



**Strategic Cost Transformation**  
Thriving in uncertain times

# Contents

How to thrive and grow in today's disruptive and uncertain business environment?	1
Transforming to mitigate external disruption	1
The five triggers of Strategic Cost Transformation	3
Our approach to Strategic Cost Transformation	5
Lessons learned from Strategic Cost Transformation programmes	6

# Strategic Cost Transformation

## How to thrive and grow in today's disruptive and uncertain business environment?

Businesses today face extraordinary, prolonged uncertainty and disruption: high inflation, rising interest rates, softening demand, geopolitical conflicts, supply shortages, currency volatility, new regulations, and changes in tax policies, to name a few. In addition, the effects of the global pandemic are continuing to be felt in some countries even as others have returned to business as usual. Meanwhile exciting developments in new technologies and intelligent automation are allowing organisations to harness new capabilities and insights through data to make better, informed and rapid choices on their ways of working, service delivery model and organisational setup.

All around the world the current macroeconomic and technological challenges — combined with ongoing difficulties such as talent shortages and technology disruption — are making it hard for companies to achieve their growth and earnings targets. Advanced economies are expected to see a pronounced growth slowdown, with all industries and sectors feeling the impact. The world's leading companies are not immune, with many finding themselves facing widespread hiring freezes and lay-offs.

Even in this disruptive and uncertain business environment, companies are still expected to grow. Achieving the simultaneous goals of sales growth while reducing costs requires a balance of old and new: applying and refining proven cost-saving methods using the latest digital technology while at the same time investing in new markets, new products, and new technologies.

Many companies fail to achieve their cost reduction and transformation goals because they approach the effort as a portfolio of disconnected initiatives without the necessary sponsorship, coordination, discipline, and investment. They fail to establish the required governance, neglect to define success in a consistent manner, and fall short when managing change.

Ultimately a successful optimisation and reduction of costs requires more than an isolated view on corporate costs. A rigorous, end-to-end analysis of the company's costs is needed and, our experience shows, a fundamental rethinking of the business, the usage and leverage of data insights as well as technologies, and the incorporation of agile ways of working. These steps are key to creating a successful future business. This paper analyses the cost-related challenges companies currently face and shows the scenarios that trigger a cost transformation programme – and how Deloitte can help you reshape your organisation to achieve sustainable cost structures.

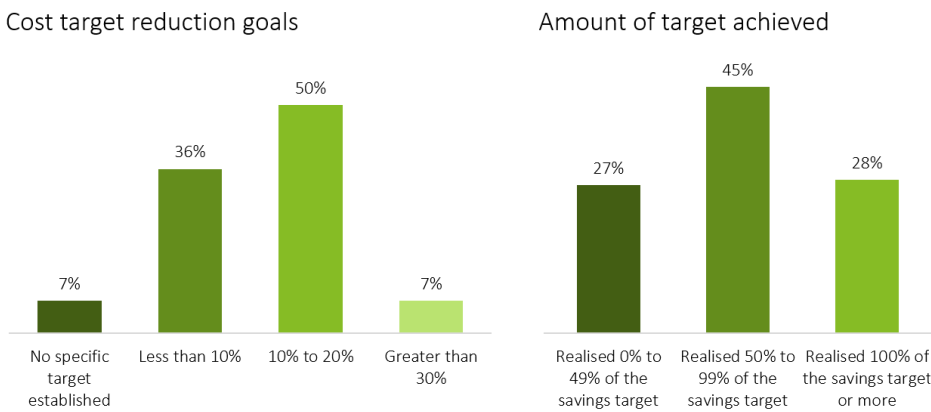
## Transforming to mitigate external disruption

A recent Deloitte Survey of nearly 300 senior business executives from leading global companies across different industries found that rising inflation, talent shortages and supply chain constraints are the triggers for 90% of cost transformation programmes at global firms. The survey shows that more than half of the companies aimed for cost

External macro trends have increased pressure on companies to establish competitive, sustainable cost structures and the right capabilities to operate and grow effectively.

reductions of a minimum of 10% (Figure 1). However, 72% of surveyed companies still missed their programmed cost reduction targets, mostly due to a combination of external barriers and internal constraints, infrastructure / system-related challenges and disjointed transformation efforts without the necessary governance and coordination.

