Hopkins

Principal  
+1 404 631 2998  
mahopkins@deloitte.com

### Paul Legere

Principal  
+1 312 486 2289  
plegere@deloitte.com



**Mic Locker**  
Director  
+1 212 618 4973  
miclocker@deloitte.com

**Boris Lukan**  
Principal  
+1 312 486 3289  
blukan@deloitte.com

**Mike Puleo**  
Director  
+1 203 708 4480  
mpuleo@deloitte.com

**Asish Ramchandran**  
Principal  
+1 714 913 1220  
aramchandran@deloitte.com

**Kevin Ruhl**  
Principal  
+1 404 631 2821  
kruhl@deloitte.com

**Faisal Shaikh**  
Principal  
+1 215 446 5953  
fshaikh@deloitte.com

**Rod Sides**  
Principal  
+1 704 887 1505  
rsides@deloitte.com

**Shashi Yadavalli**  
Principal  
+1 216 830 6727  
syadavalli@deloitte.com

**Deloitte Financial Advisory Services LLP**

**Sheila Smith**  
Restructuring Principal  
+1 617 437 3854  
sheismith@deloitte.com

**William Snyder**  
Restructuring Principal  
+1 214 820 1721  
wksnyder@deloitte.com



This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

Copyright © 2013 Deloitte Development LLC. All rights reserved.  
Member of Deloitte Touche Tohmatsu Limited