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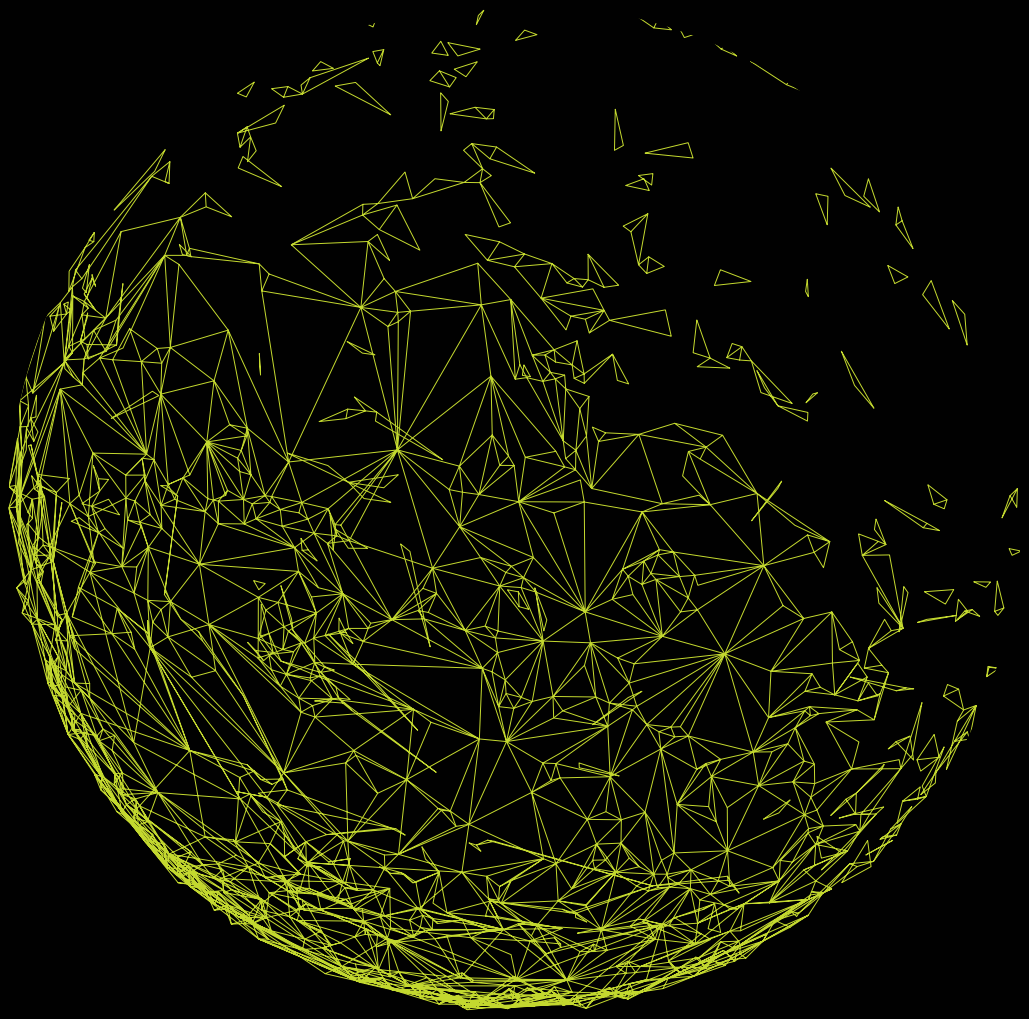


Thriving in uncertainty in the age of digital disruption

Deloitte's first biennial global cost survey report

December 2017

Contents

Foreword

Digital innovations are transforming how we live and work, and are now beginning to have a similarly dramatic impact on costs. Exponential technologies enable new business and operating models with cost structures vastly lower than before, with the result that entire industries are being fundamentally reshaped—from music and movies to hotels and taxis, and everything in between.

Advanced, next-generation technologies are also having a strategic impact on costs. In particular, robotic process automation and analytics/cognitive technologies are enabling new levels of operating efficiency that can turn cost into a major competitive advantage.

In this rapidly changing global business environment—where cost is a true strategic differentiator—we are delighted to share with you the findings of Deloitte's first global cost management survey report, which features detailed insights from more than 1,000 executives and senior managers in four major regions: the US, Latin America, Europe, and Asia-Pacific.

The study provides an inside look at the cost management practices and trends currently shaping the future of business globally, offering deep and practical insights that can help any company manage costs more effectively. It also provides a forward-looking point of view on how digital innovation and next-generation technologies can take cost reduction and margin improvement to a whole new level.

We trust you will find the report findings useful, and look forward to hearing your thoughts and feedback.

Omar Aguilar
Strategic Cost Transformation
Global Market Offering Leader

Jim Moffatt
Head of Deloitte Global Consulting

Executive summary

Cost management used to be something businesses only thought about when they were struggling. In recent years, however, it has become a standard operating practice that receives constant attention—in good times and in bad. And with the recent emergence of disruptive innovations such as robotic process automation and analytics/cognitive technology, cost management is now morphing into a strategic enabler with the power to disrupt entire industries and fundamentally change how business is done.

In 2009, Deloitte Consulting LLP conducted its first executive survey of cost management practices and trends in the US. Since then, our efforts and geographic scope have steadily expanded, culminating in this current study—our first biennial global cost management survey report, which includes in-depth insights from more than 1,000 executive survey participants in four major regions: the US, Latin America, Europe, and Asia Pacific.

Global insights from the regional cost surveys

Cost reduction is a global imperative.
Cost reduction has become a standard business practice in every region, with 86% of global respondents saying their companies are likely to undertake cost reduction initiatives over the next 24 months.

Low targets. High failure rates. Globally, nearly half of all organizations surveyed are pursuing cost reduction targets of less than 10%. Yet, in spite of those relatively low targets, almost two-thirds (63%) are failing to achieve their goals.

Economic concerns dominate today, but digital disruption looms large. Worldwide, the top external risk for organizations surveyed is "macroeconomic concerns/recession" (30%), followed by "commodity price fluctuation" (19%). In the US, digital disruption is having a major impact on many industries and is viewed as a top risk—a trend that could quickly spread to other regions.

High expectations for growth. Despite widespread concerns about the economy, the number of respondents that expect their revenues to increase over the *next* 24 months is even higher than the number that reported increased revenue over the *past* 24 months (80% vs. 74%, a 6% increase).

Save to grow. The simultaneous focus on cost and growth reflects a "save to grow" mindset where companies use cost savings as a strategic lever to help fund their growth efforts and initiatives—without sacrificing profitability. This mindset is now prevalent in all parts of the world.

A strategic paradox: Thriving in uncertainty. The top two cost reduction drivers globally are both directly related to growth. However, the next five cost reduction drivers are all defensive in nature. This suggests that while growth is the top strategic priority, companies in every region are also protecting themselves against uncertainty by getting numerous aspects of their cost structure into fighting shape.

Developing cost management capabilities. Over the past 24 months, companies in all regions have been actively developing and improving their cost management capabilities. The top three focus areas are: "forecasting, budgeting, and reporting" (55%); "new policies and procedures" (51%); and "IT infrastructure, IT systems, and business intelligence platforms" (49%).

Little change in cost management approaches. Moving forward, it appears companies expect to use the same basic approaches to cost management that they have used in the past, with "targeted actions" and "intensified productivity programs" being the two most popular approaches. The one cost management approach that is likely to drop off significantly is zero-based budgeting, which is expected to fall from 15% to 11% globally—a real-term decline of 36%.

Implementation is the biggest challenge. From a tactical perspective, the top barrier to effective cost management is "challenges in implementing initiatives" (53%). Also, five of the seven top lessons learned relate to implementation.

Tactical actions remain predominant. Many companies surveyed continue to focus on *tactical* cost actions (40%), such as streamlining business processes and reducing external spend, versus strategic cost actions (33%), such as outsourcing, centralization, and business reconfiguration. This tactical focus tends to limit the magnitude of cost savings that can be achieved.

Cost management practices to thrive in uncertainty

Tactical versus strategic. Tactical cost management approaches typically yield cost savings of less than 10%. As such, many companies would be better served by applying approaches that are more strategic and thus more likely to deliver greater savings.

A new scenario emerges. Companies pursuing strategic cost improvements have generally fallen into one of three categories: (1) distressed, (2) positioned for growth, or (3) growing steadily. These traditional scenarios have different priorities, with each scenario primarily focusing on two of the four strategic levers: growth, talent, cost, and liquidity. However, in the current business environment a new competitive scenario seems to be emerging that simultaneously focuses on three of the strategic levers—growth, cost, and liquidity. We call this new scenario "thriving in uncertainty."

Different playbooks for different markets. In some markets, macroeconomic factors seem to be pushing companies toward greater uncertainty and distress. This requires a playbook with value creation levers that are more defensive in nature. Other markets seem to be moving toward a more positive outlook, which tends to favor an offense-oriented playbook with an emphasis on growth.

Margin improvement in the age of digital disruption

Digital disruption is on the rise. In the future, digital disruption—and the exponential technologies that drive it—are likely to be key factors that companies need to consider as they strive to reduce costs and improve margins. And for many companies, the future is *now*.

Getting in front of the challenge. To help avoid falling behind, companies in every part of the world should understand the potential impact of digital so they can position themselves to capitalize on the opportunities, particularly with regard to automation and analytics/cognitive technology, which will likely be the first innovation areas to emerge.

Cost management evolved. Since the 1980s, cost management approaches have evolved from *traditional* tactical actions to *structural* approaches that are more strategic. Now, we are seeing the rise of *advanced, next-generation* cost management solutions that harness the power of digital technologies to dramatically improve efficiency and effectiveness, and to enable fundamentally new business models and new ways of working.

Exponential potential. Unlike traditional tactical and structural cost approaches—which may be nearing or past their peak—cost solutions based on exponential technologies are just emerging and have the potential to deliver increasing savings over time due to the exponential nature of digital technologies (i.e., "Moore's Law"). Also, advanced digital cost solutions can be implemented more quickly, enabling companies to achieve greater savings in much less time.

From products and customer service to business models. Until now, the lion's share of digital innovation has been focused on (1) creating new and improved products, and (2) delivering a superior customer experience. However, the biggest potential impact of digital innovation and exponential technologies is likely to come from enabling disruptive platforms and innovative business models that fundamentally alter the competitive dynamics of an industry or industries.[1]

A whole new level of efficiency. As digital technologies enable increased innovation in business and operating models, companies can expect strategic impacts that disrupt entire industries and deliver sustainable cost savings of 30% or more—sometimes much more—completely resetting expectations about efficiency compared to traditional models.[2]

Disrupt, or be disrupted. In an increasingly digital world, disruption is unavoidable. To thrive, companies should become their own disrupters—rather than allow other companies to disrupt *them*.

[1] *Innovating in the digital era, Tech Trends,* Deloitte University Press, 2016.

[2] *Rethinking a company's business model, Three steps to sustainable and scalable change,* Deloitte Development, 2016.

About the study

Deloitte Consulting LLP (Deloitte or Deloitte Consulting) engaged Research Now to conduct a series of regional cost management surveys in order to better understand executives' perspectives on current and future cost reduction initiatives within large companies and multinationals. The surveys covered four major regions:

- United States (report published in April 2016)
- Latin America: Brazil, Mexico (report published in June 2016)
- Europe: UK, Germany, France, Spain, Netherlands, Italy, Poland, Belgium, Denmark, Norway (report published in October 2016)
- Asia Pacific: China, India, Japan, Australia, Hong Kong, and Singapore (report published in July 2017)

Survey data includes 1,013 responses from CXOs, executives, and senior management in the United States (210 responses), Latin America (155 responses), the European Union (349 responses), and Asia Pacific (299 responses).

Study objectives

- Understand factors, approaches, actions, and targets related to cost initiatives
- Assess the effectiveness of the cost actions, including lessons learned from previous efforts
- Understand the drivers and scope of future cost initiatives
- Provide context on how digital disruption and advanced, next-generation solutions are affecting cost management
- Assess industry results and provide insights on different behaviors related to cost reduction

Methodology

- Data was collected through detailed online and telephone surveys conducted between February 2016 and February 2017

Qualification criteria

- Job title/level: C-suite/CXO (e.g., CEO, CFO, COO, CIO, Board of Directors); Executive management (e.g., Division/Business Unit/Regional President, Controller, Treasurer, or other company officer); Senior management (e.g., SVP/VP of a business group; SVP/VP of an enabling function such as Finance, HR, IT)
- Company annual revenue of $150 USD million or more for companies in Latin America, Europe, and Asia Pacific, or $1.5 USD billion or more for companies based in the US
- Involvement in managing cost reduction initiatives within the company

Firmographics

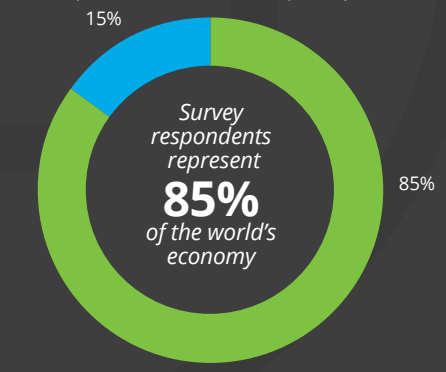
The countries in the study are an accurate representation of their regional economies, as well as the global economy as a whole. Globally, the surveyed countries account for 85% of the world's GDP. For the three regions outside of the US, the surveyed countries collectively account for the large majority (61% to 83%) of their regions' GDP (figure 1).

Survey participation was limited to executives at the senior management level and above who are personally involved in cost management decisions. More than two-thirds of respondents (70%) were CXOs and executives (figure 2).

The regional surveys captured findings from a broad range of industries, with six major categories: Consumer & Industrial Products; Financial Services; Technology, Media, and Telecommunications; Energy & Resources; Life Sciences & Health Care; and Public Sector (figure 3).

Figure 1: Geographic coverage

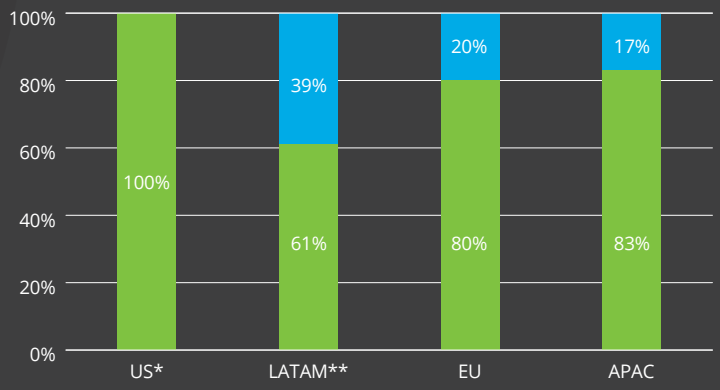
Survey sample coverage
% of respondent's economic footprint by 2016 GDP



GDP of countries surveyed
GDP of potential countries not surveyed

Source: The World Bank – GDP 2016

Survey sample coverage
% of respondent's economic footprint by 2016 GDP per region



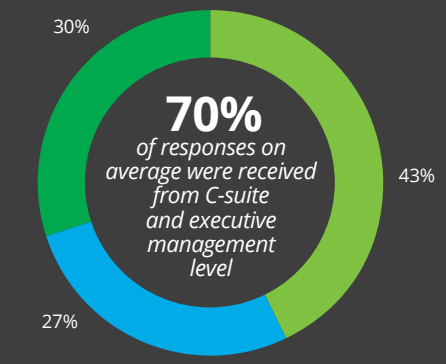
Source: The World Bank – GDP 2016

Outside the US... Respondents represented
61%-83%
of the regional economies as measured by GDP

*US Survey is the only country-based survey
**Only two countries (Brazil and Mexico) represent 61% of the regional economy

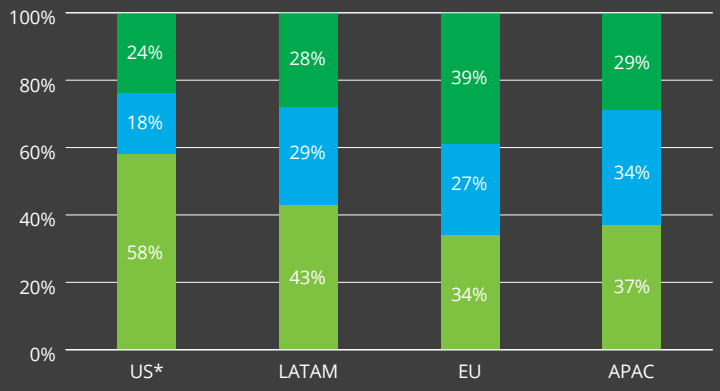
Figure 2: Management level

Management level breakdown
% of respondents by level



C-suite/CXO
Executive management
Senior management

Management level breakdown
% of respondents by level by region

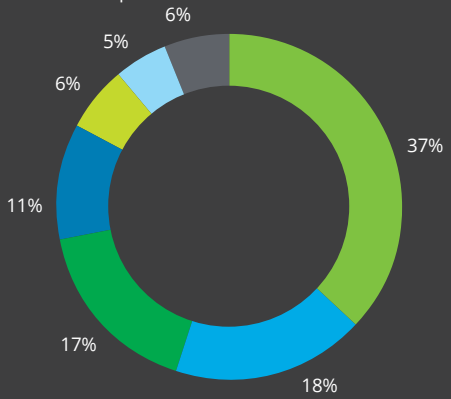


The majority of C-suite and executive management level response profile was maintained in all regions

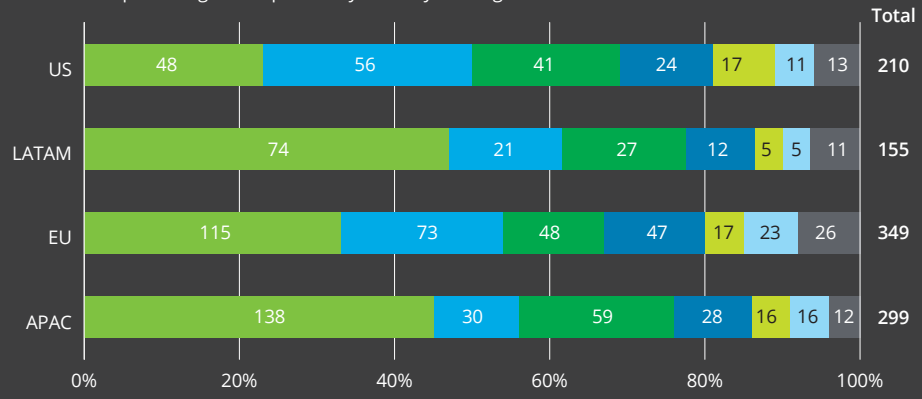
C-suite/CXO: CEO, CFO, COO, CIO, Board of Directors, etc.
Executive management: Divisional/BU/Regional President, Controller, Treasurer and other Company Officers, etc.
Senior management: SVP/VP of a Business Group OR SVP/VP of an Enabling Function like Finance, HR, IT, etc.

Figure 3: Industry breakdown

Industry breakdown
% of total respondents



Industry breakdown
Number and percentage of responses by industry and regions



Consumer & Industrial Products
Financial Services
Technology, Media & Telecommunications
Energy & Resources
Life Sciences & Health Care
Public Sector
Other

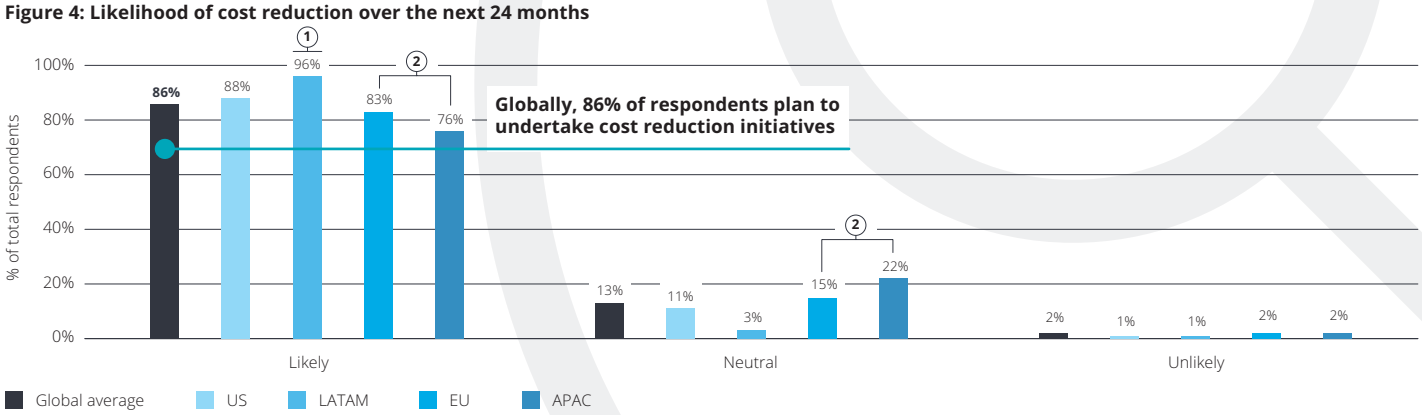
Almost half **of the organizations surveyed indicated relatively low cost reduction targets of less than 10% ... yet *63%* of respondents are unable to meet their goals**

Global insights from the regional cost surveys

Cost reduction is a global imperative

Cost reduction has become a standard business practice in all regions surveyed. Globally, 86% of respondents say their companies are likely to undertake cost reduction initiatives over the next 24 months, and very few respondents in any region believe cost reduction is unlikely. Regionally, cost reduction is most likely in Latin America (96%), and least likely in Asia Pacific (76%) (figure 4).

Figure 4: Likelihood of cost reduction over the next 24 months



Survey findings

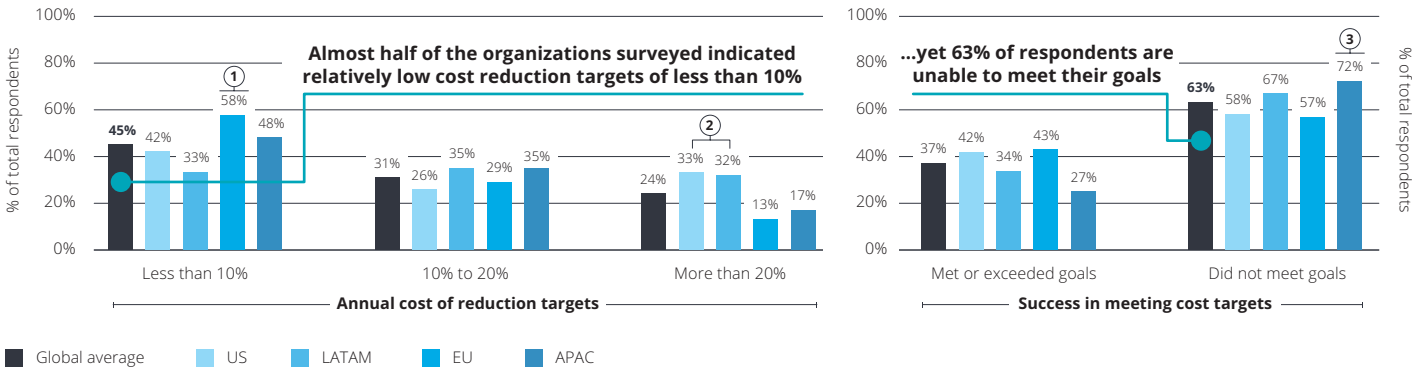
① LATAM is the most likely region (96%) to undertake cost reductions actions.

② Europe and APAC reported lower likelihood (83% and 76%, respectively) compared to the global average (86%) and higher neutral position with 15% and 22%, respectively, compared to the global average of 13%.

Low targets. High failure rates

Worldwide, nearly half of all organizations surveyed are pursuing cost reduction targets of less than 10%. Yet, in spite of those relatively low targets, almost two-thirds (63%) are failing to achieve their goals. Cost reduction targets tend to be the least aggressive in Europe, to a point where the efforts almost cannot be viewed as a formal cost reduction approach. Organizations in the US and Latin America tend to have the most aggressive cost programs, with roughly a third (32% and 33%, respectively) citing cost reduction targets in excess of 20%. Failure rates are highest in Asia Pacific (72%) (figure 5).

Figure 5: Cost reduction targets and success rates



Survey findings

① 58% of European programs focus mainly on targets less than 10%; this could imply that structured cost programs are not prevalent.