Figure 1: Cost reduction targets and success rates of cost transformation programmes



### Top factors driving success in cost reduction programmes

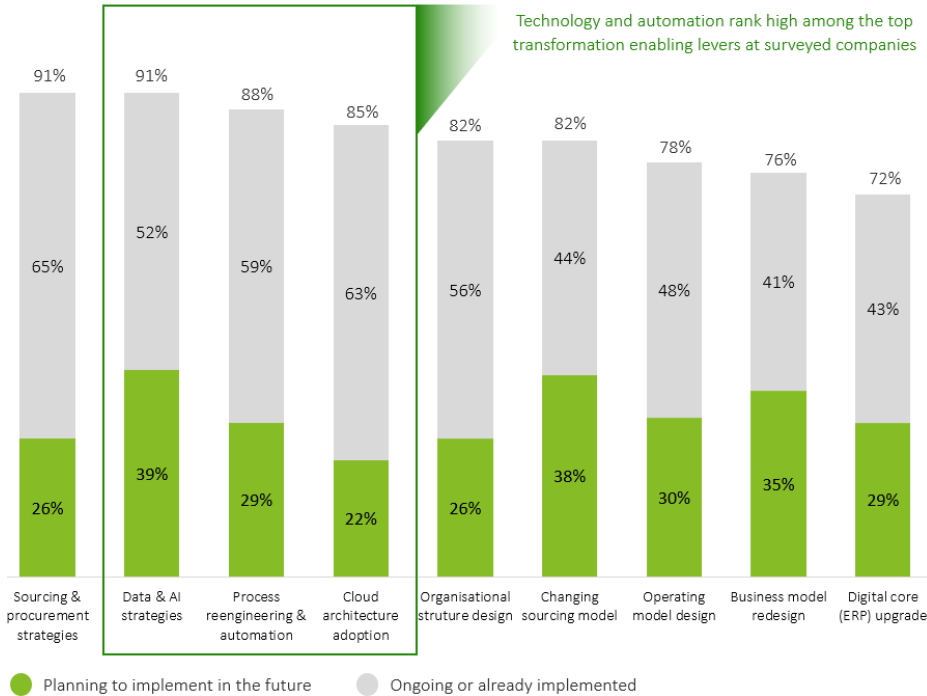
To address internal and external challenges, our advice is to clearly define how an organisation can achieve a competitive and sustainable cost structure and set up the right capabilities and technologies to run and grow efficiently.

The companies surveyed in the above-mentioned survey cite several key success factors and lessons learned that can help them achieve their cost transformation targets. These include solid tracking and reporting (72%), a clear business case (65%), effective change management (64%), investment in technology improvements (62%), realistic cost targets (58%), and dedicated leadership (46%).

Senior executives recognise the need to shift away from small-scale, isolated initiatives, and to embrace all-encompassing transformation efforts using all available options — not only standard cost levers, such as procurement and organisational restructuring, but also technology-driven cost levers and analysis tools, such as process re-engineering through process and task mining (see our articles on [Process Mining](#)), intelligent automation, data and artificial intelligence strategies, and adoption of cloud architecture solutions (Figure 2).

Figure 2: Most utilised or planned transformation levers

Most utilised or planned transformation levers



## The five triggers of Strategic Cost Transformation

Different strategies require different approaches. In general, we see five starting points (Figure 3) for a Strategic Cost Transformation:

- 1. Getting the house in order:** Where a lot of change is expected, often because of the arrival of a new leadership team or management group, an organisation needs to clearly articulate its cost composition and baseline: in other words, getting the house in order.

*Client Example:* In a turnover Deloitte helped a packaging client establish a solid cost baseline across multiple functions compared to industry benchmarks and address the identified fast cash-saving opportunities to stabilise operations.
- 2. Local transformation initiative:** A local cost reduction initiative could include a complex process redesign, IT systems migration, internal reorganisation, etc., all of which have wider impact on the organisation and would benefit from the design and mapping of an enterprise-wide blueprint.

*Client Example:* Deloitte supported a global pharmaceutical company in defining its end-to-end processes and services to streamline, harmonise and ultimately break down functional silos / handoff points across hire-to-retain, meetings congress and events, procure-to-pay and order-to-cash. The definition of new ways of working and articulation of which activities could be centralised / harmonised above market and which should be completed within local markets allowed the organisation to deliver its services at a lower total cost.
- 3. Fundamental cost reduction or income model change:** If tactical cost reduction opportunities are exhausted, a more radical review across the entire business is required to bring about fundamental change in the cost base or in income. A target operating model (TOM) approach can underpin the

design process around smart sourcing, shared services and consolidation options, among others.