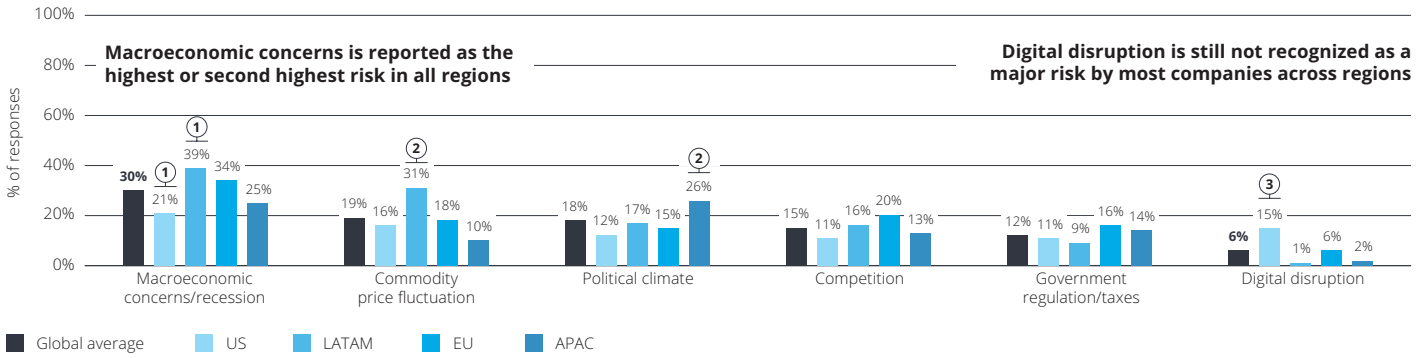
② Most aggressive programs are in US and LATAM with a third of programs reporting targets higher than 20%.

③ APAC failure rates are the highest (72%) compared to the global average (63%).

Economic concerns dominate today, but digital disruption looms large

Globally, the top external risk identified by respondents is "macroeconomic concerns/recession" (30%), followed by "commodity price fluctuation" (19%). These risks are rated particularly high in Latin America (39% and 31%, respectively). In the US, digital disruption is having a major impact on many industries and is viewed as a top risk, nearly on par with macroeconomics/recession. Digital disruption is less of a concern in other regions; however, the situation could change quickly and dramatically given the exponential nature of digital innovations (figure 6).

Figure 6: External risks



Survey findings

① Although macroeconomic is the highest or second highest concern, it is reported much lower in the US (21%) and much higher in LATAM (39%) relative to the global average (30%).

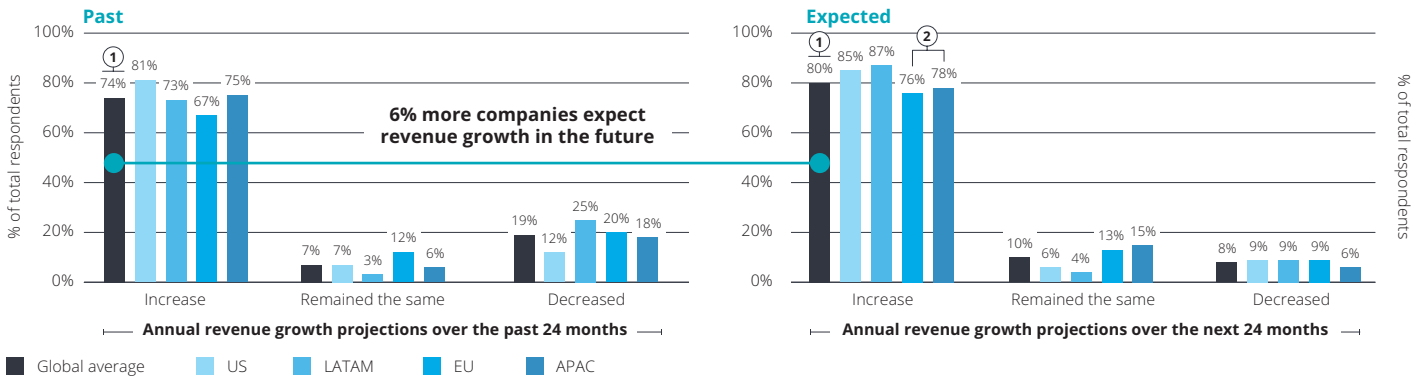
② Commodity price fluctuation for LATAM (31%) and political climate for APAC (26%) are reported disproportionately as higher risks compared to other regions.

③ Digital disruption is rated much higher as top risk in the US (15%) compared to all other regions.

High expectations for growth

Despite widespread concerns about the economy, the number of companies surveyed that expect their revenues to increase over the next 24 months is even higher than the number that reported increased revenue over the past 24 months (80% vs. 74%, a 6% increase) (figure 7).

Figure 7: Annual revenue growth



Survey findings

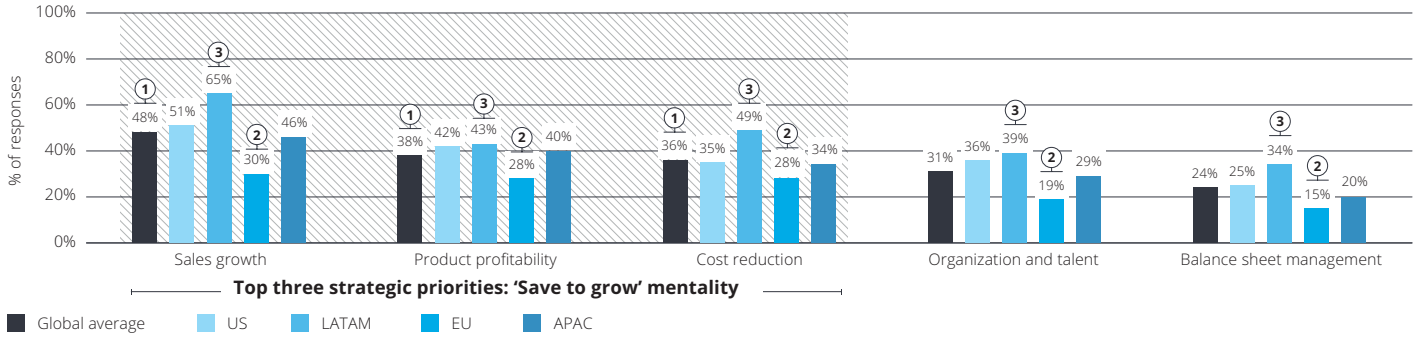
① Global respondents reported more frequently (80%) an increase on revenue growth in the future vs. 74% in the past.

② EU (76%) and APAC (78%) indicate the least positive projections compared to the global average (80%).

Save to grow

The simultaneous focus on cost and growth reflects a "save to grow" mindset where companies use cost savings as a strategic lever to help fund their growth efforts and initiatives—without sacrificing profitability. Although respondents from different regions expressed their strategic priorities with different levels of intensity, the "save to grow" theme is prevalent in all parts of the world (figure 8).

Figure 8: Strategic priority in next 24 months



Survey findings

① Top three priorities cited by respondents were sales growth (48%), product profitability (38%), and cost reduction (36%).

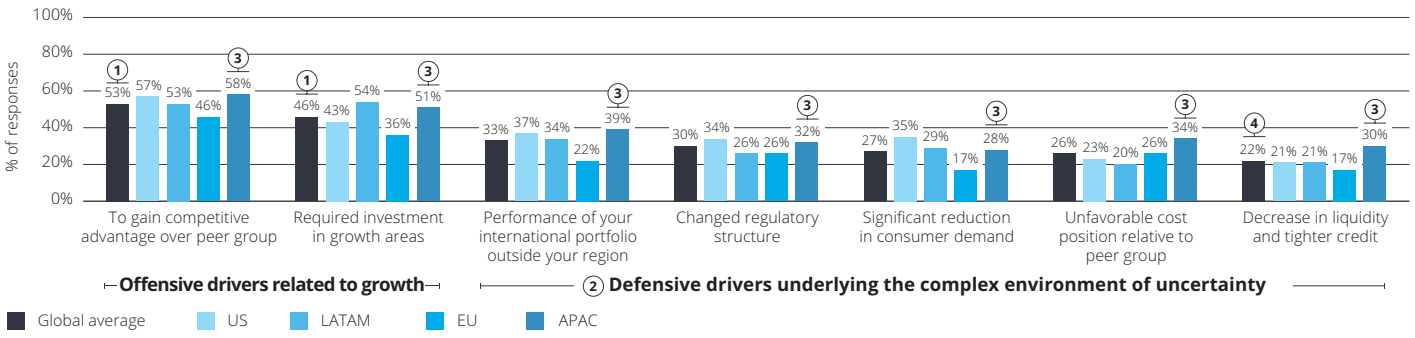
② European companies surveyed consistently responded less frequently to all priorities compared to other regions.

③ LATAM companies surveyed consistently responded more frequently to all priorities compared to other regions.

A strategic paradox: Thriving in uncertainty

The top cost reduction driver for respondents globally is "to gain competitive advantage" (53%), followed closely by "required investment in growth areas" (46%). Both of these are directly related to revenue growth. However, the next five top drivers for cost reduction are all defensive in nature. This suggests that while growth is the top strategic priority, companies in every region are also protecting themselves against uncertainty by getting numerous aspects of their cost structure into fighting shape. Note that liquidity emerged as a top seven driver in the US for the first time since we began conducting these cost surveys in 2009 (figure 9).

Figure 9: Drivers of cost reduction



Survey findings

① Top two drivers relate to gaining competitive advantage (53%) and required investment in growth areas (46%).

② Five out of seven drivers of cost reduction are defensive in nature and reflect uncertainty.

③ All drivers of cost reduction rated higher for APAC companies relatively to the global average.

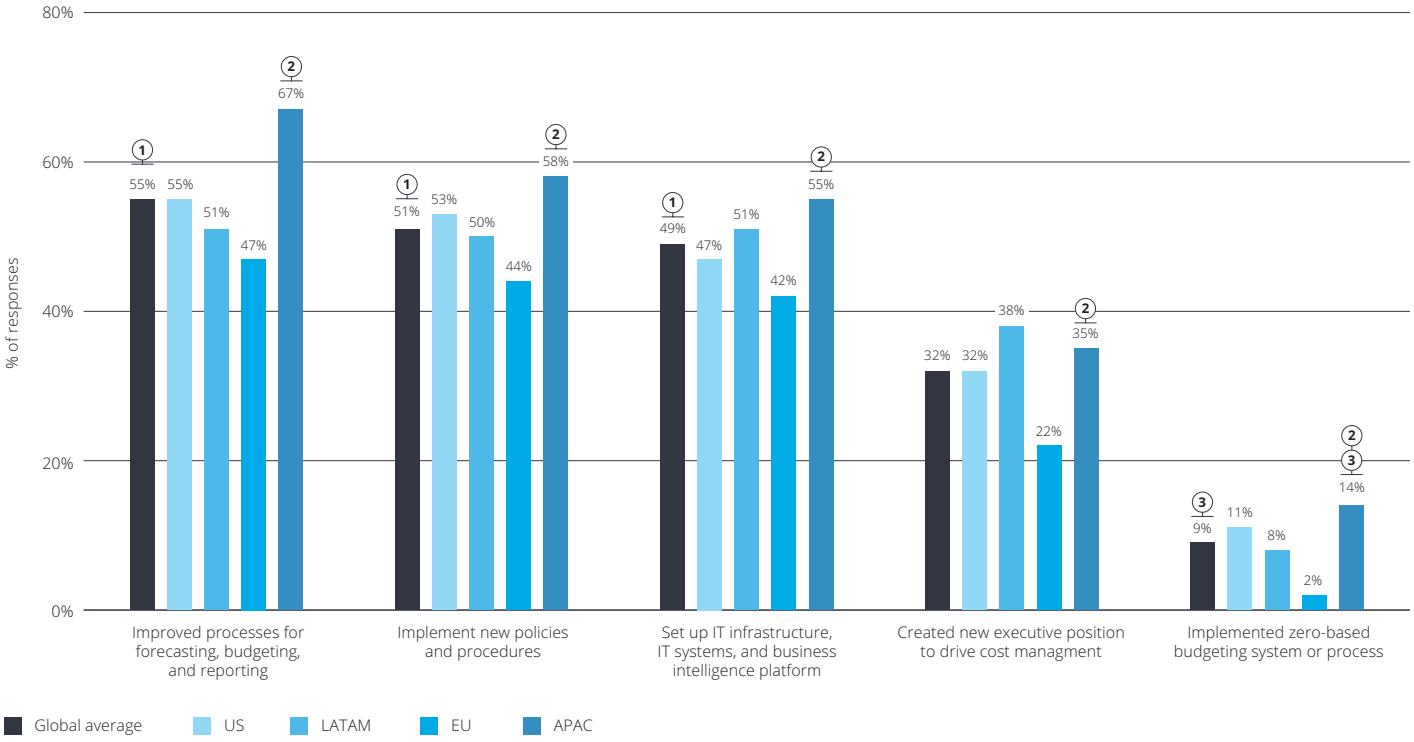
④ Notably, liquidity reappeared as a driver for the first time since onset of US Cost Survey in 2009.

Developing cost management capabilities

Over the past 24 months, respondents in all regions have been actively developing and improving their cost management capabilities. The top three focus areas are: "forecasting, budgeting, and reporting" (55%); "new policies and procedures" (51%); and "IT infrastructure, IT systems, and business intelligence platforms" (49%) (figure 10).

Among the capabilities identified in the survey, zero-based budgeting (ZBB) was the least developed capability (9%) (see sidebar).

Figure 10: Capabilities developed over the past 24 months



Survey findings

① The three most frequently cited capabilities developed over the past 24 months were: Improved processes for forecasting, budgeting, and reporting (55%), implement new policies and procedures (51%) and set up IT infrastructure, IT systems, and business intelligence platform (49%).

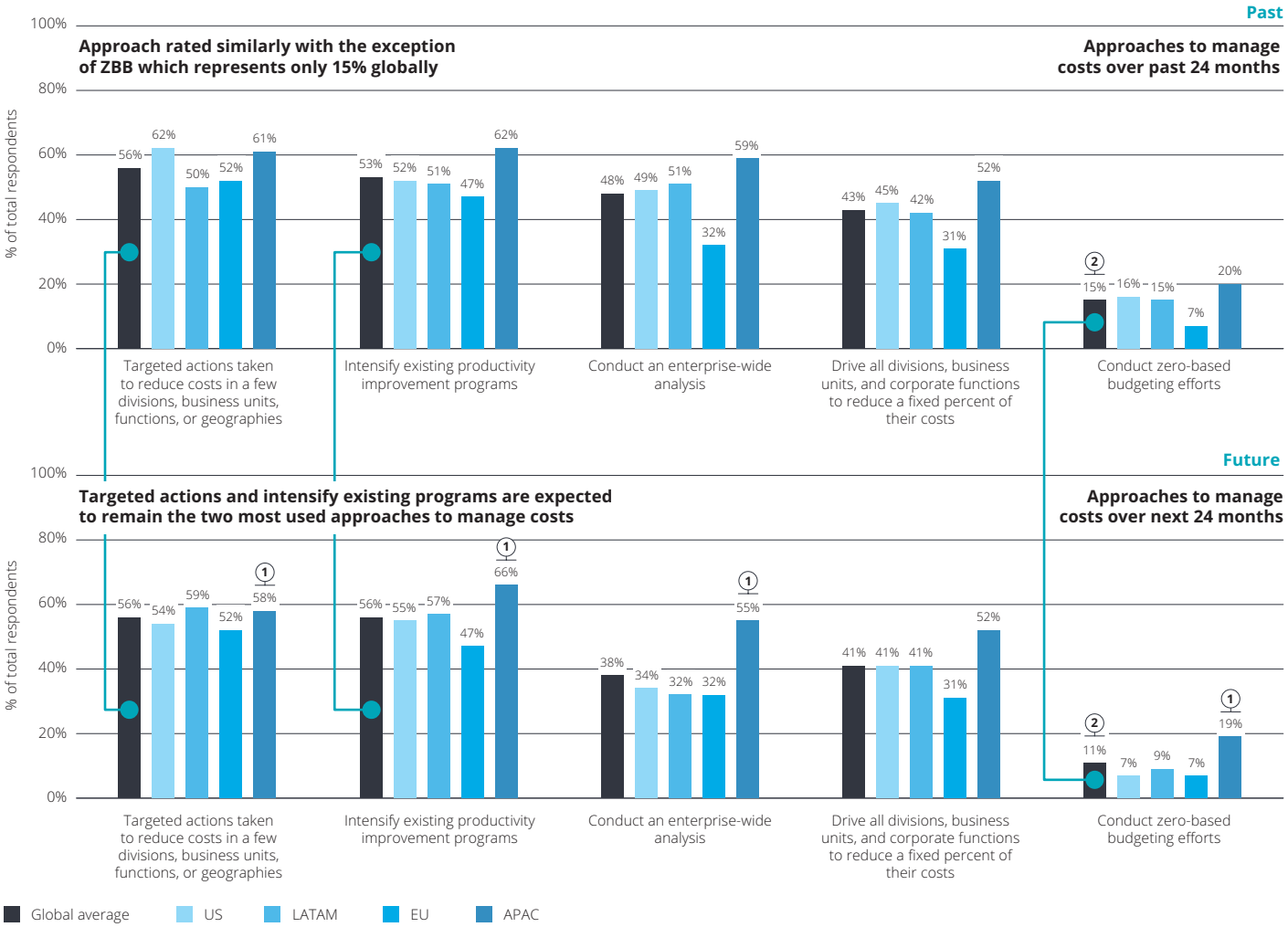
② APAC respondents consistently rate higher compared to the global average, in terms of capabilities developed over the past 24 months.

③ ZBB (9%) is the least developed capability over the past 24 months with APAC companies citing more frequently this capability (14%) relative to the global average.

Little change in cost management approaches

Moving forward, it appears respondents expect to use the same basic approaches to cost management that they have used in the past, with "targeted actions" and "intensified productivity programs" being the two most popular approaches. The one cost management approach that is likely to drop off significantly is zero-based budgeting, which is expected to fall from 15% to 11%—a real-term decline of 36% (figure 11).

Figure 11: Approaches to manage costs—past and future



Survey findings

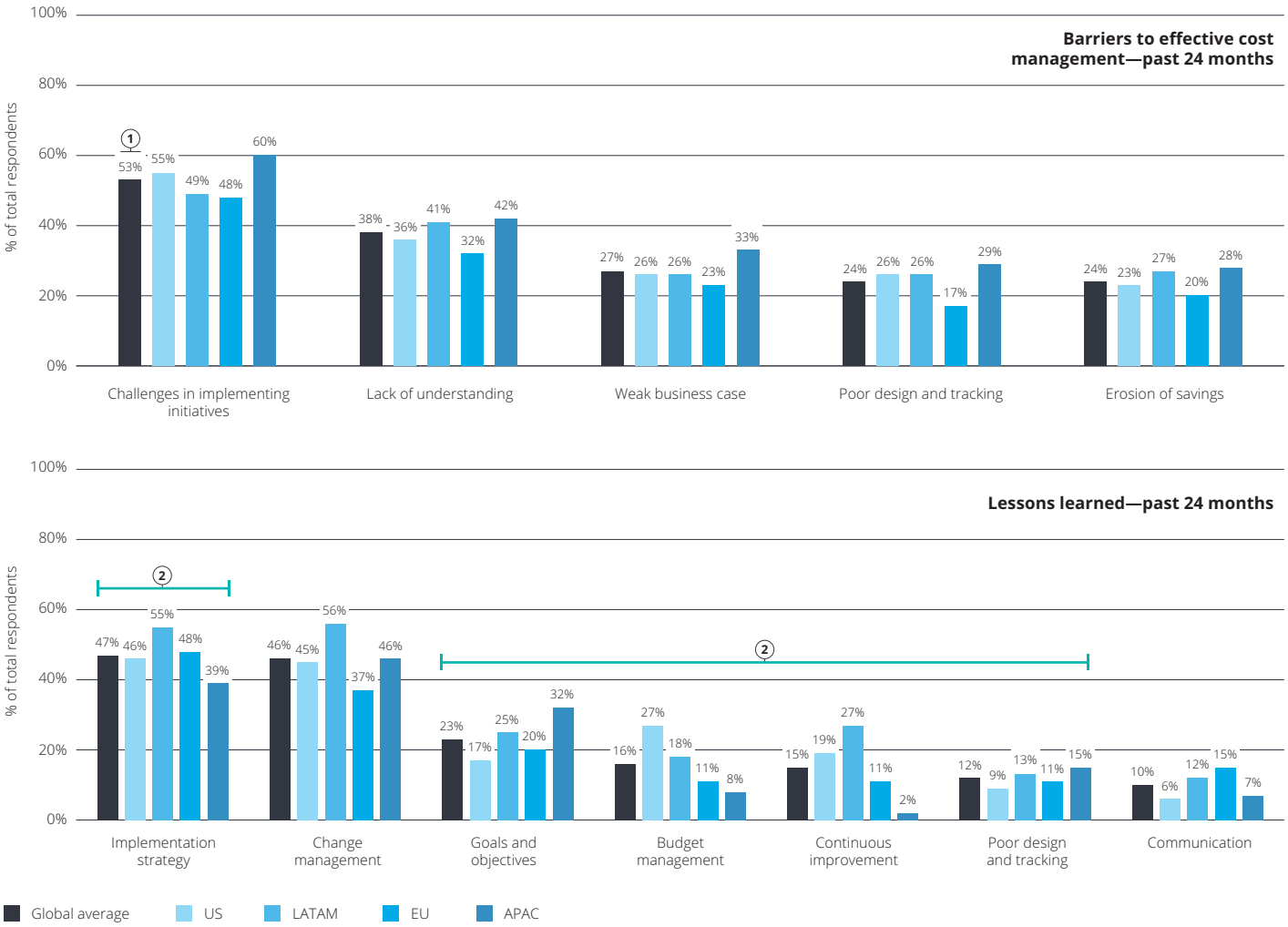
① APAC is the only region reporting increase of use in 4 out of 5 approaches.

② ZBB shows a steep decrease from 15% to 11%, which represents a real decrease of 36%.

Implementation is the biggest challenge

From a tactical perspective, the top barrier to effective cost management cited by respondents is "challenges in implementing initiatives" (53%). Moreover, five of the seven top lessons learned are related to implementation: implementation strategy (47%); goals and objectives (23%); budget management (16%); continuous improvement (15%); and poor design and tracking (12%) (figure 12).

Figure 12: Barriers and lessons learned



Survey findings

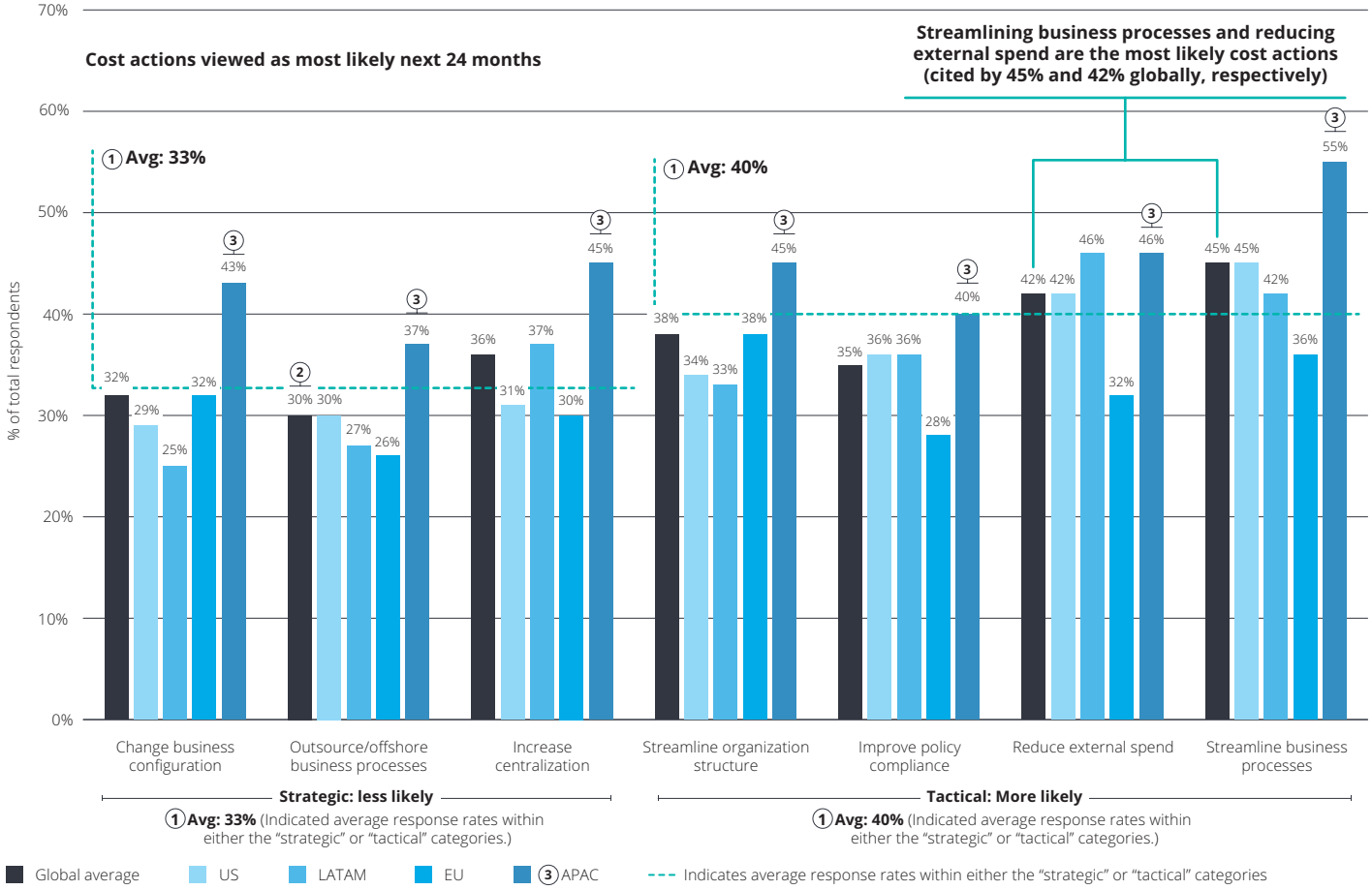
① Challenges in implementing initiatives is significantly higher than all other barriers with 53% average globally, perhaps reflecting a transition towards technical vs. non-technical barriers, as seen in prior US cost surveys.

② 5 out of 7 lessons learned are related to implementation challenges.

Tactical actions remain predominant

Although respondents cited implementation challenges as the biggest barrier to effective cost management, a less visible problem that might be even more impactful is the continued reliance on tactical cost actions (40%), such as streamlining business processes and reducing external spend, versus strategic cost actions (33%), such as outsourcing, centralization, and business reconfiguration (figure 13). This tactical focus tends to limit the magnitude of cost savings that can be achieved.

Figure 13: Cost actions viewed as most likely over the next 24 months



Survey findings

① 33% of respondents plan to undertake strategic cost actions vs. 40% that plan to undertake tactical cost actions.

② The least frequently reported cost action is strategic: Outsourcing/offshoring business processes (30%).

③ APAC is the only region showing higher responses compared to the global average in all cost actions.

On average, and according to respondents, ZBB use is expected to decrease globally over the next 24 months, from 13% to 10% (a real decline of 23%). However, usage trends vary significantly from region to region

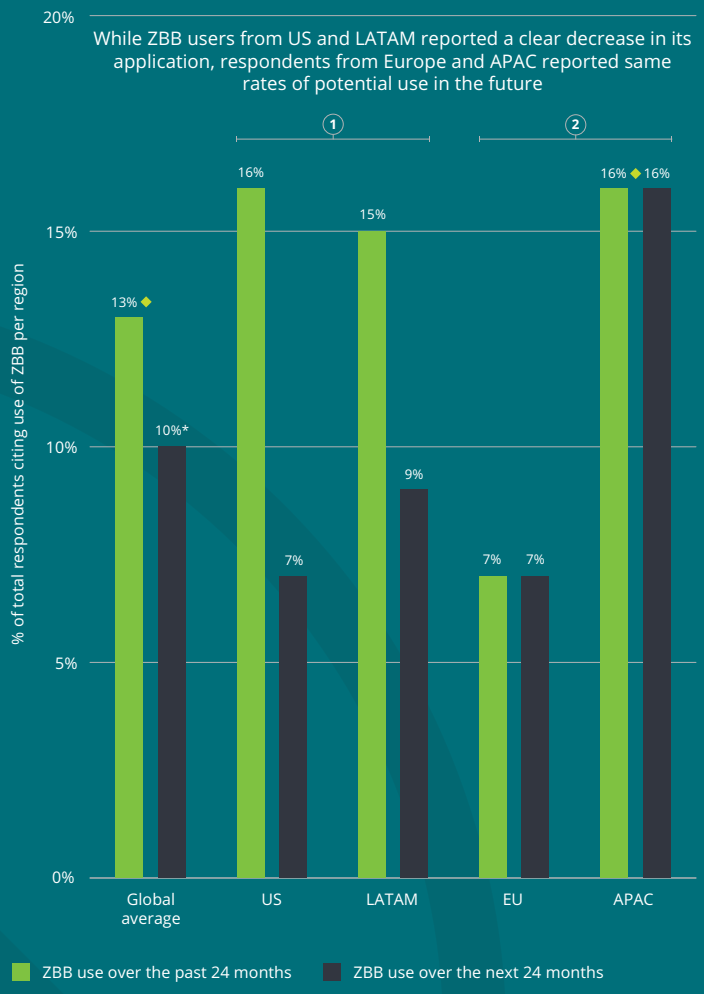
Zero-based budgeting: Global perspectives and lessons learned

The traditional way to develop a budget is to start with the previous period's budget and adjust it as needed. Zero-based budgeting (ZBB) is a fundamentally different approach that involves developing a new budget from scratch every time (i.e., starting from "zero"). In theory this forces decision makers to constantly look at the business with fresh eyes, free from the limitations of past assumptions and targets. But how well does the theory translate into practice?

On average, and according to respondents, ZBB use is expected to decrease globally over the next 24 months, from 13% to 10% (a real decline of 23%). However, usage trends vary significantly from region to region.

ZBB use is expected to decrease sharply both in the US (from 16% to 7%, a real decline of 56%) and in Latin America (from 15% to 9%, a real decline of 40%). However, in Europe and Asia Pacific the use of ZBB is expected to hold steady at current levels (figure 14).

Figure 14: Past and future use of zero-based budgeting



Survey findings

① US respondents reported a decrease from 16% to 7% which represents a real decrease of 56% in the expected use of ZBB as a cost management approach, while LATAM respondents decrease is reported from 15% to 9%, which represents a real decrease of 40%.

② Europe and APAC respondents did not report a decrease in use and they expect ZBB to remain at the same rates of use as in the past.

◆ Data point excludes Australia due to outlier data; as a result, APAC and global averages will not match to figures shown in previous sections using the complete data set.

Companies that use zero-based budgeting tend to have higher cost targets. Specifically, 41% of respondents who are ZBB users are pursuing aggressive cost targets in excess of 20%, while only 23% of non-ZBB users are pursuing those same kinds of aggressive targets (figure 15). This is somewhat surprising since ZBB is generally considered a tactical approach, and the potential cost savings from tactical approaches tend to be lower.

Figure 15: Annual cost reduction targets (ZBB vs. non-ZBB)

◆ Data point excludes Australia due to outlier data; as a result, APAC and global averages will not match to figures shown in previous sections using the complete data set.

The good news for ZBB users is they appear to be moderately more successful at meeting their cost targets. Although ZBB users in the US reported higher cost program failure rates than non-ZBB users (65% vs. 57%), in all other regions the failure rate for ZBB users was lower than for non-ZBB users (57% failure rate vs. 68% in Latin America; 52% vs. 56% in Europe; and 60% vs. 71% in Asia Pacific) (figure 16).

Figure 16: Success in meeting cost targets (ZBB vs. non-ZBB)

Survey findings

① LATAM and APAC reported the highest benefits when conducting ZBB, an 11% positive difference in each case.

② Europe reported moderately better success when conducting ZBB, a 4% positive difference.

③ US reported higher failure rates when conducting ZBB, an 8% negative difference.

◆ Data point excludes Australia due to outlier data; as a result, APAC and global averages will not match to figures shown in previous sections using the complete data set.

The bad news is that companies using ZBB tend to report higher barriers to effective cost management, which suggests ZBB may be more difficult to implement and use than other cost management methods. Two barriers that ZBB users rate particularly high are "weak/unclear business case" (42% vs. 25% for non-ZBB users) and "poorly designed tracking and reporting" (43% vs. 23% for non-ZBB users) (figure 17).

Figure 17: Barriers to effective cost management over the past 24 months (ZBB vs. non-ZBB)

ZBB use is expected to decline the most in the US and Brazil. In the US, high cost targets and high failure rates suggest companies might be misapplying ZBB, using a tactical approach to pursue aggressive targets that likely require strategic cost actions. In Brazil, where ZBB first rose to prominence, declining usage seems to be driven by implementation challenges.

Use of ZBB is expected to remain flat in Asia Pacific, except in China, where it is expected to rise—perhaps due to lower implementation barriers and lower failure rates.

In Europe, ZBB use is relatively low but expected to hold steady. Cost targets in the region are much less aggressive than elsewhere; also, structured approaches to cost management are much less common. In this environment, ZBB—as a structured approach—may be appealing to some companies simply because it is better than nothing.

Additional data about ZBB use can be found in Appendix B. However, a key takeaway is that while use of ZBB seems to be fading globally, some companies might still find it useful—particularly if they are currently in need of a more structured approach to cost management, are pursuing tactical improvements with cost savings targets of less than 10%, and are willing to contend with the additional implementation challenges and complexity associated with ZBB by making the necessary investments in training, communication, and change management.

Digital zero-based budgeting

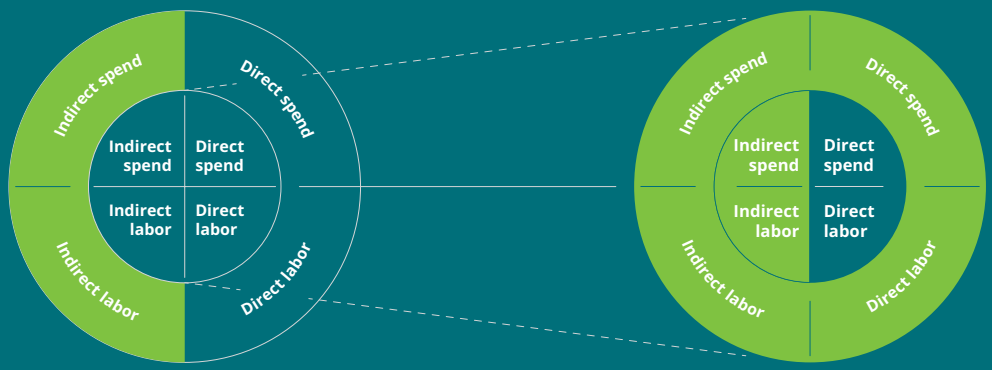
For companies interested in using zero-based budgeting, Deloitte has developed a digital approach that can make the process faster, easier, and more effective. Key enhancements include:

- **Using cognitive technologies.** These tools reduce the level of manual processing, accelerating the ZBB effort and helping to identify hidden savings opportunities.
- **Focusing on strategic drivers.** This reduces the change management challenge of ZBB, while delivering improvements in the areas that matter most.
- **Attacking the problem from both ends.** Supplementing ZBB's standard bottom-up approach with a top-down perspective reduces the required level of detail and makes ZBB easier to execute.

Figure 18: Traditional ZBB vs. Digital ZBB

Traditional ZBB
Bottom-up and detailed approach focused on indirect spend and indirect labor

Digital ZBB
Approach applying cognitive technology and accelerators to identify strategic savings across budgets/teams



Savings: Traditional ZBB

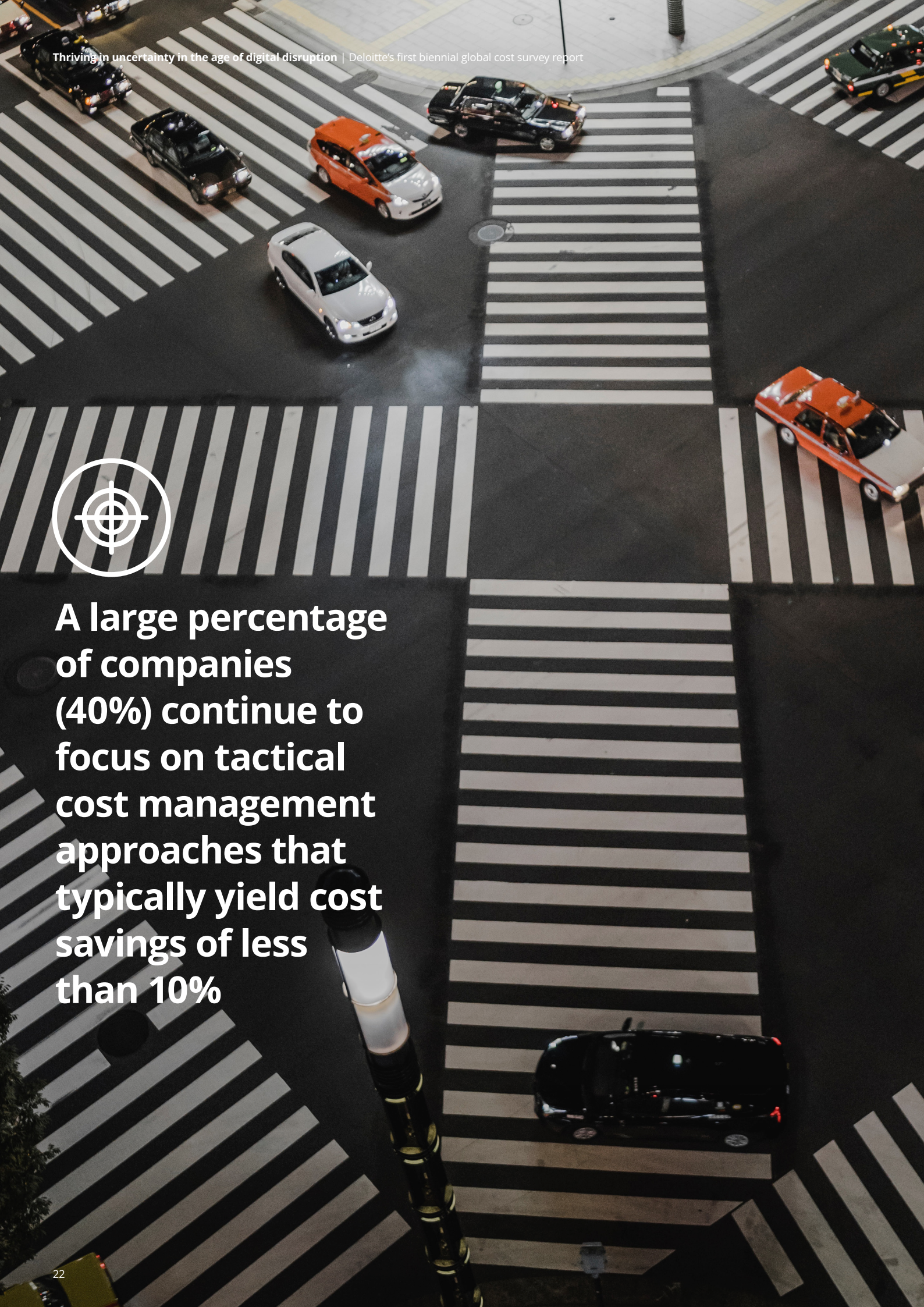
- Tactical savings ✓
- Strategic savings ✗
- Indirect spend/labor ✓
- Direct spend/labor ✗

Target savings focused on "tactical" opportunities
Typical savings opportunity 10% or less

Savings: Digital ZBB

- Tactical savings ✓
- Strategic savings ✓
- Indirect spend/labor ✓
- Direct spend/labor ✓

Balanced top-down (60-70%) and bottom-up (30-40%) approach
Typical savings opportunity 10-20% or more



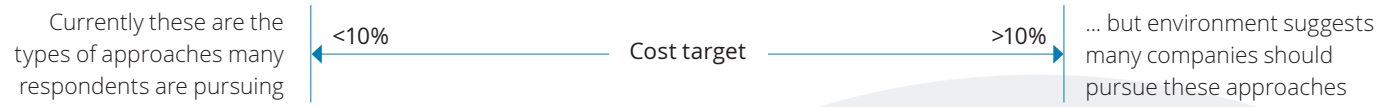
A large percentage of companies (40%) continue to focus on tactical cost management approaches that typically yield cost savings of less than 10%

Cost management practices to thrive in uncertainty

Low targets and high failure rates suggest that cost programs globally are not as effective as they could be. This provides an opportunity for companies around the world to significantly improve how they manage costs.

At the moment, a large percentage of companies continue to focus on tactical cost management approaches that typically yield cost savings of less than 10%. However, many companies might be better served by applying approaches that are more strategic and transformational in nature, and are thus more likely to deliver scalable and sustainable cost savings in excess of 10% (figure 19).

Figure 19: The continuum of cost management approaches



	Tactical/continuous improvement approach	Strategic/transformational approach
Scope/cost areas	Narrow/selective (e.g., streamline organization structure, improve policy compliance, reduce external spend, streamline business processes)	Broad (e.g., change business configuration, outsource/offshore, increase centralization)
Cost target range	<6% (continuous improvement)/ 6%–10% tactical	>10%
Sustainability/scalability	Lower	Higher
Change management needs	Lower	Higher

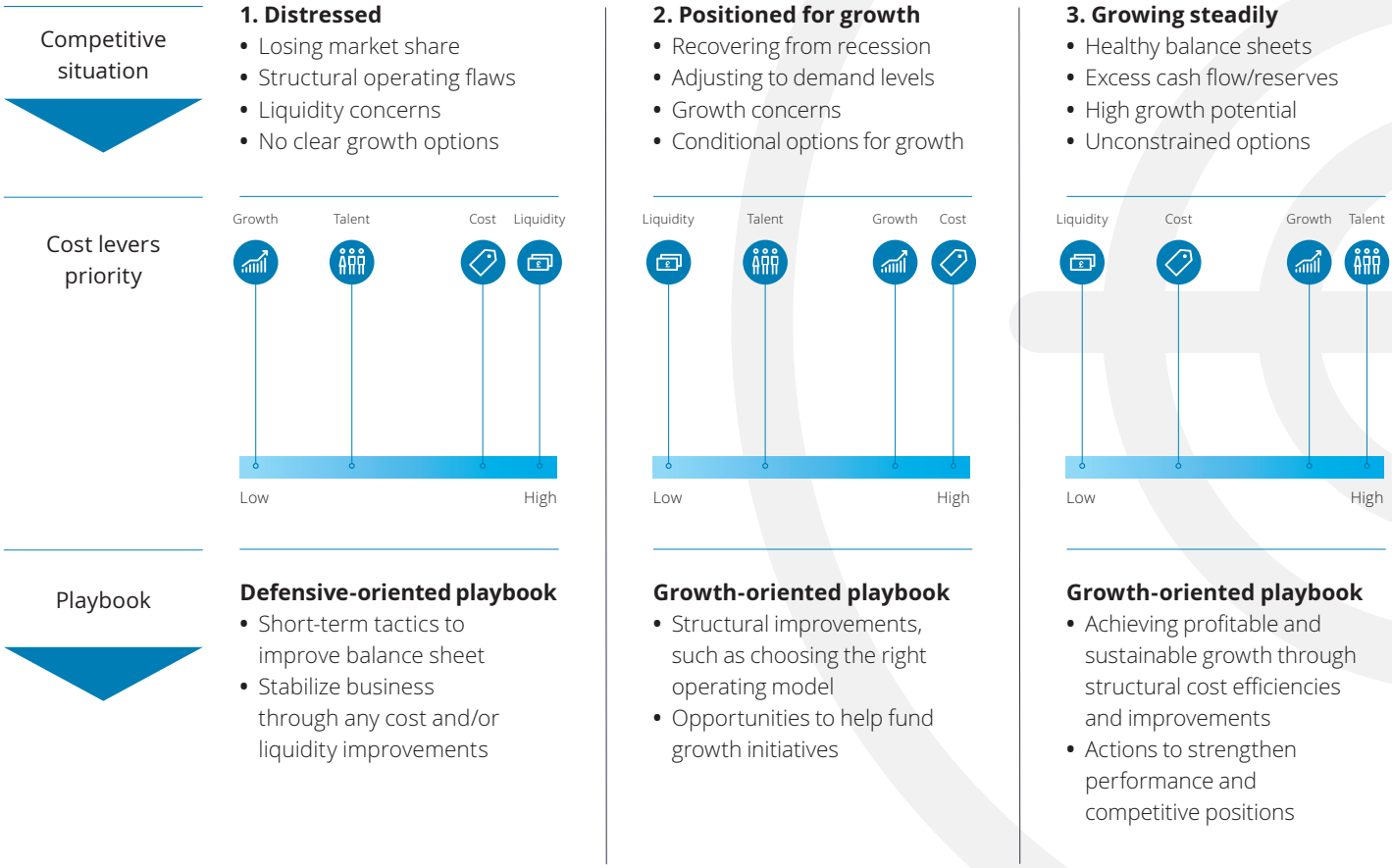
- **US:** 41% of respondents cited cost targets <10%
- **LATAM:** Brazil and Mexico reported high failure rates 64% and 69%
- **EU:** 52% of European respondents cited cost targets <10%
- **APAC:** Japanese and Australian companies rate the highest for targets below 10% (74% and 50%, respectively).

- **US:** 33% reported targets >20% but 58% reported not meeting targets
- **LATAM:** Strategic likely actions rated higher in Brazil (32%) vs. Mexico (26%)
- **EU:** Only 13% of European respondents cited cost targets >20%
- **APAC:** Indian and Chinese companies rate highest for targets above 10% (74% and 72%, respectively).

A new scenario emerges

In the past, companies pursuing strategic cost improvements have generally fallen into one of three categories: (1) distressed, (2) positioned for growth, or (3) growing steadily (figure 20).

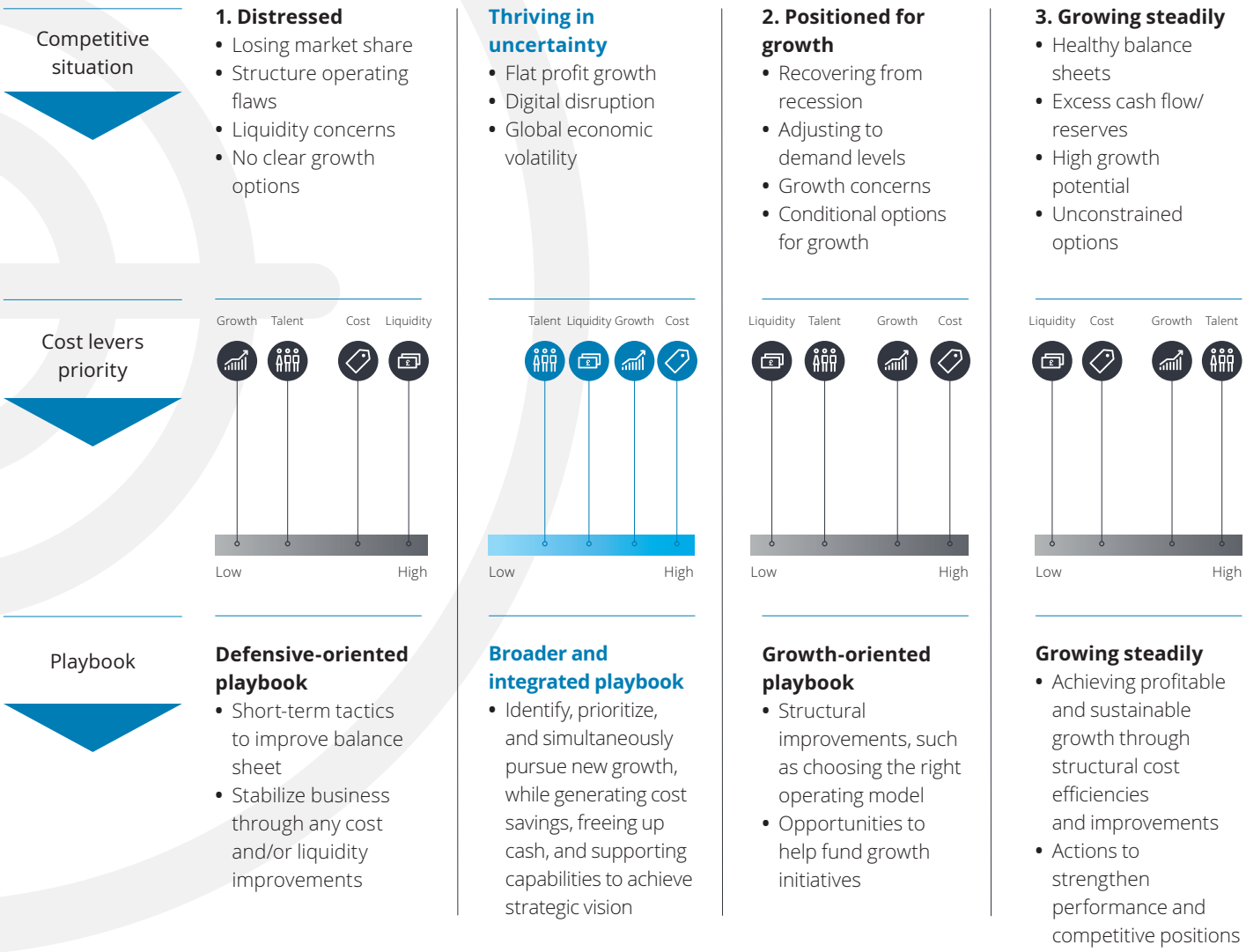
Figure 20: Traditional cost management scenarios



These traditional scenarios have different priorities, with each scenario primarily focusing on two of the four strategic levers: growth, talent, cost, and liquidity. However, in the current business environment a new competitive scenario seems to be emerging between "distressed" and "positioned for growth" that simultaneously focuses on three of the strategic levers (specifically, growth, cost, and either talent or liquidity). We call this new scenario "thriving in uncertainty."