**Client Example:** A pharmaceutical company had set very ambitious transformation objectives, aiming to build a more effective and efficient end-to-end operating model, with a Return On Investment (ROI) in less than two years. Deloitte supported the client on the following key objectives: an integrated, fit for purpose operating model and technology across all key business functions; initial public offering (IPO) readiness (from programme start) in 1.5 years; target savings of 26% cost reduction (labour arbitrage and efficiency gains) and USD 30+M annual savings due to Global Business Services (GBS) and other transformation initiatives.

4. **Changing strategy:** Systemic (internal or external) issues within the business may require a major change in corporate direction. This requires unconstrained thinking. Designing or envisioning a target operating model (TOM) from scratch, unencumbered by current realities, enables this process.

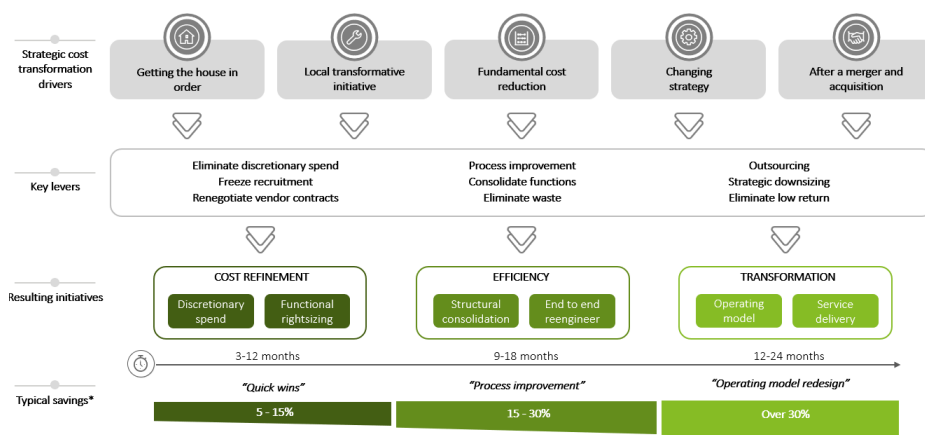
**Client Example:** Deloitte supported a global pharmaceutical company in developing a new agile, cross-functional, outcome-focused commercial operating model blueprint for their top 10 countries. The focus of the programme was the design of the organisational setup, new commercial capability maps, end-to-end cross-functional / agile management processes and mindset shifts / leadership coaching.

5. **After a merger & acquisition or separation:** The organisation has separate organisations/ brands/ groups which operate parallel operating models with significant duplication between them. An operating model analysis can highlight areas of overlap and duplication, and a TOM design provides a picture of the envisaged optimised end-state, articulates the operational and IT synergies, and supports an integration process.

**Client Example:** Deloitte supported the separation of a division from a global pharmaceutical company. Post carve-out and separation, the stand-alone organisation was able to radically review its operating model, unburdened by the decision-making processes and capital allocation decisions of the previous owner, to create a business that is even more competitive in the market.

Figure 3: Strategic decision framework for a cost transformation journey

### A strategic decision framework for a cost transformation journey



\*Pulling different cost levers can save up to 30% of EBITDA

While different outcomes (cost refinement, efficiency, and transformation) result from pulling specific levers in response to the five different Strategic Cost Transformation drivers illustrated in Figure 3, it is best, in our opinion, not to consider a strategy in isolation. Leading organisations with successful cost transformation programmes look to pull multiple levers simultaneously, building on quick wins while implementing continuous improvement measures with a medium to long-term view on cost efficiency.

Deloitte’s experience across multiple sectors indicates that double digit savings on the existing cost base can be unlocked over the course of a Strategic Cost Transformation programme resulting in double digit EBITDA improvements, but only when taking an unconstrained view of the business, adapted to the current market landscape and ambition, and the organisation’s maturity.

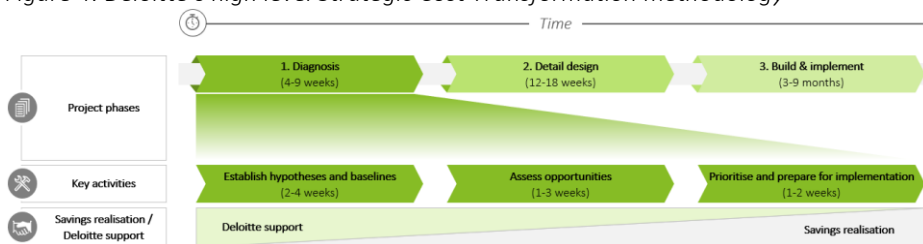
### Our approach to Strategic Cost Transformation

Sustainable and successful cost transformation programmes that we have seen commonly follow a similar approach, commencing with an initial diagnosis to rapidly identify areas for potential improvement, followed by a detailed design and implementation phase (Figure 4). They involve the following:

- A **top-down approach** with engagement from business leaders to align on the ambition and design hypothesis and agree on measurable results to realise within a given realistic timeline.
- A **holistic, data-driven analysis** establishing the baseline – capabilities, processes, costs, organisation, activities, and remuneration – and also including benchmarking conducted on functional areas and e2e business processes (e.g. order to cash) to identify and follow through on cost-saving opportunities.
- Realistic **consideration of people and the cultural change** aspects, with a change management roadmap and communication activities laid out across the organisation.