It remains to be seen whether this new category is a permanent feature of the business landscape, or simply a stepping-stone to one of the three traditional categories (figure 21).

Figure 21: Thriving in uncertainty



Different playbooks for different markets

In some markets—including Brazil, France, Italy, Japan, and the UK—macroeconomic factors seem to be pushing companies toward greater uncertainty and distress. This requires a playbook with value creation levers that are more defensive in nature (figure 22).

Figure 22: Leaning toward defense

1. Distressed

If the global macroeconomic environment continues to worsen, organizations could end up in "Distressed"

Focus

- Short-term survival and balance sheet improvements
- Stabilize the business through any cost and liquidity improvements

New: Thriving in uncertainty

Here to stay?

LATAM

EU

APAC

2. Positioned for growth

3. Growing steadily

If we observe a reversal of the recent global macroeconomic slowdown, and sustained global growth emerges, organizations could end up in "Positioned for growth" or "Growing steadily."

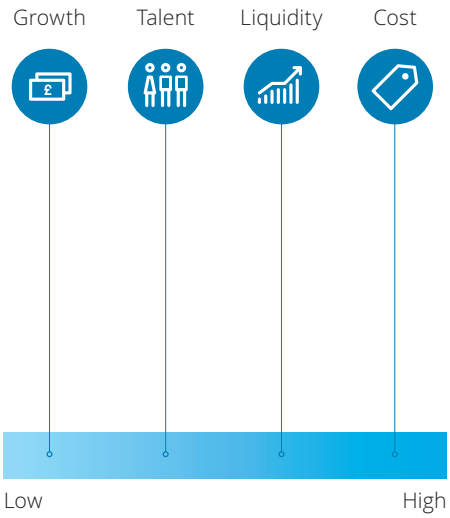
Focus

- Structural improvements, such as choosing the right operating model
- Opportunities to help fund growth initiatives

Focus

- Achieving profitable sustainable growth through structural cost efficiencies and improvements
- Actions to strengthen performance and competitive position

Defense-oriented playbook



Revenue	Pricing realization	Marketing & sales effectiveness	Customer experience & channel mix	Production portfolio innovation & rationalization
Margin	Direct cost optimization	SG&A cost management	Supply chain & manufacturing effectiveness	Service delivery execution
Assets	Working capital optimization	Inventory optimization	Capital investment & divestment	Debt restructuring
Execution	Governance & change	Optimizations & talent	Business performance management	Risk, compliance & regulatory
Strategy	Mergers & acquisitions	Business portfolio optimization	Partnership & collaboration	Tax strategy

Indicates levers that Deloitte identified as potential focus areas

Other markets seem to be moving toward a more positive outlook (US, Mexico, Netherlands, Spain, Germany, Belgium, Norway, Australia, Singapore, Hong Kong, India, and China). This scenario tends to favor an offense-oriented playbook with an emphasis on growth (figure 23).

To manage costs effectively, it is important for an organization to choose a cost management playbook that aligns with its future needs and market position.

Figure 23: Leaning toward offense and growth

1. Distressed

?

If the global macroeconomic environment continues to worsen, organizations could end up in "Distressed"

Focus

- Short-term survival and balance sheet improvements
- Stabilize the business through any cost and liquidity improvements

New: Thriving in uncertainty

Here to stay?

LATAM

EU

APAC

2. Positioned for growth

3. Growing steadily

?

If we observe a reversal of the recent global macroeconomic slowdown, and sustained global growth emerges, organizations could end up in "Positioned for growth" or "Growing steadily."

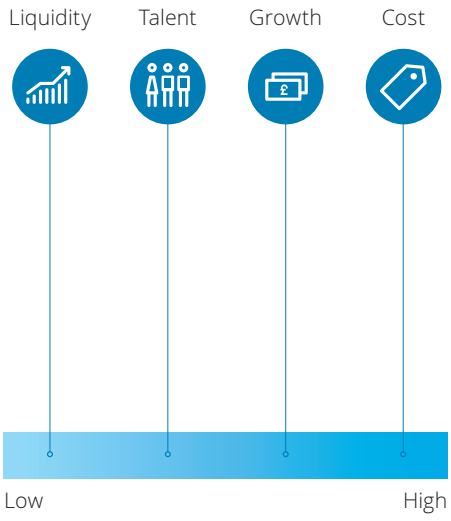
Focus

- Structural improvements, such as choosing the right operating model
- Opportunities to help fund growth initiatives

Focus

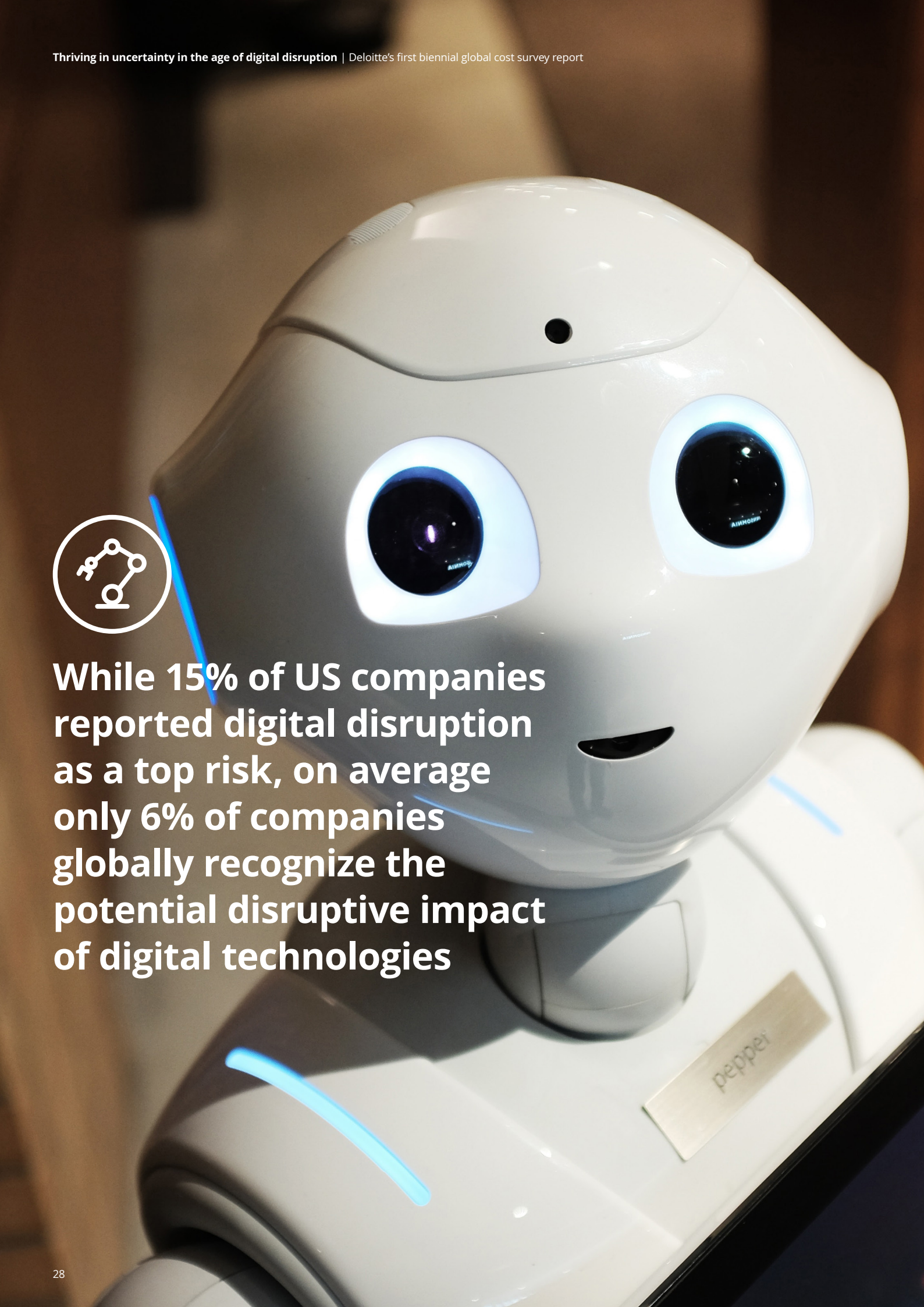
- Achieving profitable sustainable growth through structural cost efficiencies and improvements
- Actions to strengthen performance and competitive position

Growth-oriented playbook



Revenue	Pricing realization	Marketing & sales effectiveness	Customer experience & channel mix	Production portfolio innovation & rationalization
Margin	Direct cost optimization	SG&A cost management	Supply chain & manufacturing effectiveness	Service delivery execution
Assets	Working capital optimization	Inventory optimization	Capital investment & divestment	Debt restructuring
Execution	Governance & change	Optimizations & talent	Business performance management	Risk, compliance & regulatory
Strategy	Mergers & acquisitions	Business portfolio optimization	Partnership & collaboration	Tax strategy

Indicates levers that Deloitte identified as potential focus areas



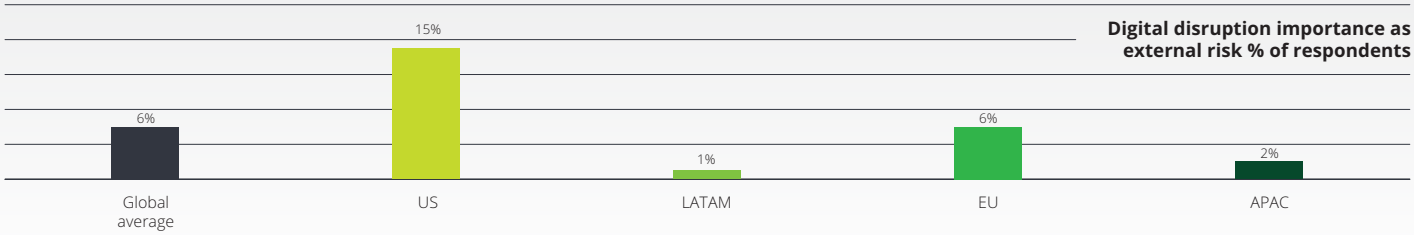
While 15% of US companies reported digital disruption as a top risk, on average only 6% of companies globally recognize the potential disruptive impact of digital technologies

Margin improvement in the age of digital disruption

Looking into the future, digital disruption—and the exponential technologies that drive it—are likely to be key factors that companies need to consider as they strive to reduce costs and improve margins. And for a growing number of companies, the future is now.

According to the survey, digital disruption is already recognized as a major external risk in the US (figure 24). However, it is also creating unprecedented opportunities. And while digital disruption is currently less of a focus for companies in other regions, their perspectives could change very quickly given the exponential speed and impact of digital technologies. To avoid falling behind, companies in every part of the world should understand the potential impact of digital so they can position themselves to capitalize on the opportunities, particularly with regard to automation and analytics/cognitive technology, which will likely be the first innovation areas to emerge.

Figure 24: Digital disruption and exponential technologies



The vast majority of companies are just starting to recognize the potential disruptive impact of digital technologies.

Source: *Deloitte Regional Cost Survey Reports*

Exponentials

Some exponential trends that are fueled by recent digitalization of a number of technology and organizational areas

- **Artificial intelligence**
- **Robotics**
- **Biotechnology and bioinformatics**
- **Energy and environmental systems**
- **Digital manufacturing and nanotechnology**
- **Computation, networks, & sensors**
- **Incentive competitions**
- **Digital medicine**
- **Digital economies**

Two main areas of digital innovation to improve margins and competitiveness are emerging

Automation

Before	**Now**
Revolutionizing physical production of goods	Revolutionizing knowledge-based, labor-intensive processes

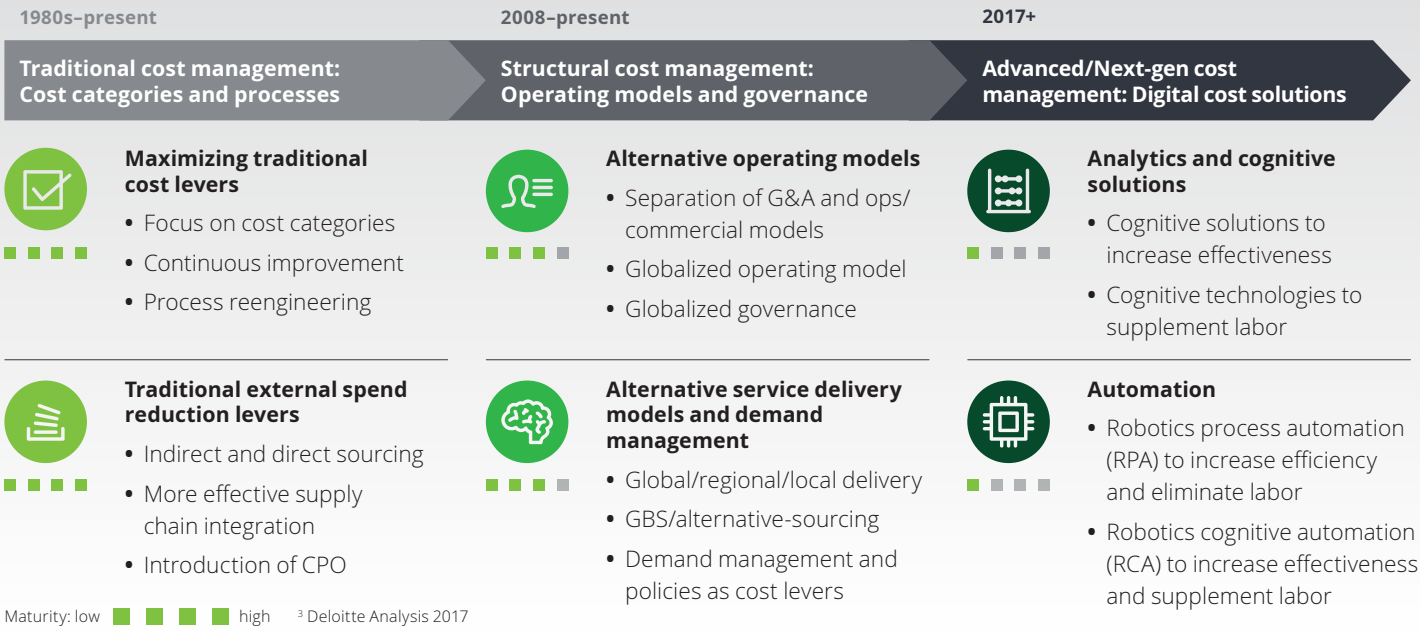
Analytics & Cognitive technology

Analytics and big data to uncover hidden insights and predictive decision making

Cost management evolved

Since the 1980s, cost management solutions and methods have been constantly evolving. At first, the emphasis was on traditional tactics such as category-focused cost management, external spend reduction, continuous improvement, and process reengineering. More recently, structural approaches emerged that were more strategic in nature—such as global outsourcing, offshoring, and centralization—that delivered greater savings through fundamental changes to a company's operating model, service delivery model, and governance. Now, we are seeing the rise of advanced, next-generation cost management solutions that harness the power of digital technologies to boost efficiency and effectiveness, and to enable fundamentally new business models and new ways of working that dramatically reduce costs (figure 25).

Figure 25: The evolution of cost management[3]



[3] Deloitte Analysis 2017

As noted above, it is likely that digital cost solutions will initially focus on automation and analytics/cognitive technology—and the initial benefits will tend to be tactical improvements in efficiency and effectiveness (i.e., replacing or augmenting human labor in existing business processes). At the moment, those solutions are still in the early stages of maturity. However, unlike traditional tactical and structural cost management approaches—which may be nearing or past their peak potential—cost solutions based on exponential technologies are just emerging and have the potential to deliver increasing savings over time due to the exponential nature of digital technologies (i.e., "Moore's Law"). In addition, advanced digital cost solutions can be implemented more quickly, enabling companies to achieve greater savings in much less time (figure 26).

Figure 26: Cost solutions—Current and future potential

Cost solutions: Current state and potential			Maturity	Cost reduction potential	Current or expected time to results
1980 to present	Traditional cost management: Cost categories and processes	Maximizing traditional cost levers Traditional external spend reduction levers		+ $ - Years (base 2017)	
2008 to present	Structural cost management: Operating models and governance	Alternative operating models Alternative service delivery models and demand management		+ $ - Years (base 2017)	
2017+	Advanced/next-gen cost management: Digital cost solutions	Analytics and cognitive solutions Automation		+ $ - Years (base 2017)	

Maturity: low high

Case study: Using cognitive intelligence to analyze and help reduce external spend

A global beverage manufacturer was under severe margin pressure as its core product offerings became increasingly commoditized, and as the industry's production efficiency gains caused product supply to far outpace consumer demand. This led the company to seek better visibility into external spend and associated opportunities.

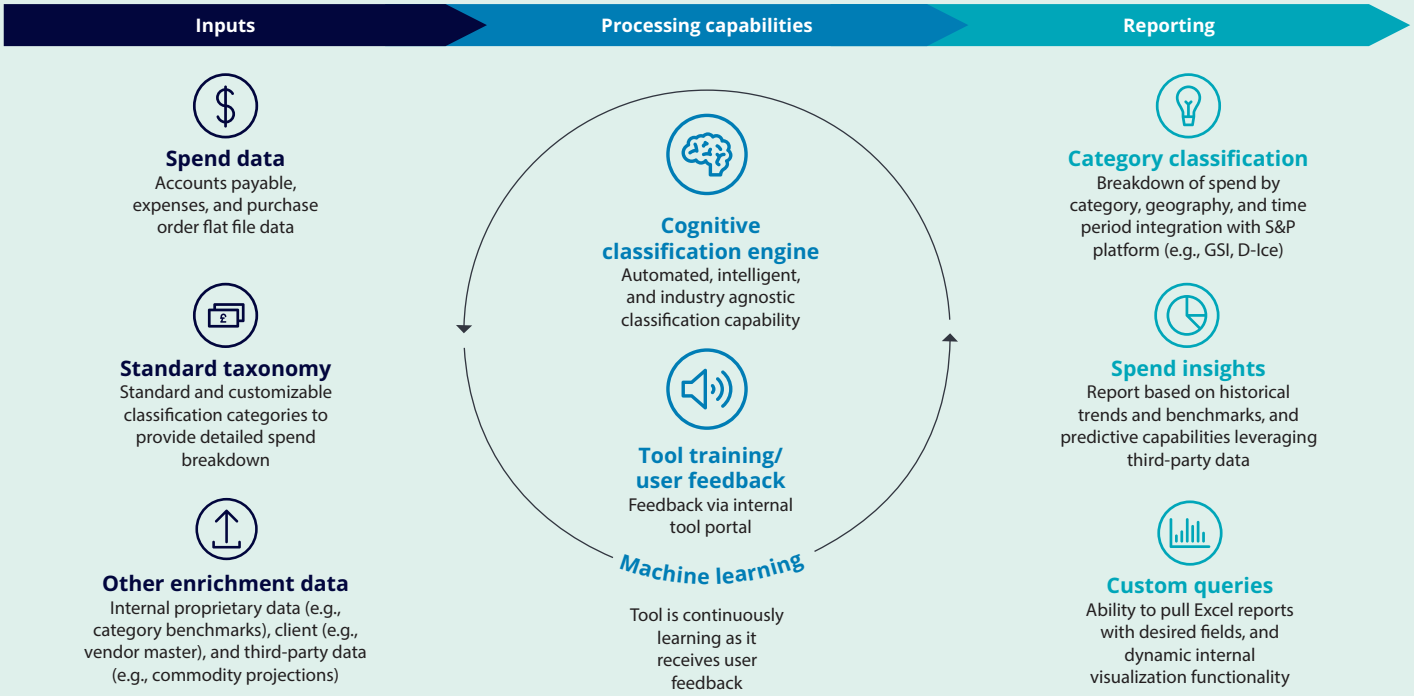
As part of a rapid cost transformation initiative designed to deliver a cost savings impact, Deloitte helped the company apply advanced cognitive technologies to reduce external spend. Traditionally, this kind of analysis has required significant time and manual effort to classify and analyze millions of purchase transactions. However, thanks to the power of cognitive intelligence, the Deloitte team was able to classify more than 98% of the transactions through automation, completing the task in just 2–3 weeks—rather than the 6–8 weeks that would typically be needed. With improved visibility into key spend categories, the executive team was then able to drive actions to make a quick and tangible impact.

The tool is accurate, flexible, and fast. It learns and reasons like a human, understanding the subtle nuances of industry-specific language and getting smarter with every analysis. It can use fragmented and unstructured data from any kind of system or ERP platform, and its spend categories are fully customizable. One key capability that makes a cognitive classification engine different than a traditional rules-based system is that it can identify and create data categories it has never seen before. Also, it can classify more than 40,000 transactions per minute—a level of throughput that could never be achieved through manual processing alone.

Once the company's transactions had been accurately categorized by spend category, supplier, geography, and time period, the team was able to generate deep insights about the company's external spend, including identifying purchase price variance across suppliers and locations, the degree of supplier fragmentation by category, and the level of commodity risk.

These insights drove targeted actions for the global beverage manufacturer to improve its external spend efficiency, eliminate waste, and increase its purchasing power through supply consolidation.

Figure 27: CognitiveSpend analysis



Deloitte's CognitiveSpend tool uses machine learning and advanced pattern recognition to accurately and automatically categorize a massive volume of individual purchase transactions (figure 27).

Also, the speed and impact of digital cost solutions is likely to increase dramatically as they evolve from narrowly focused, discrete offerings to an integrated platform that addresses all four strategic cost levers—cost, growth, liquidity, and talent—driving cost improvement across the entire enterprise (figure 28).