Organisations need to take an all-encompassing approach to cost transformation, using both operational and technology levers to meet their cost-saving and efficiency ambitions.

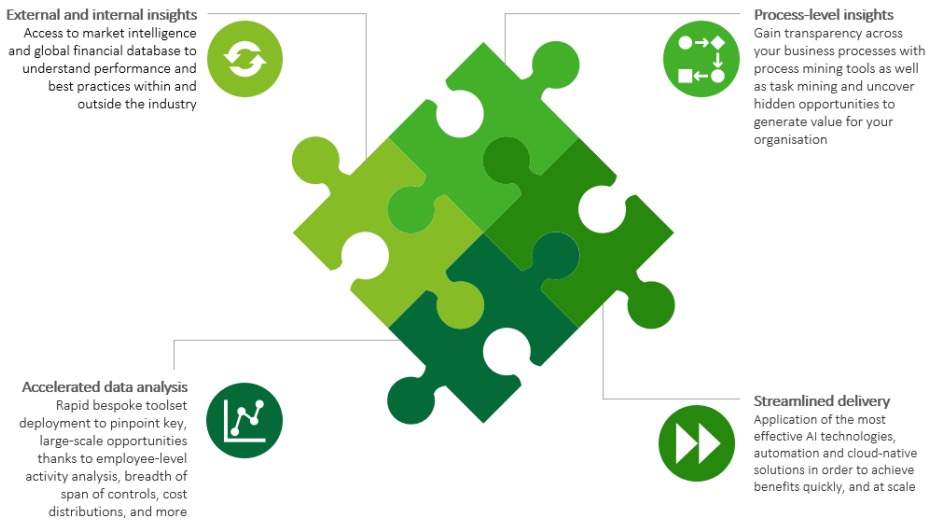
Figure 4: Deloitte’s high level Strategic Cost Transformation methodology



### Accelerators

To help carry out your cost transformation efficiently, Deloitte has developed a suite of tools and accelerators that help with data collection and verification, speed up capability assessments, and provide frameworks for effective design considerations while supporting the programme management and reporting (Figure 5). Tools generated in-house and Deloitte’s established partnerships with innovative third-party software and data providers mean that organisations can benefit from the latest technology.

Figure 5: Deloitte accelerators and tools



## Lessons from Strategic Cost Transformation programmes

Deloitte has identified key factors that make cost transformation programmes succeed or fail. Ensuring the impactable baseline and ambition are correctly captured and measured, together with a well thought through list of ways to prioritise, effectively resourced and communicated through the different layers of the organisation, are among the top areas that must be implemented to avoid going off track and ultimately failing to achieve the desired benefits (Figure 6).

Figure 6: Success factors in Strategic Cost Transformation programmes





Our experience shows, that to thrive in the currently challenging economic environment and achieve cost targets, a company needs a holistic view on its costs. Depending on their unique circumstances or situations and strategic goals, organisations can pull different levers to achieve the desired outcomes of cost refinement, efficiency, or transformation, including an associated increase in EBITDA.

With its proven Strategic Cost Transformation methodology, appropriate tools and long-standing expertise from different, relevant projects, Deloitte can help you to achieve your targets and sustain them in the long run.

Have you already thought about a Strategic Cost Transformation programme in your organisation to withstand the current economic challenges and emerge from the current difficult environment stronger than before? Do you have a clear idea of your cost targets and do you need an experienced partner who can help you achieve them?

If you are interested in learning more about how we can help you with your Strategic Cost Transformation programme, please get in touch with one of our experts.



## Wolfram von Ehren

Senior Director

[wvonehren@deloitte.ch](mailto:wvonehren@deloitte.ch)

+41 58 279 6821



## Steven Marshall

Director

[smmarshall@deloitte.ch](mailto:smmarshall@deloitte.ch)

+41 58 279 7620

# Deloitte.

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#### References:

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