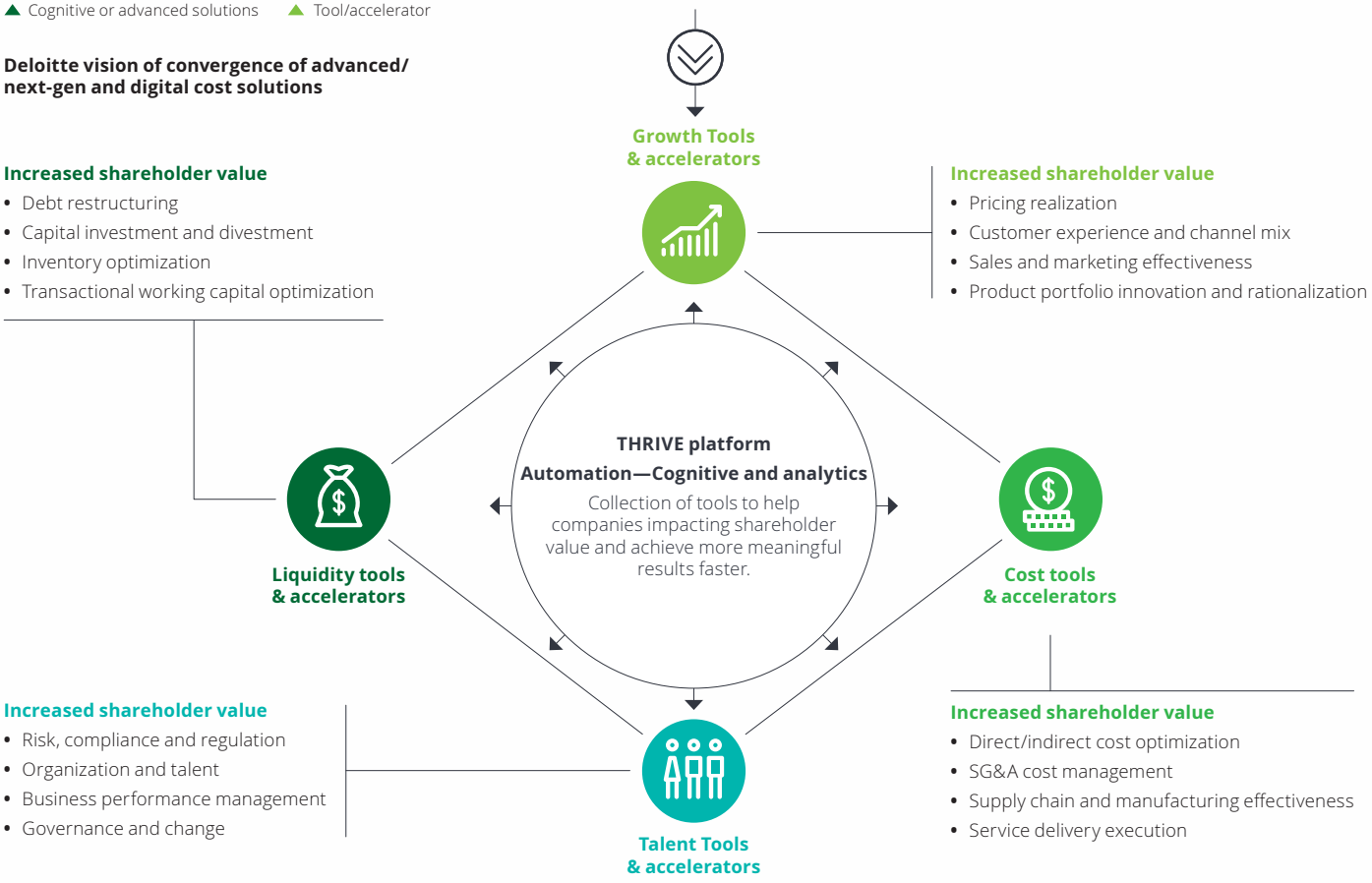
Figure 28: From discrete digital cost solutions to integrated platform

Current discrete use of advanced/next-gen cost solutions at Deloitte

Cost levers	Traditional approach	Deloitte's advanced/next-gen cost solutions				
Cost	SG&A/COGS analysis	Robotics RPA/RCA ▲▲	Next-gen/advanced outsourcing and service delivery ▲▲ Org suite spans and layers ▲▲	Cognitive spend direct and indirect sourcing ▲▲	Digital supply chain ▲▲ Process X Ray ▲▲	Cloud solutions ▲▲
Growth	Pricing analysis	Polaris™: Insight driven revenue management (pricing and promotions) ▲▲				
Liquidity	Inventory/working capital analysis	Inveritas™: Inventory optimization and working capital ▲▲				
People	Change management	Strategic capability model and mapping ▲▲				

▲ Cognitive or advanced solutions ▲ Tool/accelerator

Deloitte vision of convergence of advanced/ next-gen and digital cost solutions



Case study: Using cognitive intelligence for organization simplification and optimizing spans and layers

A large automotive OEM (Original Equipment Manufacturer) needed to streamline its organization to reduce costs. At the same time, the company needed to retain critical talent, invest in strategic capabilities, and reposition itself for future success.

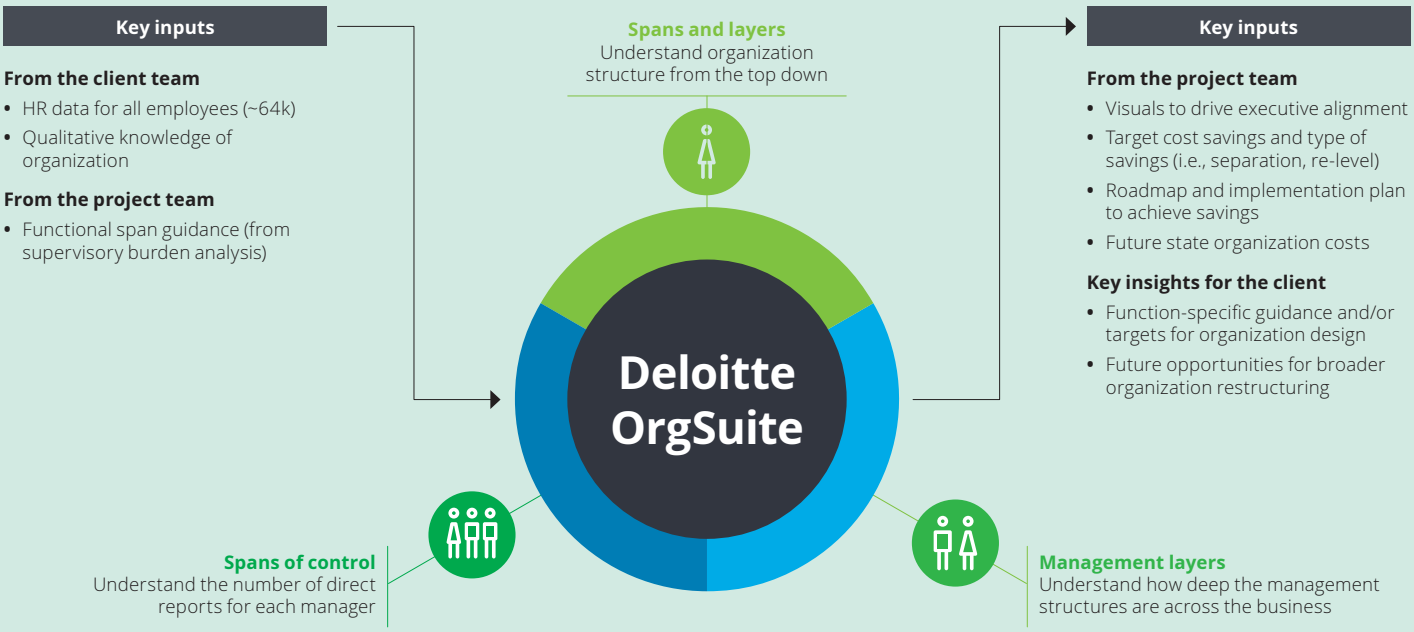
Building on the company's existing cost management efforts—which included external benchmarking and adoption of a Global Business Services (GBS) model—Deloitte helped the company simplify its organization structure and optimize management spans and layers within its worldwide organization.

Deloitte's analysis required cleansing and classifying HR data for a large subset of the company's employee population—more than 30,000 employees. This complex and time-consuming task typically requires 3-6 weeks of painstaking full-time effort to manually analyze and categorize each individual employee's true position in the organization structure based on a variety of indeterminate clues, such as job title, department, physical location, and reporting relationships (figure 29). However, thanks to the cognitive intelligence capabilities built into Deloitte's OrgSuite toolset, the assigned team was able to complete the task in just two weeks of part time work (20% of the usual effort).

On the first pass, the OrgSuite tool's accuracy rate was approximately 60%, but that quickly improved to 95% as the machine learned from its mistakes and retrained itself on the fly. In addition, OrgSuite's advanced visualization capabilities enabled Deloitte to present the analysis and improvement opportunities to the executive team in a succinct and compelling manner. Instead of cold hard numbers, the analysis was brought to life with dynamic and impactful visuals that showed the potential benefits were real and achievable.

In the end, the project helped the company save $80–100 million annually in labor costs, while increasing its focus on critical talent and strategically positioning itself for the future.

Figure 29: Cognitive labor analysis

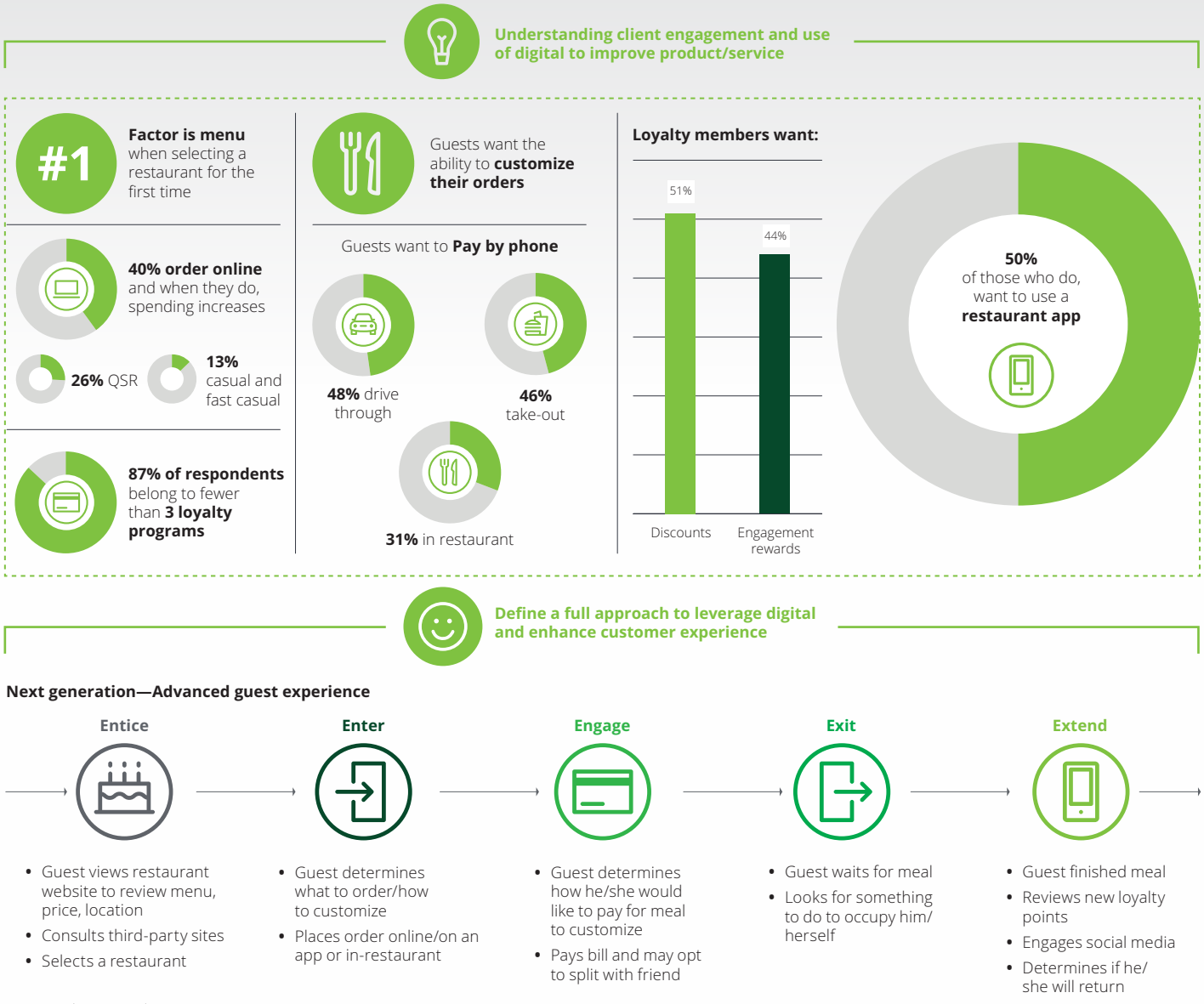


Source: Deloitte Consulting LLP 2017

From product and service enhancement to business model innovation

Until now, the lion's share of digital innovation has been focused on enhancing products and customer service—using digital technologies to create new and improved products, and to deliver a superior customer experience that is richer and more engaging (figure 30).

Figure 30: Innovation in products and customer service



Source: Deloitte Digital, Next-Generation guest experience survey report 2016

However, the biggest potential impact of digital innovation and exponential technologies is likely to come from enabling disruptive platforms and innovative business models that fundamentally alter the competitive dynamics of an industry or industries.

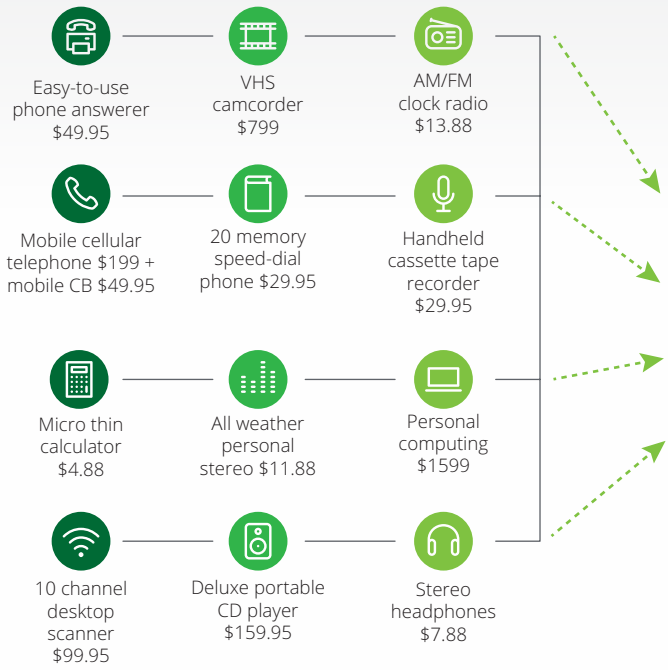
For example, digitally enabled ride-sharing services are completely transforming the taxi business. However, they aren't just a cheaper alternative; rather, they represent a fundamentally new business paradigm where workers are disconnected from the companies that employ them[4]—creating new levels of efficiency and flexibility for workers and companies alike. In fact, many people drive for multiple ride-sharing companies simultaneously, switching affiliations on the fly in response to real-time market demand.

Similarly, increasingly sophisticated smartphones have enabled new business platforms that are transforming or eliminating entire product categories (figure 31).

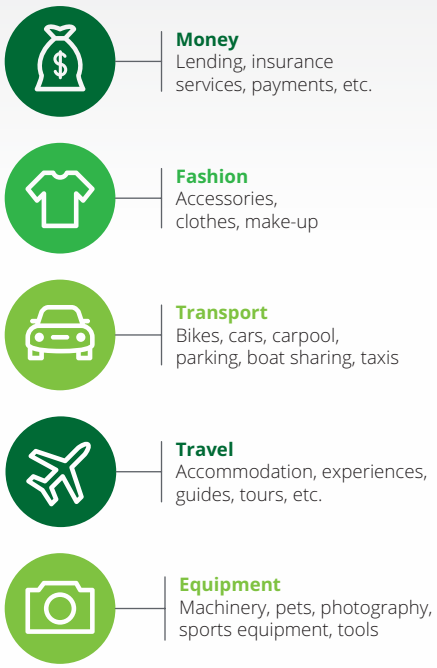
Figure 31: Industry-wide digital disruption

Technology advancement and widespread adoption is the main enabler of new business platforms

An average smartphone equipped with all the functionality of over 12 separate electronic devices



Platform-based innovation is already shaping the transport and hospitality industries, and is expected to expand across all industries



Source: Deloitte, The next billion dollar idea | Growth perspective 2014

[4] "Radically open: Tom Friedman on jobs, learning, and the future of work," Cathy Engelbert and John Hagel, Deloitte Review, July 31, 2017.

Case study: Using robotic process automation to improve productivity and reduce costs

A global Fortune 1000 bank needed to expand its operational capacity to handle a high volume of financial transactions without hiring additional staff. Thanks to robotic process automation (RPA), the bank has been able to boost its throughput in lending and retail banking by the equivalent of 300 full-time employees—and the number continues to grow as the scope and scale of bot deployment increases.

Before RPA, many of the bank's processes were highly manual in nature, which had a negative impact on both efficiency and quality. However, bank leaders were initially skeptical about automation because: (1) many of the bank's processes were highly complex, (2) the required data was scattered across numerous legacy and third-party systems, and (3) most of the processes—when viewed in isolation—did not justify deployment of a full robot. However, Deloitte's end-to-end analysis of the business found that RPA was indeed a viable option because many of the processes were sufficiently similar to allow a combined approach to bot planning, development, implementation, optimization, and maintenance.

Specific examples of RPA use at the bank include:

- Accepting requests for credit card remediation due to an issue or refund, and then gathering thousands of related data items for each remediation application
- Logging into a statement repository and converting PDF-based unstructured data into structured data, using the power of natural language processing to identify key terms to inform claims assessment
- Applying a tailored rule-set to transactional data, and then feeding the results into a remediation calculator for processing and payment

The bank's first bot was developed and deployed in just six weeks as a pilot project to prove the viability of RPA, and to start getting teams across the enterprise to buy in. However, the effort quickly expanded to include 30–50 bots within the first six months, and 150 bots within the first year and a half (handling 90,000 operational requests per week).

As a key part of the effort, an RPA-specific quality assurance (QA) methodology was developed to ensure that quality is constantly maintained, and that bots do not fail in production. Manual checks are regularly performed on samples of recent bot output, and defined test cases are periodically rerun to verify each bot is producing the expected results. Also, the Risk and Internal Audit teams periodically conduct assurance reviews on deployed bots and on the RPA Center of Excellence and hubs.

Today, more than 150 bots are executing more than 120,000 operational requests per week, at only 30% of the cost that would have been incurred had the bank been required to hire additional staff. Overall, the payback period for this effort was just six months, and over the first three years RPA is expected to save the bank more than $40 million.

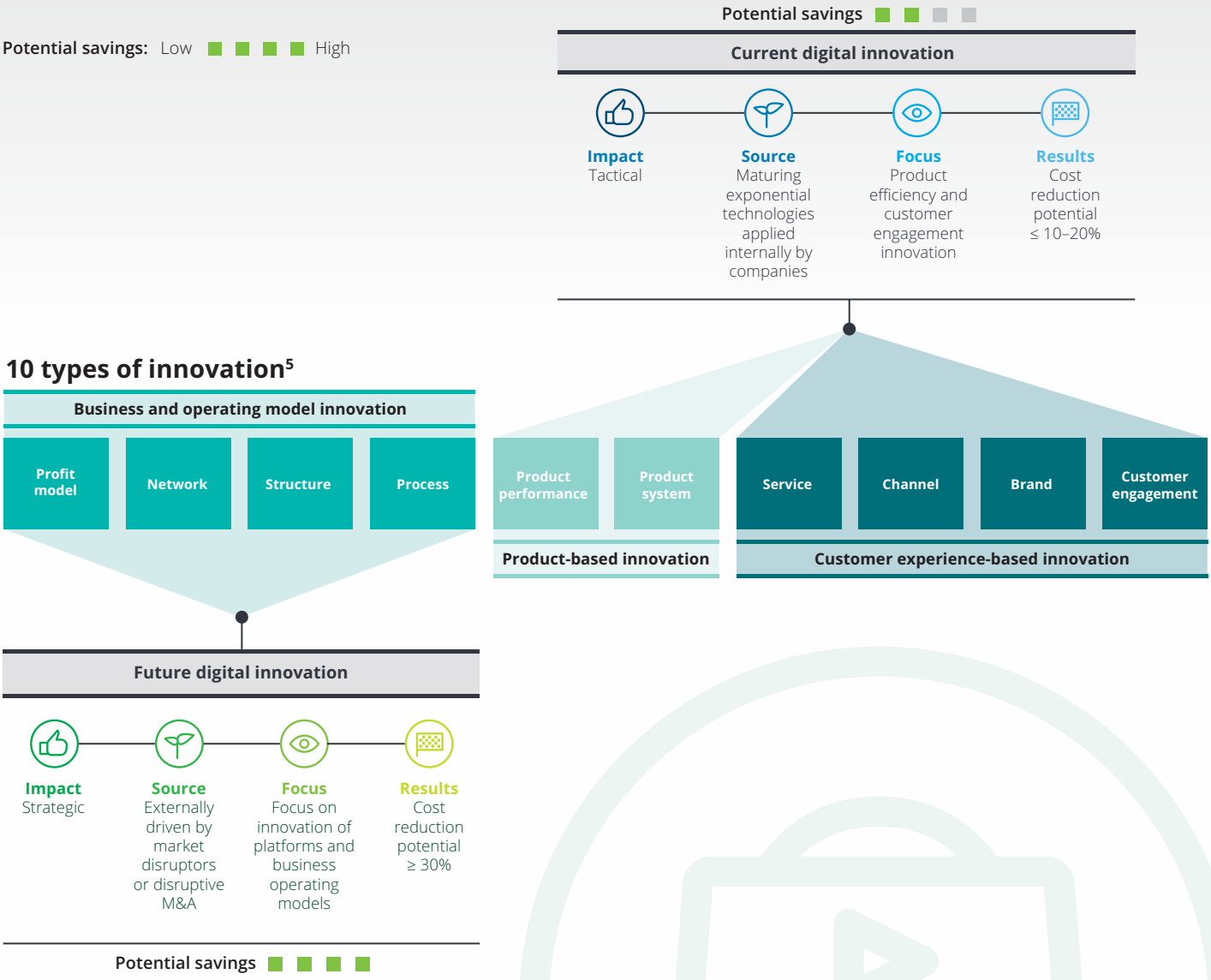
Figure 32: Automation roadmap

	2 months	6 months	18 months
Infrastructure	3 physical PCs	10+ virtual PCs	150 virtual PCs
Bots	1	30–50	150
Processes	1	5–10	20
Weekly requests	<2k	10–20k	90k
Total requests		1/2 million	4 million
Team adoption	20%	50%	-100%

Source: Deloitte Consulting LLP 2017

As digital technologies enable increased innovation in business and operating models, companies can expect strategic impacts that disrupt entire industries and deliver sustainable cost savings of 30% or more—sometimes much more—completely resetting expectations about efficiency compared to traditional models (figure 33).

Figure 33: Future impact of digital innovation



Source: Deloitte Consulting LLP 2017

[5] *Ten Types of Innovation: The Discipline of Building Breakthroughs*, Larry Keeley, Ryan Pikkel, Brian Quinn, Helen Waters, Deloitte Development LLC, John Wiley & Sons, Inc, April 2013, 2017.

Companies need to be looking for opportunities to disrupt the status quo through innovative new business models and operating models

Looking ahead

Digital innovations are already transforming the way people all over the world live and work. And in the months and years ahead, it could have that same kind of transformational impact on company cost structures.

To position themselves for success in the digital age, companies in every region and industry need to start looking for ways to harness the power of automation and analytics/cognitive technology to reduce costs and improve efficiency.

At the same time, companies need to be looking for opportunities to disrupt the status quo through innovative new business models and operating models. In an increasingly digital world, the future belongs to those who are bold enough to embrace it. To thrive, companies need to become their own disruptors—rather than allow other companies to disrupt them.

Report Authors

Author

Omar Aguilar
Principal
Deloitte Consulting LLP
Strategic Cost Transformation
Global Market Offering Leader
oaguilar@deloitte.com
USA +1 215 870 0464
International +1 267 226 8956

Omar Aguilar is the Global Leader of the Strategic Cost Transformation service offering for Deloitte Consulting LLP, focused on supporting and serving multinationals and local clients across the globe. His areas of expertise include strategic cost transformation, margin improvement, restructuring, turnarounds, and business model transformations.

Prior to his current role, he was the Americas Strategy & Operations Regional Leader and prior to that he was the US Enterprise Cost Reduction Practice Leader. Omar has published widely on the topic of sustainable and scalable cost management, and has been quoted by or has written for *Business Finance, The Journal of Cost Management,* and *The Wall Street Journal,* among others. He is a frequent speaker and has been a guest lecturer at the University of Pennsylvania's Wharton School of Business, Stanford University's Graduate School of Business, and Carnegie Mellon's Tepper School of Business. He holds bachelor and master of science degrees in nuclear engineering from the University of Missouri-Rolla, and a master of business administration (MBA) from the University of Notre Dame.

Contributor

Fernando Jimenez Barria
Manager, Strategy & Operations
Deloitte Consulting LLP
fejimenez@deloittemx.com

Contacts

Global

Omar Aguilar
Principal
Deloitte Consulting LLP
+1 267 226 8956
oaguilar@deloitte.com

Americas

Heloisa Montes (Brazil)
Partner
Deloitte Consultores
+55 11 5186 1004
heloisamontes@deloitte.com

Paul Macmillan (Canada)
Deloitte Canada
Partner
+1 416 874 4203
pmacmillan@deloitte.ca

Federico Chavarria
(Latin American Country Organization)
Partner, Deloitte Consulting
+506 2246 5300
fechavarria@deloitte.com

Froylan Campos (Mexico)
Partner
Deloitte Consulting Mexico
+52 55 5080 7046
frcampos@deloittemx.com

Omar Aguilar (US)
Principal
Deloitte Consulting LLP
+1 215 870 0464
oaguilar@deloitte.com

Faisal Shaikh (US)
Principal
Deloitte Consulting LLP
+1 214 840 7321
fshaikh@deloitte.com

Asia Pacific

Vanessa Matthijssen (Australia)
Partner
Deloitte Touche Tohmatsu
+617 3308 7203
vmatthijssen@deloitte.com.au

Christine Ahn (China)
Partner
Deloitte Touche Tohmatsu CPA LLP
+86 21 6141 2208
christineahn@deloitte.com.cn

Jez Heath (Hong Kong)
Partner
Deloitte Advisory Limited
+85 2 2238 7864
jerheath@deloitte.com.hk

Gaurav Gupta (India)
Partner
Deloitte Touche Tohmatsu India LLP
+91 12 4679 2328
gugaurav@deloitte.com

Yusuke Kamiyama (Japan)
Partner
Deloitte Tohmatsu Consulting LLC
+81 8 04367 7943
ykamiyama@tohmatsu.co.jp

Wendy Lai (Singapore)
Executive Director
Deloitte Consulting Pte Ltd
+65 6232 7133
wenlai@deloitte.com

Europe

Eric Baart (Belgium)
Partner
Deloitte Belgium
+ 32 473 30 27 96
ebaart@deloitte.com

Zlatko Bazianec (Croatia)
Partner
Deloitte Croatia
+385 1 2351 906
zbazianec@deloittece.com

Ulrik Bro Muller (Denmark)
Partner
Deloitte Denmark
+45 30 93 40 13
umuller@deloitte.dk

Anne Gronberg (Finland)
Partner
Deloitte Finland
+35 8207555607
anne.gronberg@deloitte.fi

Cyril Gay Belan (France)
Partner
Deloitte France
+33 1 58 37 93 72
CGayBelan@deloitte.fr

Christine Mareen Rupp (Germany)
Partner
Deloitte Consulting GmbH
+49 711165547556
crupp@deloitte.de

Umberto Mazzucco (Italy)
Equity Partner
Deloitte Consulting SRL
+39 0283323053
umazzucco@deloitte.it

Willem Christiaan van Manen (Netherlands)
Director
Deloitte Consulting B.V.
+31 882883118
wvanmanen@deloitte.nl

Joachim Gullaksen (Norway)
Partner
Deloitte AS
+47 905 34 970
jogullaksen@deloitte.no

Irina Biryukova (Russia)
Partner
Deloitte Russia
+74 957870600
ibiryukova@deloitte.ru

Gorka Briones (Spain)
Partner
Deloitte Consulting, S.L.
+34 914432520
gobriones@deloitte.es

Jonas Malmlund (Sweden)
Partner
Deloitte Sweden
+46 75 246 33 03
jmalmlund@deloitte.se

Simon Brew (UK)
Partner
UK1W
+44 20 7007 8989
sbrew@deloitte.co.uk

Gillian Molyneux (UK)
Director
UK1W
+44 20 7007 5460
gmolyneux@deloitte.co.uk

Middle East and Africa

Ozgur Yalta (Turkey)
Partner
Deloitte Danismanlik A.S.
+90 212 366 60 77
oyalta@deloitte.com

Mat James (UAE)
Partner
Deloitte & Touche (M.E.)
+971 2 408 2424
matjames@deloitte.com

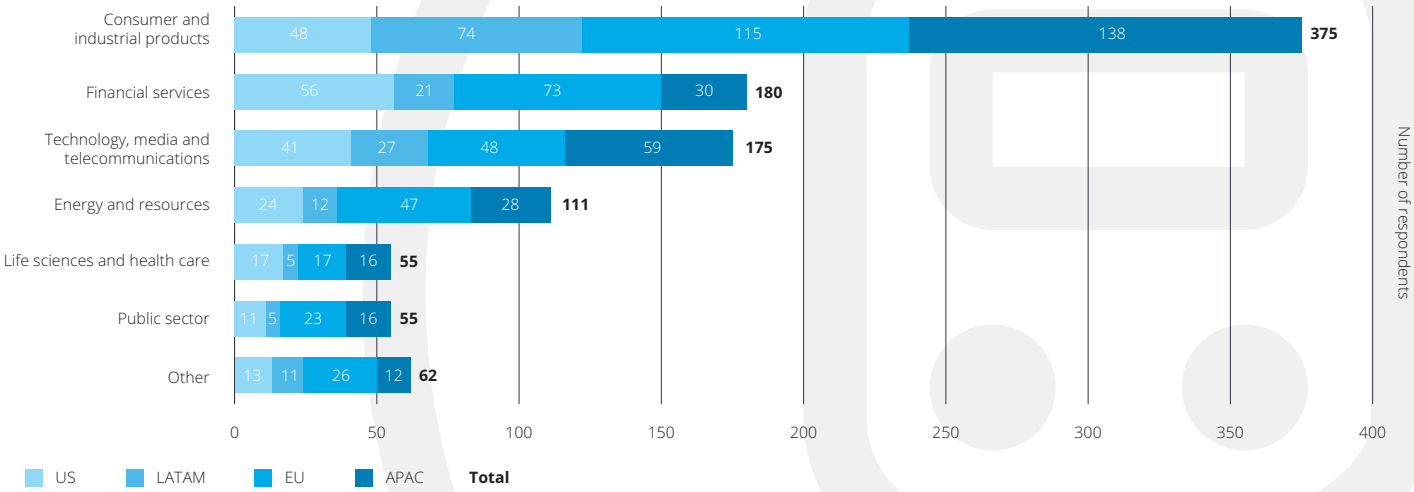
Daryl Elliott (South Africa)
Associate Director
Deloitte South Africa
+277 31955829
delliott@deloitte.co.za

All industries report similarly high results for the likelihood of cost reduction. However drivers, priorities, external risks, and likely actions may be perceived differently by industry

Appendix A: Global cost management insights from key industries

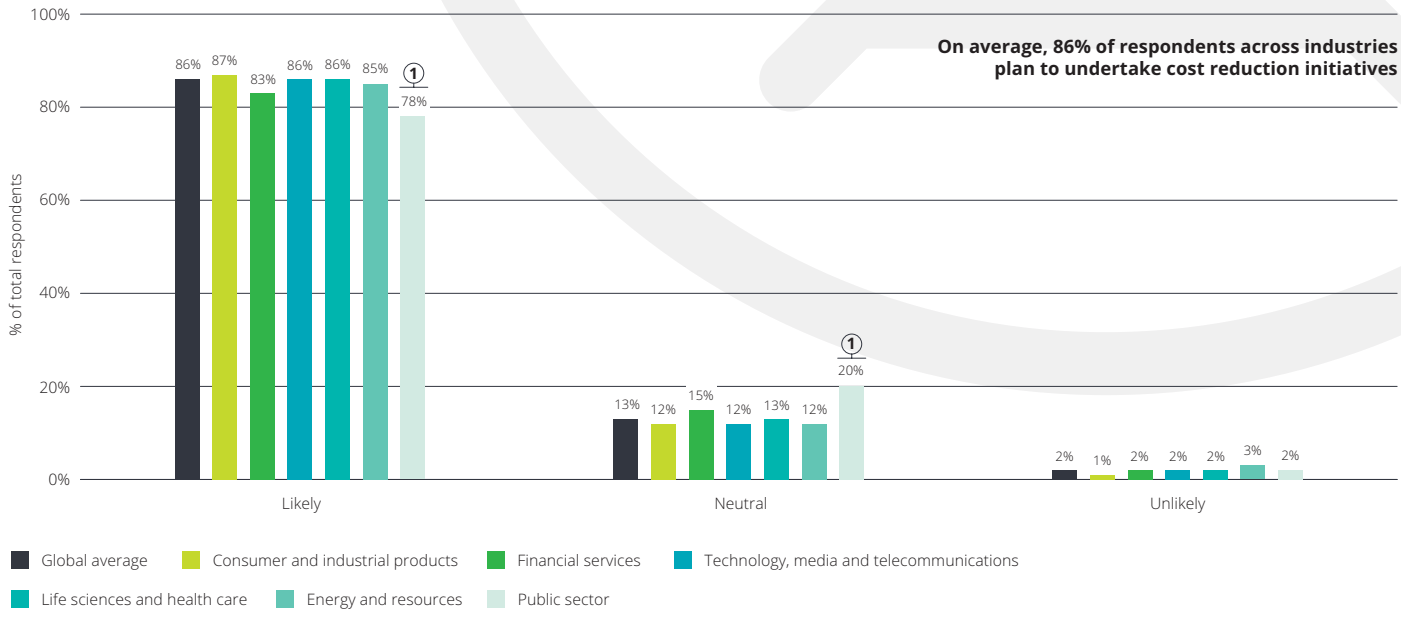
Global respondents were grouped into six major industries to uncover industry-specific cost management insights (figure A-1).

Figure A-1: Industry presence across regions



All industries report similarly high results for the likelihood of cost reduction, ranging from 78% (public sector) to 87% (consumer and industrial products) (figure A-2).

Figure A-2: Likelihood of cost reduction in next 24 months

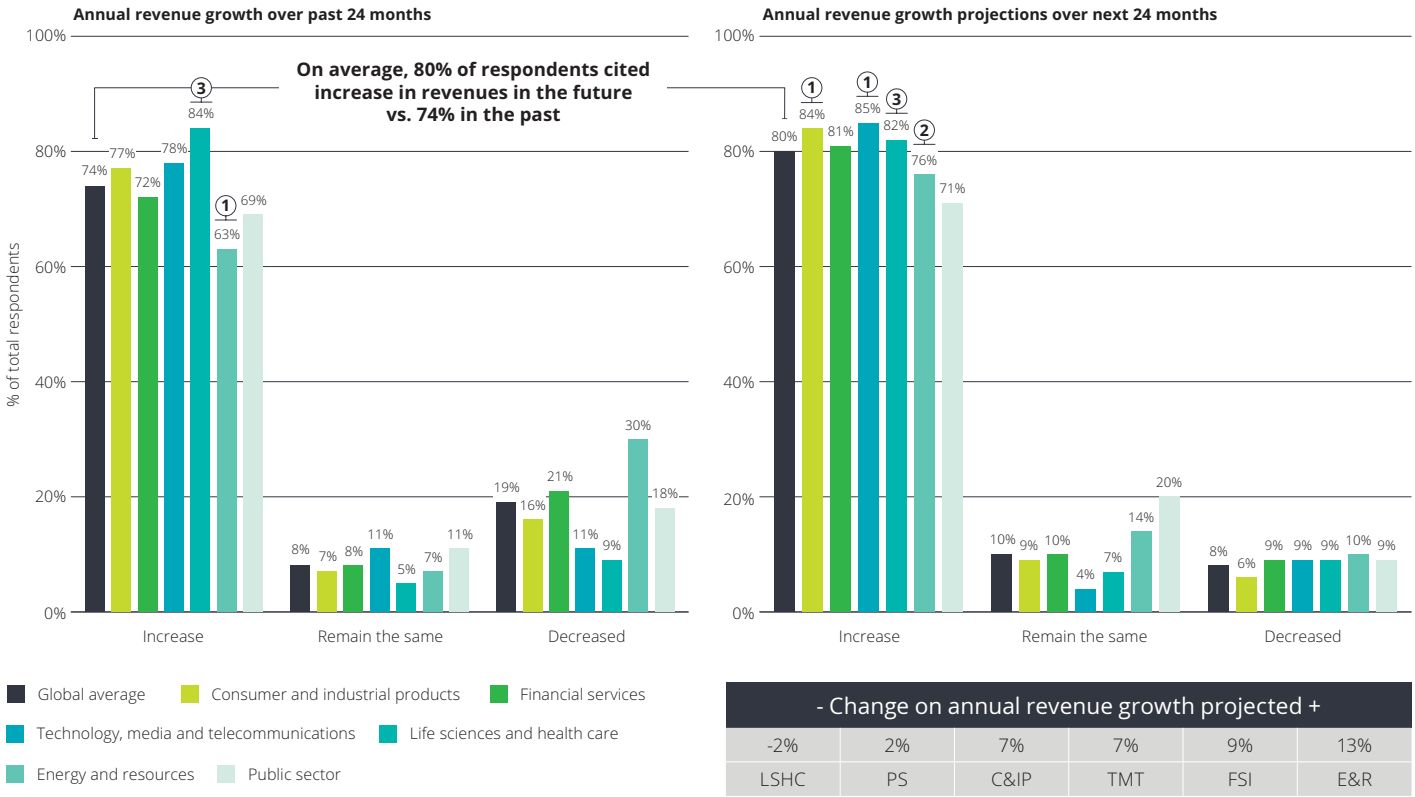


Survey findings

① Public sector respondents reported the lowest likelihood (78%) and the highest neutral position to undertake cost reduction (20%).

Expectations for future revenue growth are generally higher than reported performance over the past 24 months; however, the degree of confidence about future growth varies from industry to industry (figure A-3).

Figure A-3: Annual revenue growth



- Change on annual revenue growth projected +					
-2%	2%	7%	7%	9%	13%
LSHC	PS	C&IP	TMT	FSI	E&R

Survey findings

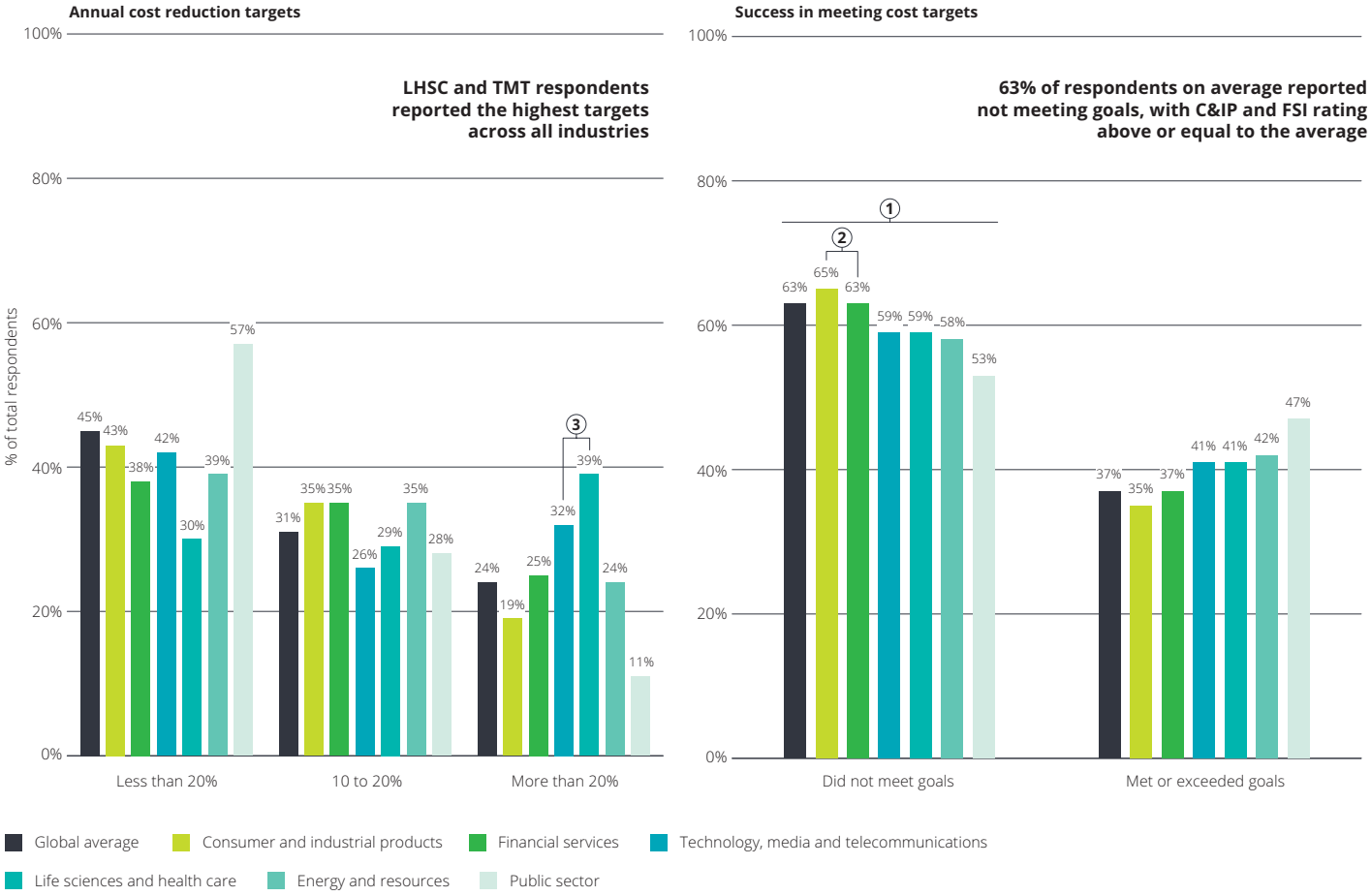
① TMT (85%) followed by C&IP (84%) and FSI (81%) reported the highest rates of growth projections over the next 24 months.

② Although Energy and Resources reported an increase in projected revues (63% to 76%), it still reported lower rates of revenue increase (76%) compared to the Global average of 80%.

③ LSHC is the only industry reporting a decrease in revenues (84% to 82%).

The majority of respondents in all industries have cost reduction targets of less than 20%. Success rates are also low across the board, particularly in C&IP and FSI (figure A-4).

Figure A-4: Cost reduction targets and success rates



Survey findings

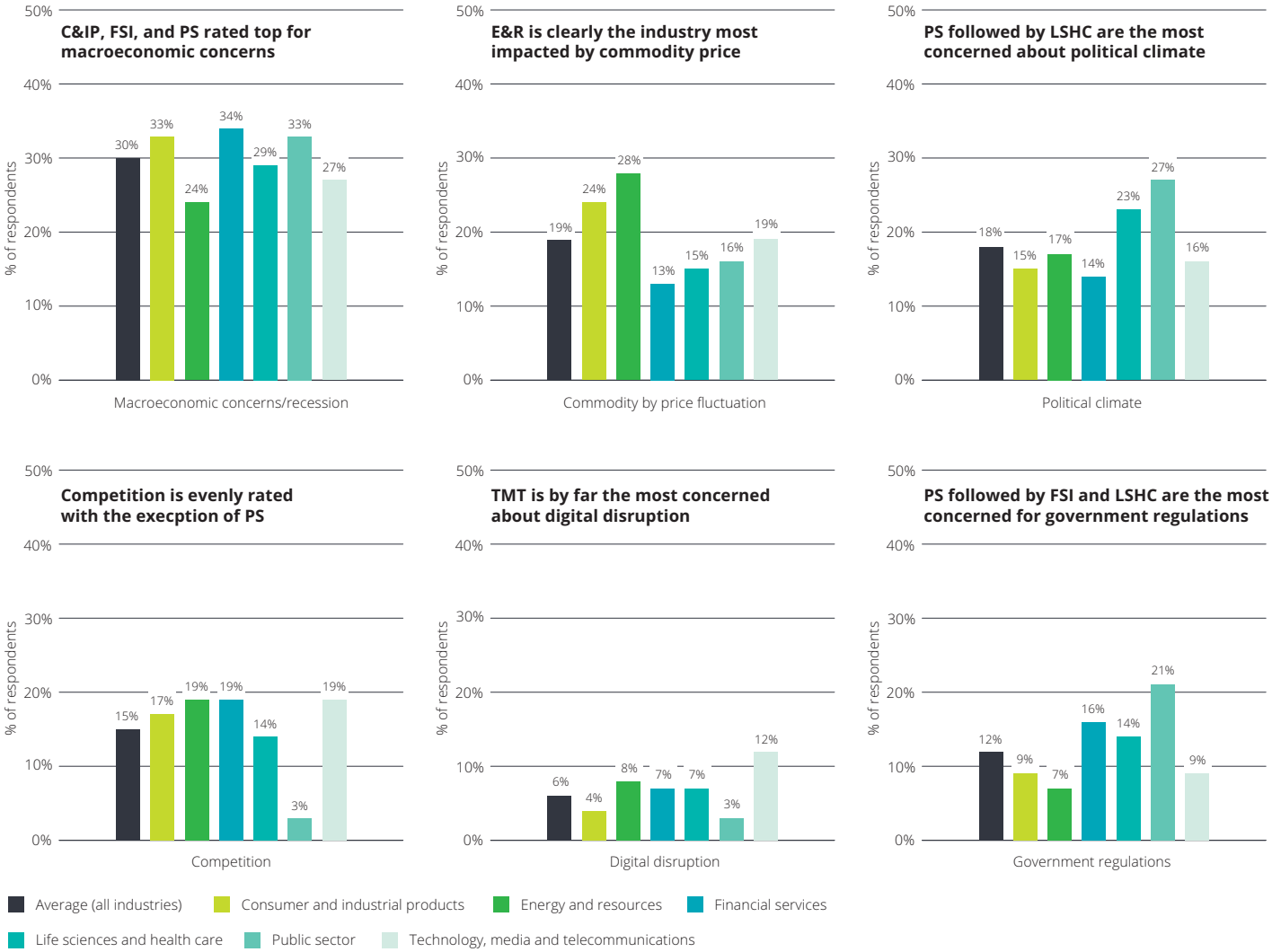
① The majority of industries did not meet cost reduction targets (range 53–65%) with an average of 63%.

② C&IP and FSI reported higher failure rates (65% and 63%, respectively).

③ Life Sciences & Health Care (39%) and TMT (32%) are the industries undertaking cost reduction targets higher than 20% compared to an average of 24% for all respondents.

Rankings of external risks vary widely across industries. Not surprisingly, companies in technology, media and telecommunications express much greater concern about digital disruption than do companies in other industries (figure A-5).

Figure A-5: External risks



Consumer and industrial products

In the consumer and industrial products industry, the top drivers of cost management are "to gain competitive advantage" and "required investment for growth," which is consistent with the overall findings across industries (figure A-6).

① Top drivers are to gain competitive advantage over peer group and required investment for growth.

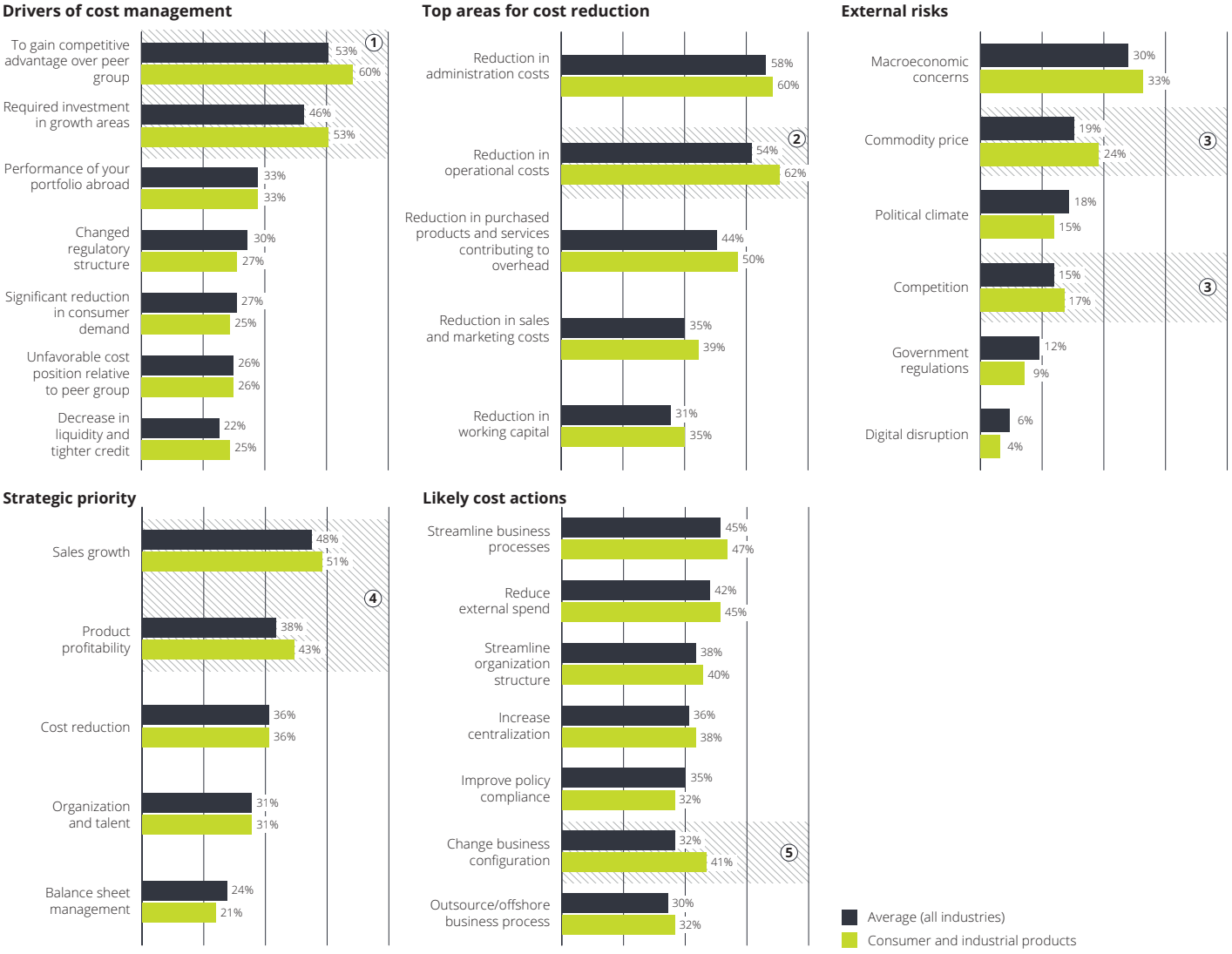
② C&IP companies have focused significantly more on areas related to reducing operational costs.

③ Risks beyond macroeconomic and political climate focus on price of commodities and competition.

④ Top strategic priority is sales growth followed by product profitability, both reported much more frequently vs. the average from all industries.

⑤ Likely cost actions are similar to the average from all industries with change business configuration rating much higher.

Figure A-6: Consumer and industrial products insights



Financial services

In financial services, the top drivers are also consistent with the overall results across industries. However, the percentages are lower in absolute terms (figure A-7).

① Top drivers are consistent but rated lower compared to average from all industries.

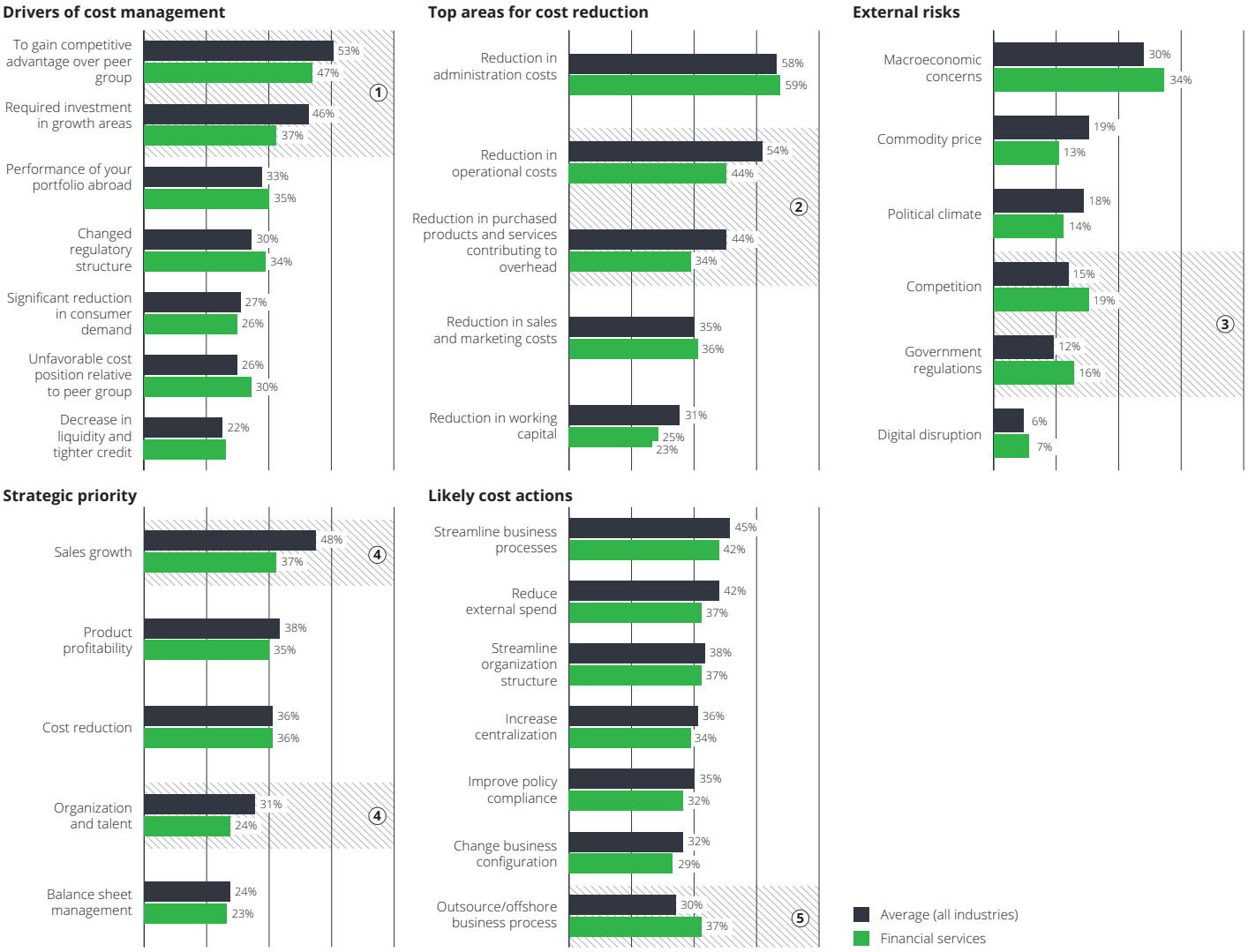
② Reduction in operational costs and in purchased products and services rated much lower compared to the average from all industries.

③ Risks beyond macroeconomic and political climate focus on government regulation and competition.

④ Strategic priorities related to sales growth and organization and talent rated much lower relative to the average from all industries.

⑤ Likely actions are consistent with the average from all industries but outsource/offshore rated much higher.

Figure A-7: Financial services insights



Technology, media, and telecommunications

In technology, media, and telecommunications, the top drivers are consistent with the overall results across industries. However, "required investment in growth areas" and "significant reduction in consumer demand" are ranked much higher than the overall industry averages (figure A-8).

① Top drivers are consistent with the average from all industries but required investment for growth and significant reduction in consumer demand rated much higher.

② Although most areas of cost reduction rated similar to the average from all industries, reduction in working capital rated much lower.

③ Risks beyond macroeconomic and political climate focus on competition.

④ All priorities rated much higher compared to the average from all industries, but especially sales growth and balance sheet management rated much higher.

⑤ Top likely cost action for TMT respondents is to reduce external spend.

Figure A-8: Technology, Media, and Telecommunications insights

Energy & resources

In the energy & resources sector, the strategic priorities of "sales growth" and "product profitability" are rated much lower than average (figure A-9).

① Drivers related to required investment for growth and reduction in consumer demand differ significantly from the average of all industries.

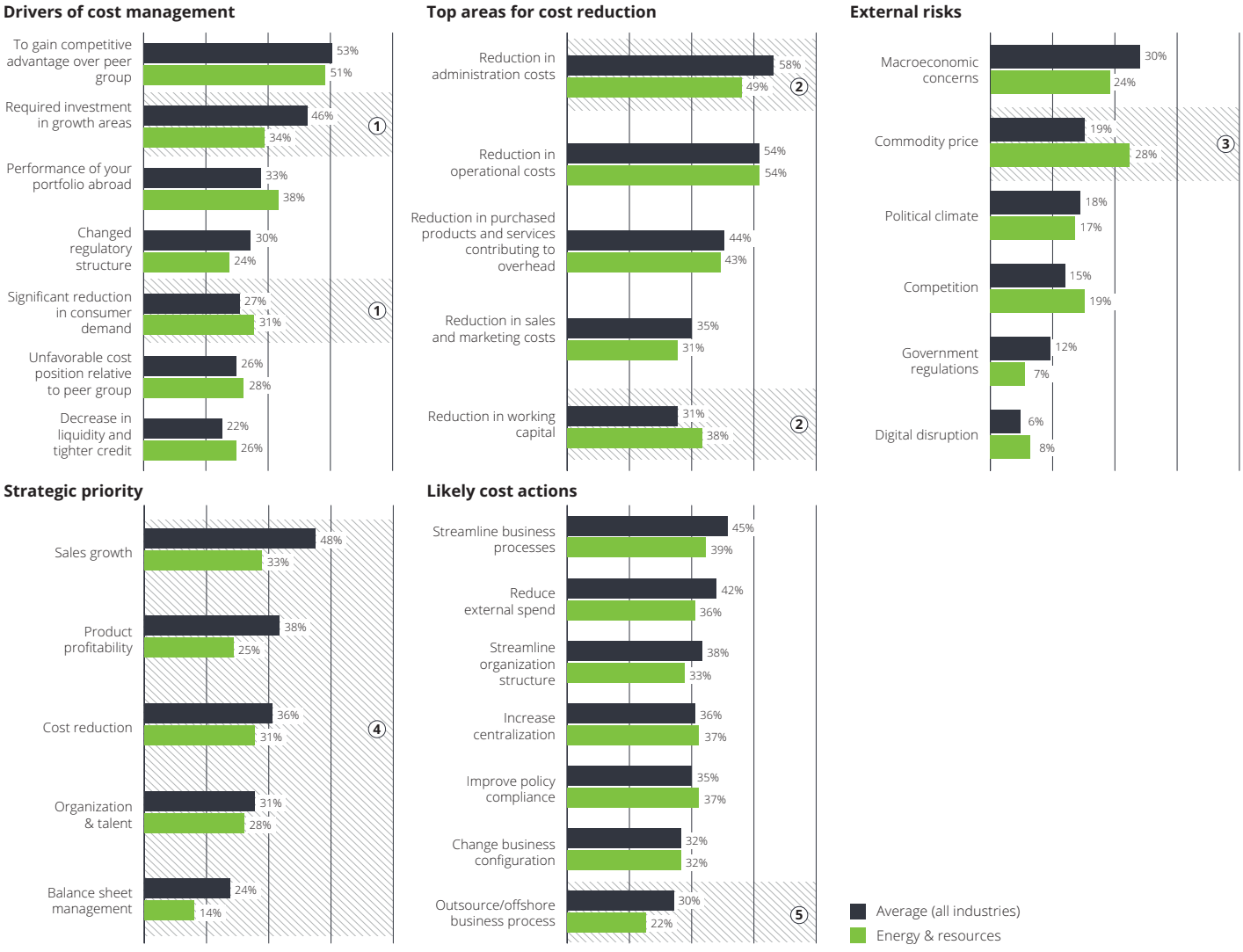
② Reduction in administration costs rates much lower compared to the average from all industries and reduction on working capital rates much higher.

③ Major risk perceived by far is price of commodities.

④ Sales growth and product profitability rated far behind as strategic priorities compared to the average from all industries and costs reduction rated the second highest.

⑤ Outsource/offshore business processes is the least likely action and rated much lower compared to average from all industries.

Figure A-9: Energy & Resources insights



Life sciences and health care

In life sciences and health care, "performance of your portfolio abroad" and "changed regulatory structure" were rated much higher than average as cost management drivers (figure A-10).

① Performance of portfolio abroad and changed regulatory structure rated clearly higher as cost drivers compared to the average from all industries but gain competitive advantage remains the most important driver.

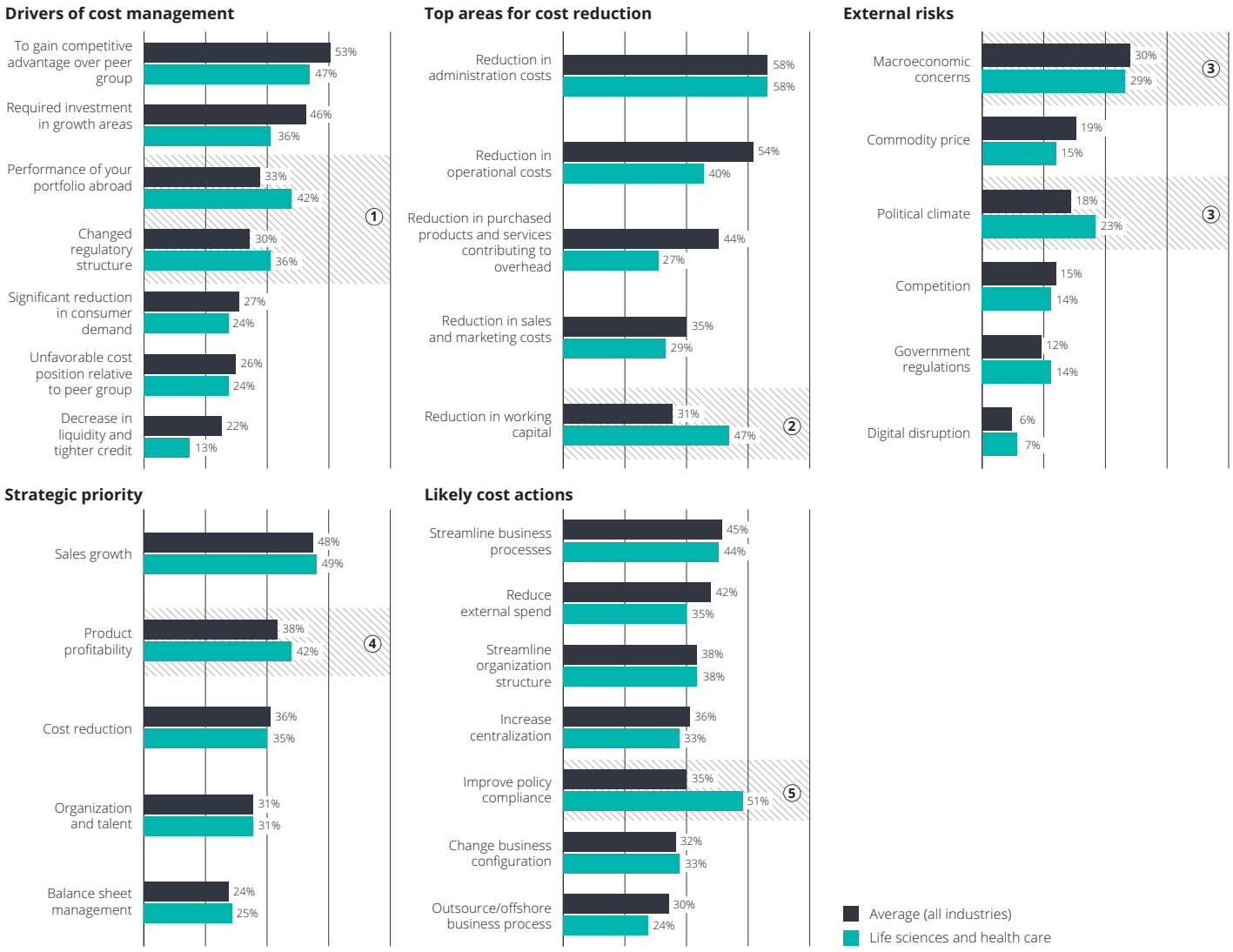
② Cost reduction related to working capital rated much higher compared to the average from all industries.

③ Risk perceptions are focused on macroeconomic and political climate.

④ Product profitability rates as second priority but was cited more frequently compared to the average.

⑤ Top likely cost action for LSHC is to improve policy compliance which is rated significantly above the average from all industries.

Figure A-10: Life Sciences and health care insights



Public sector

In the public sector, "changed regulatory structure" was the top driver of cost management. This is a very different result than for other industries (figure A-11).

① Changed regulatory structure is rated much higher as driver of cost management compared to the average from all industries.

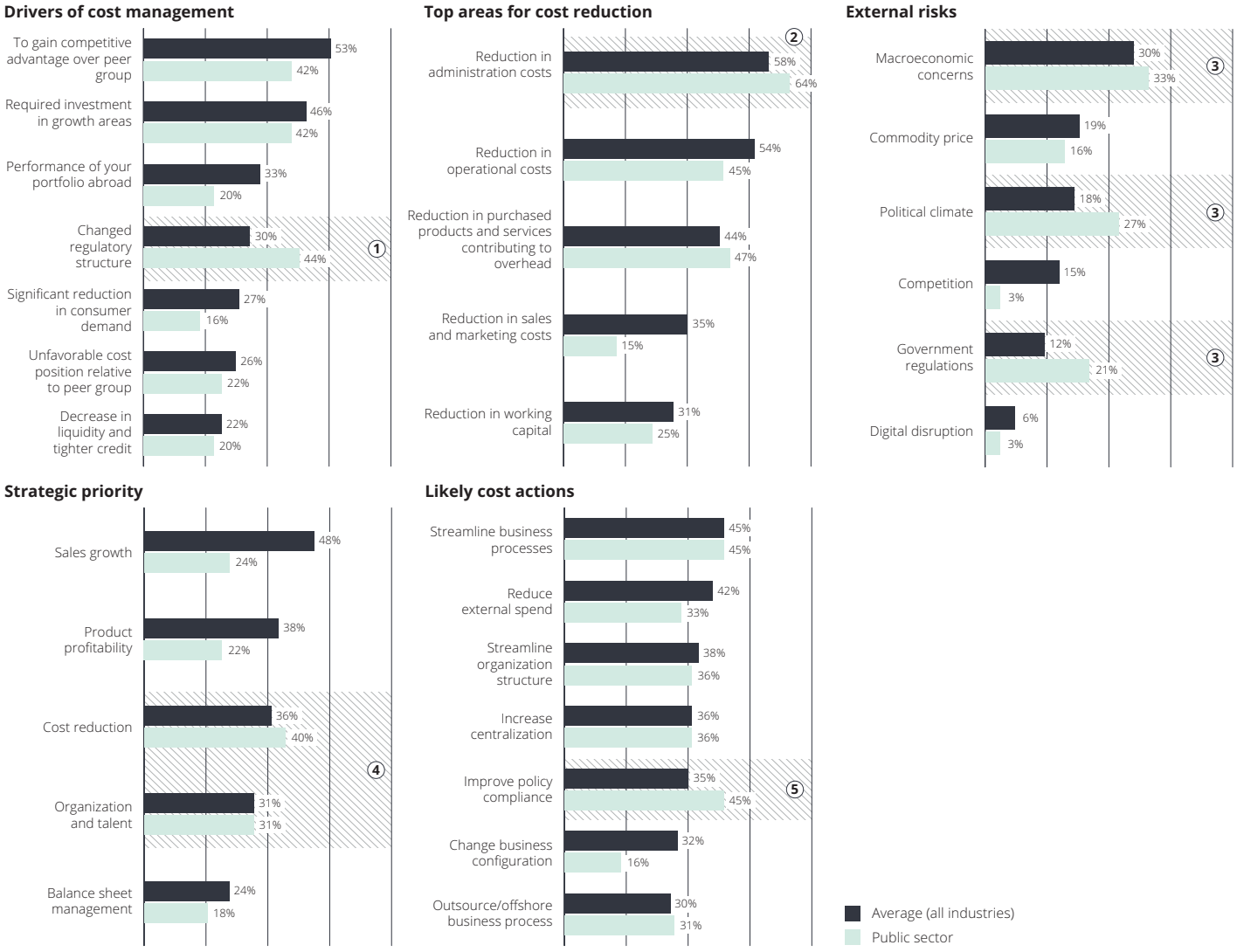
② Reduction of administrative costs rated as top area and much higher compared to the average from all industries.

③ Due to the nature of the industry, risks are focused on macroeconomic concerns, political climate, and government regulation.

④ Given the nature of the public sector, sales growth and product profitability rated much lower, making cost reduction and organization and talent top priorities for public sector.

⑤ Improved policy compliance rated much higher compared to the average from all industries.

Figure A-11: Public sector insights



ZBB use is expected to decrease sharply both in the US and in Latin America. However, in Europe and Asia Pacific the use of ZBB is expected to hold steady at current levels

Appendix B: Zero-based budgeting (ZBB) analysis by country/region

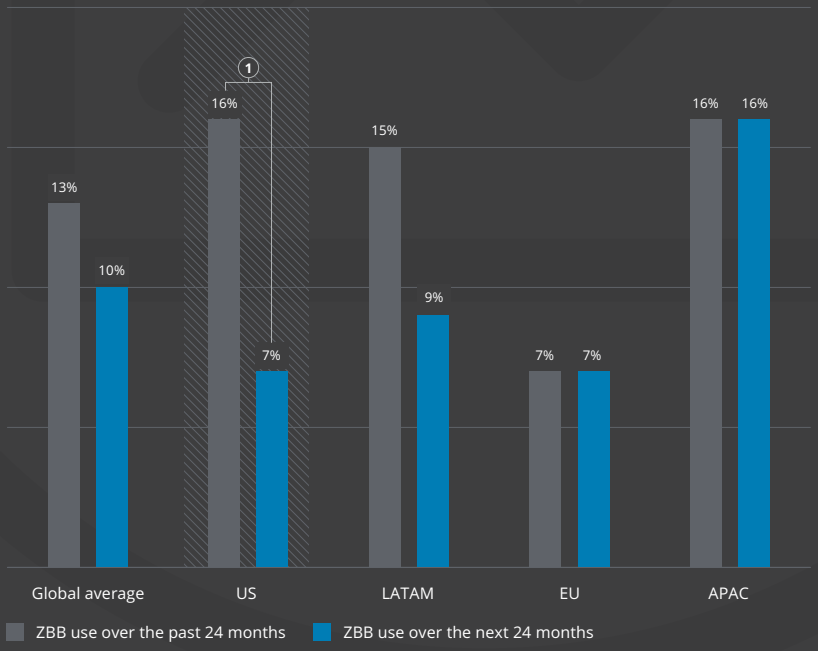
United States

Potential misapplication along with higher implementation challenges and failure rates may be key contributors to the steep decrease on expected future use of ZBB.

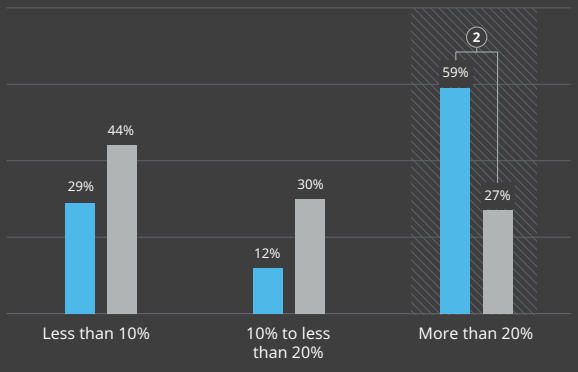
Figure B-1: Use of ZBB in the United States

1. **Use**
   US companies show the steepest decrease in use over the next 24 months from 16% to 7% (9% absolute drop and a 56% relative decrease), relative to any other region.
2. **Targets**
   ZBB user reported cost reduction targets >20% much more frequently compared to those that did not (59% vs. 27%, respectively) potentially indicating misaligned use of ZBB.
3. **Success rates**
   Companies implementing ZBB reported higher failure rates 65% vs. 57% (8% difference).
4. **Barriers**
   Barriers for ZBB users are much higher in 4 out of 5 categories.

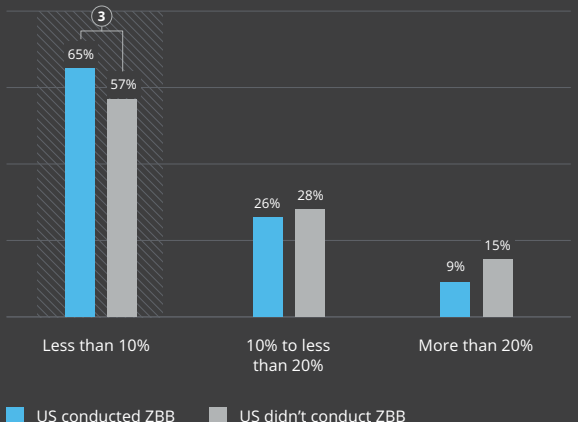
Past and future ZBB use



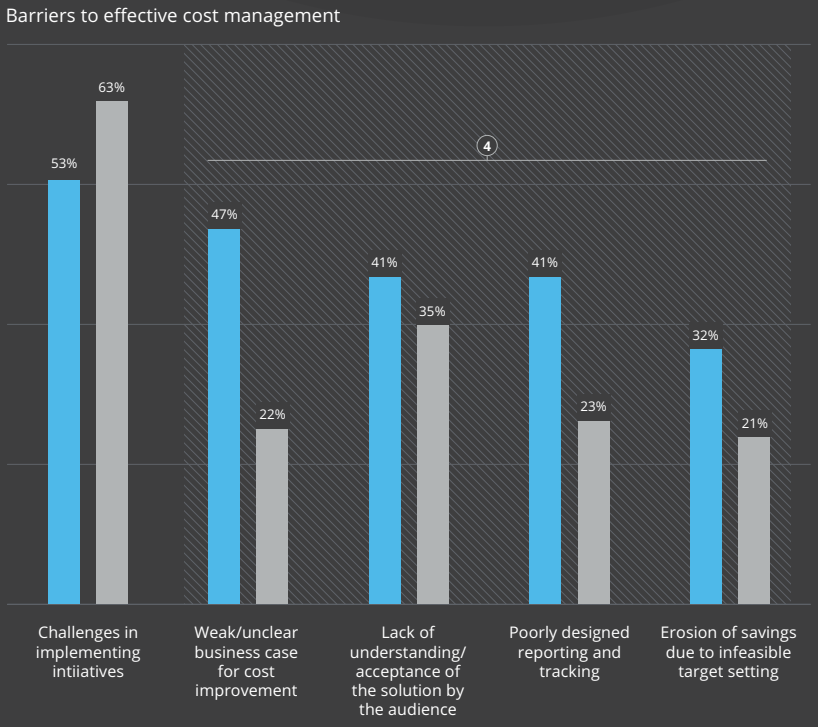
Annual cost reduction targets



Success in meeting cost targets



Barriers to effective cost management



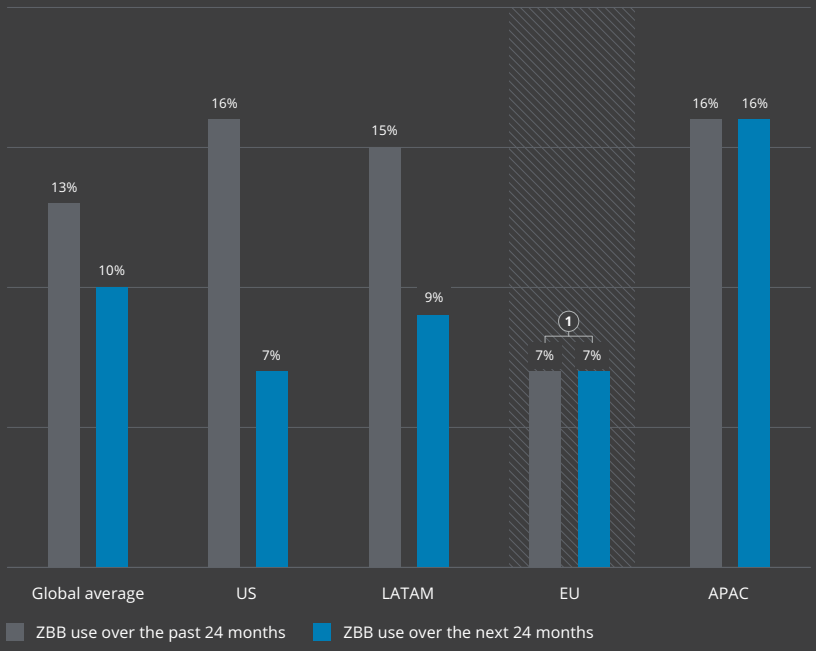
Europe

With structured cost programs not likely prevalent in Europe, ZBB use is moderately more successful as it is a structured cost management approach.

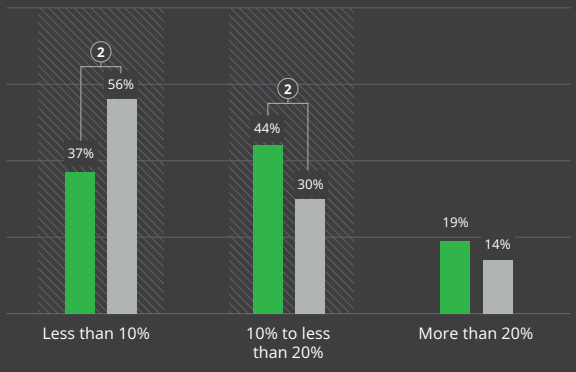
Figure B-2: Use of ZBB in Europe

1. **Use**
   ZBB use in Europe (7%) is below the global average (13%) and expected to remain flat compared to the previous 24 months.
2. **Targets**
   The majority of ZBB users reported targets of 10% to less than 20% (44%). The majority of cost programs in Europe reported targets of less than 10% (56%), suggesting that structured cost programs may not be prevalent in Europe.
3. **Success rates**
   ZBB users reported moderately higher success (4%) compared to non-ZBB users.
4. **Barriers**
   Barriers for ZBB users are much higher in 4 out of 5 categories with 2 out of 4 being much higher.

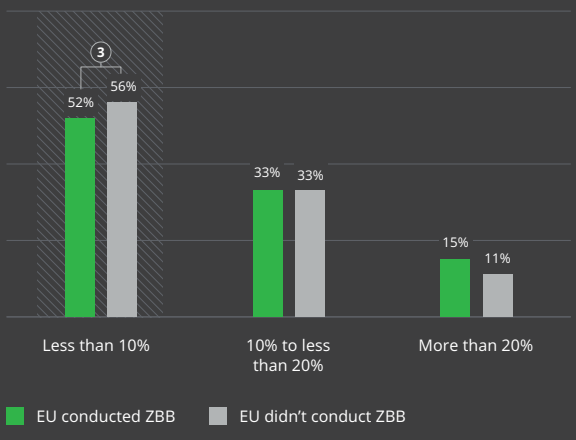
Past and future ZBB use



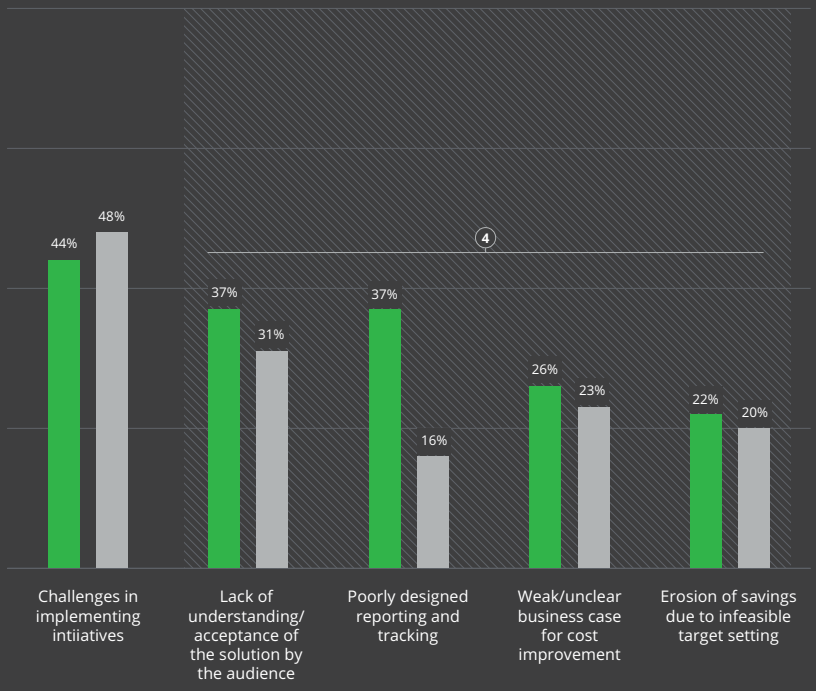
Annual cost reduction targets



Success in meeting cost targets



Barriers to effective cost management



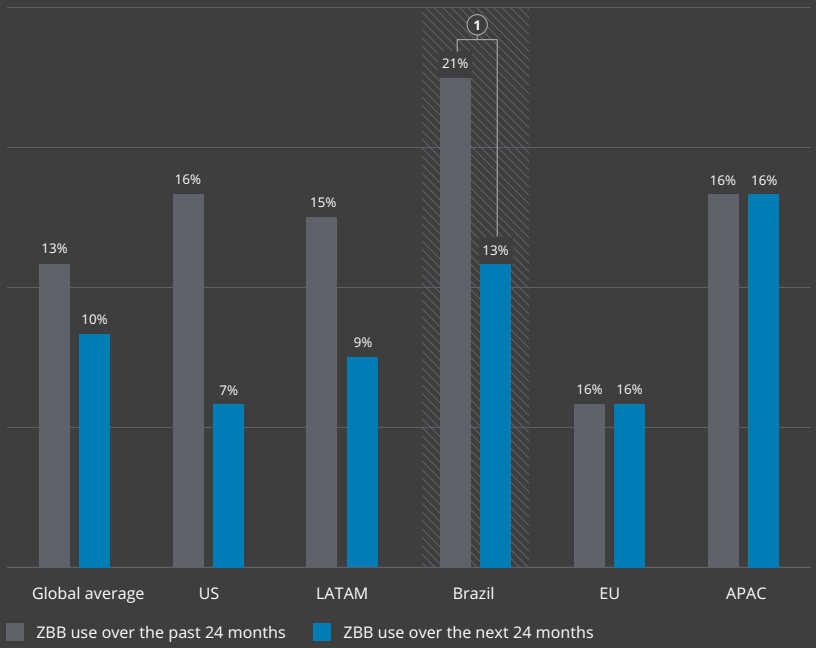
Brazil

Although more effectively used as a tactical tool and its application resulting in moderate relative success, its use is expected to drop sharply, possibly due to higher barriers to implementation.

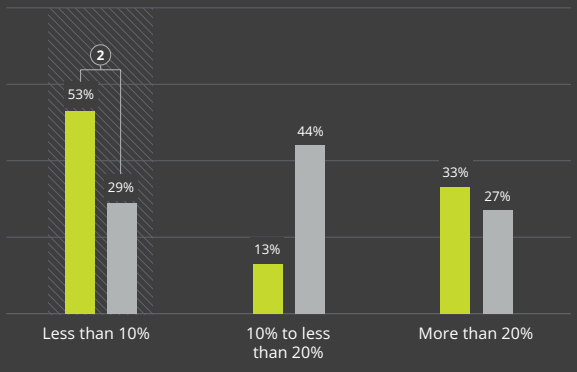
Figure B-3: Use of ZBB in Brazil

1. **Use**
   Brazil reported a high use of ZBB in the past that is expected to decrease sharply from 21% to 13% (8% absolute drop and almost 50% relative decrease) in the future.
2. **Targets**
   More than half of ZBB users (53%) are targeting cost reduction of less than 10%.
3. **Success rates**
   Companies conducting ZBB reported lower failure rates 56% vs. 64% (8% positive difference).
4. **Barriers**
   Despite its tactical use, all barriers for ZBB users are higher when conducting ZBB, with two being much higher.

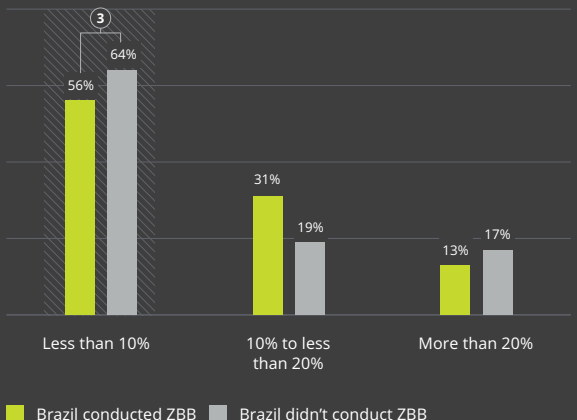
Past and future ZBB use



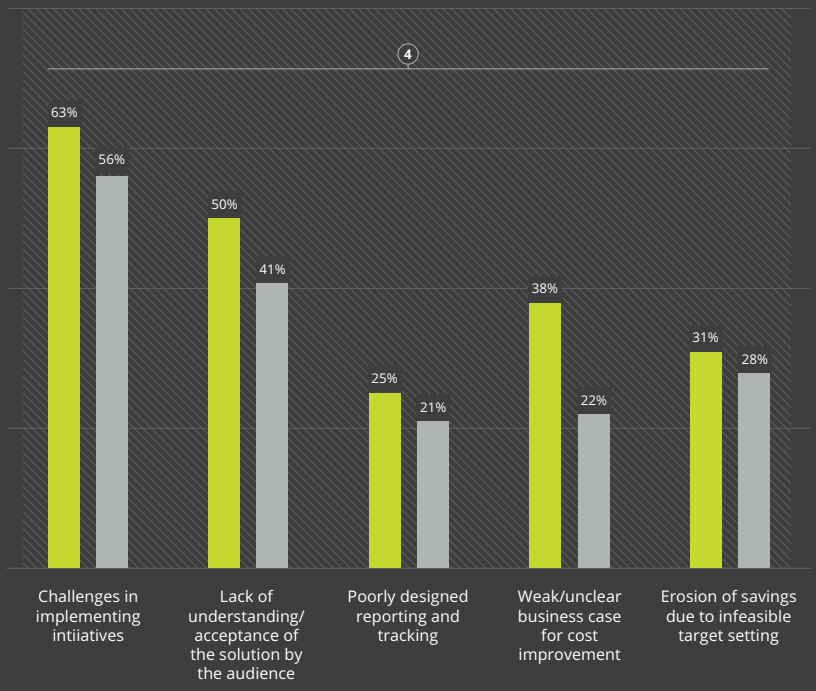
Annual cost reduction targets



Success in meeting cost targets



Barriers to effective cost management



APAC

Despite potential misapplication and high barriers to implementation, success is higher but its use is expected to remain flat.

Figure B-4: Use of ZBB in APAC

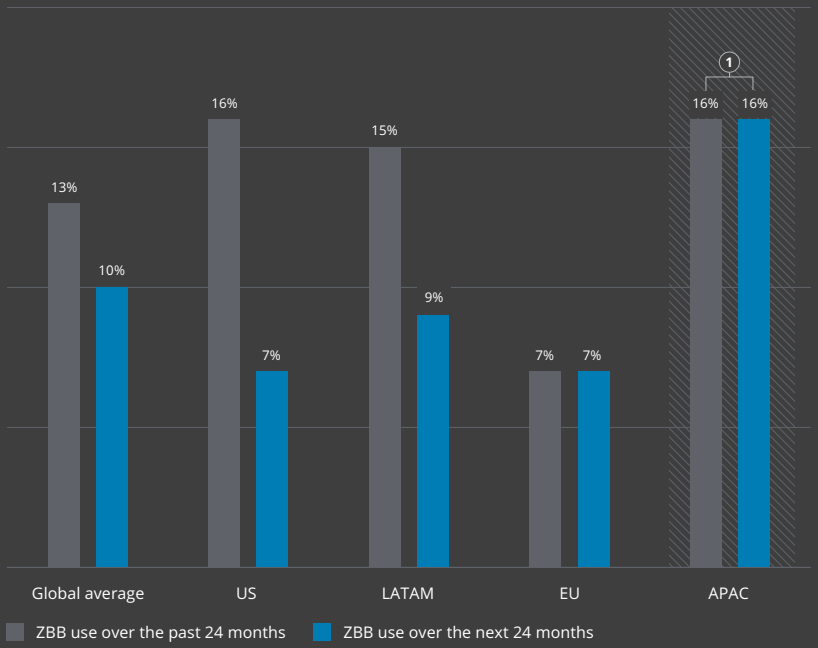
① **Use**
ZBB use in APAC (16%) rated above the global average (13%) and it is expected to remain flat in the future.

② **Targets**
ZBB users reported targets of more than 20% much higher compared to non-ZBB users (36% vs. 23%, respectively).

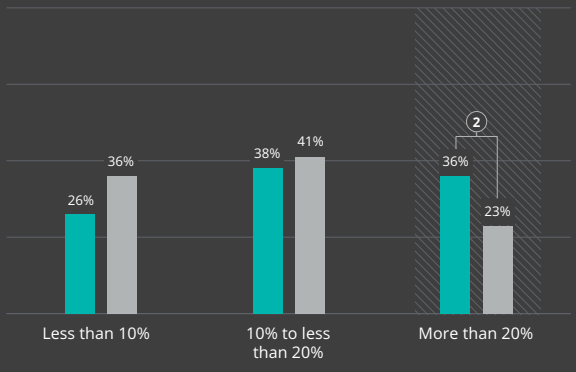
③ **Success rates**
ZBB users reported much lower failure rates compared to non-ZBB users (60% vs. 71%, respectively).

④ **Barriers**
All barriers are higher when conducting ZBB, with poorly designed reporting and weak business case showing high differences compared to non-ZBB users.

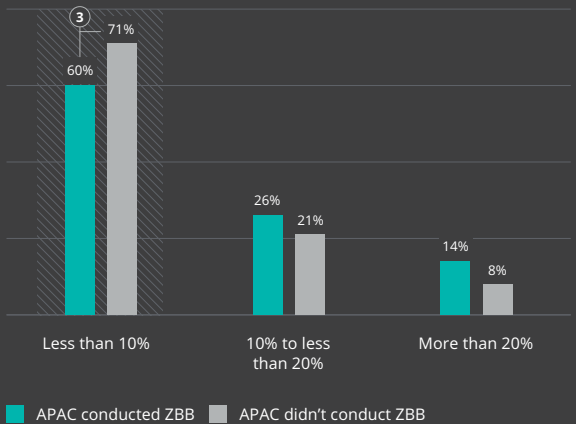
Past and future ZBB use



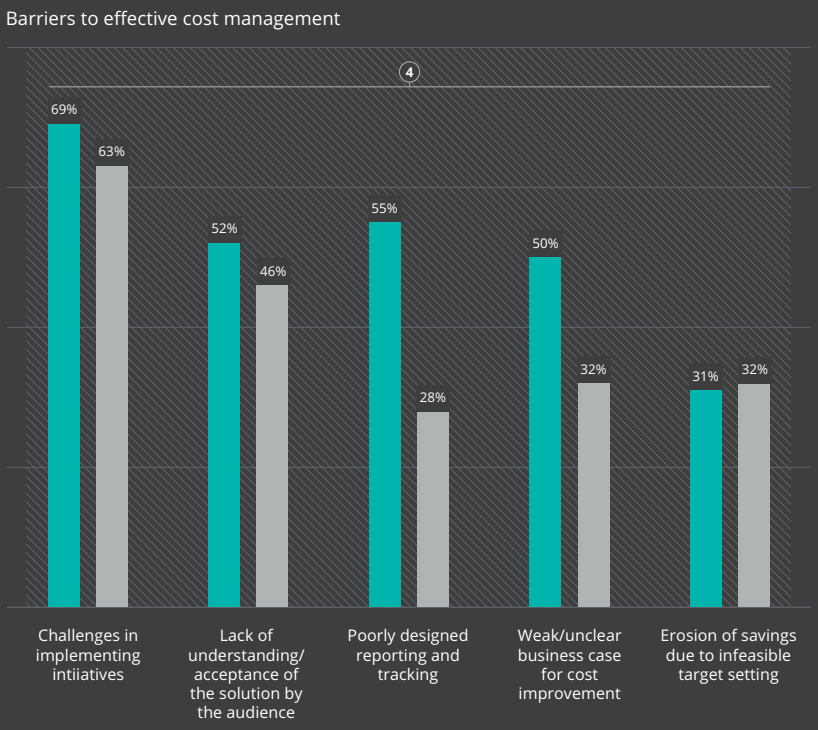
Annual cost reduction targets



Success in meeting cost targets



Barriers to effective cost management



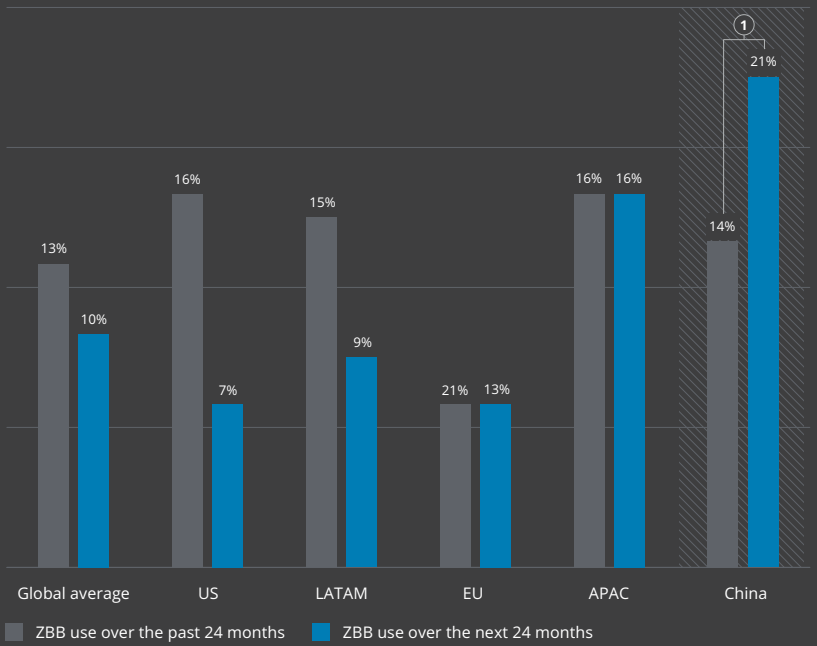
China

Lower barriers compared to other regions, along with higher targets and success rates, may be key factors to the expected increase in ZBB use.

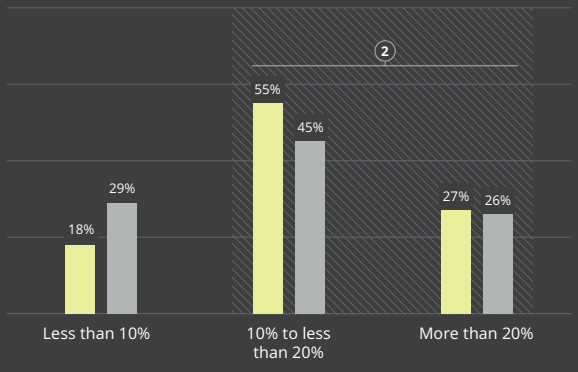
Figure B-5: Use of ZBB in China

1. **Use**
   ZBB use in China rated above the global average and is expected to increase from 14% to 21%.
2. **Targets**
   ZBB users reported targets of 10% to 20% much higher compared to non-ZBB users (55% vs. 45%, respectively) and similar targets of more than 20%.
3. **Success rates**
   ZBB users reported lower failure rates compared to non-ZBB users (55% vs. 67%, respectively).
4. **Barriers**
   While challenges in implementation and erosion of savings rated lower than non-ZBB users, three barriers rated higher or much higher compared to non-ZBB users.

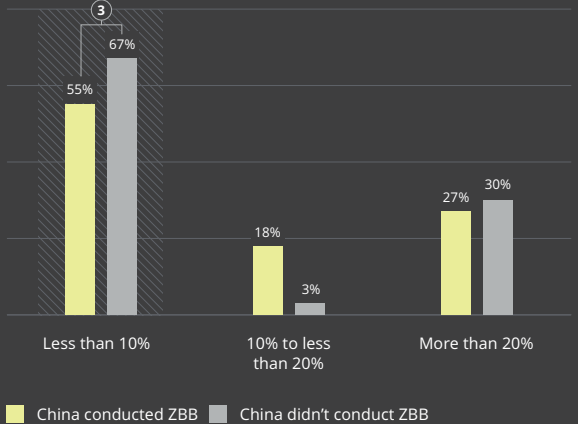
Past and future ZBB use



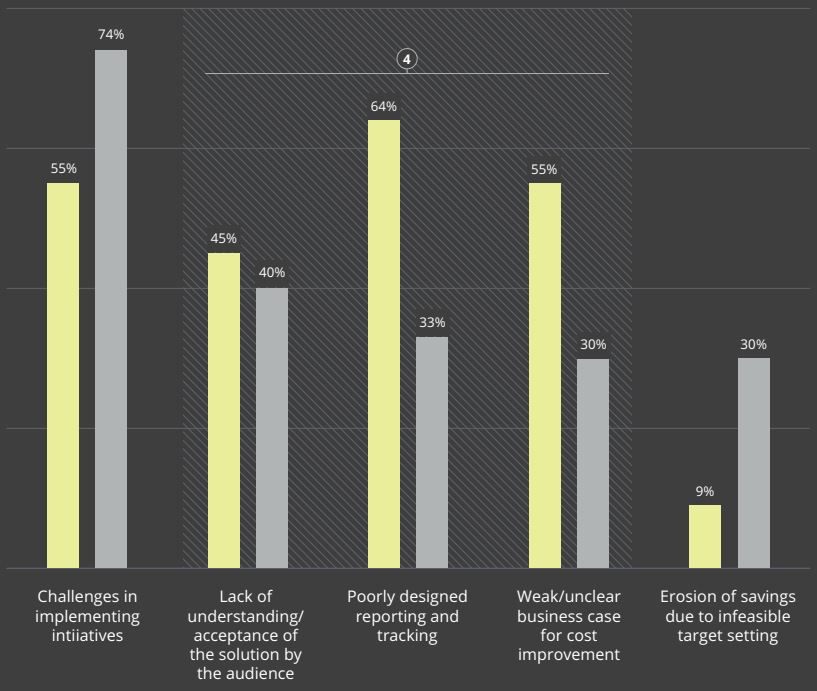
Annual cost reduction targets



Success in meeting cost targets



Barriers to effective cost management



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