



Thriving in uncertainty

Deloitte's first biennial cost survey:
Cost improvement practices
and trends in Asia Pacific

July 2017

Contents

Executive summary	04
About the survey	06
Macroeconomic trends	09
APAC regional findings	12
Zero-based budgeting: breakthrough or passing fad?	23
Choosing the right cost management approach	26
Looking ahead	31
Report authors	32
Contacts	33
Appendix A: China	35
Appendix B: Hong Kong	45
Appendix C: India	50
Appendix D: Japan	58
Appendix E: Australia	67
Appendix F: Singapore	76

Executive summary

Political and macroeconomic factors are having a major impact on cost improvement priorities and actions throughout the Asia Pacific (APAC) region. To learn what APAC companies are doing to manage costs and improve margins, Deloitte recently surveyed 299 business leaders (CXOs, executives, and senior management) from large and mid-size companies in China, India, Japan, Australia, Hong Kong, and Singapore – which together comprise 89% of the Asia Pacific economy based on gross domestic product (GDP)¹. We also analyzed key macroeconomic factors in order to establish a broader context for the survey results.

This study is part of a global survey effort that includes our fourth biennial cost survey in the US (first edition published in 2008 and most recent edition published in April 2016), as well as our first biennial cost surveys in Latin America (published in June 2016) and Europe (published in October 2016).

Macroeconomic trends in APAC

- Since the 1960s, Asia Pacific growth has been largely driven by countries in the region with export-focused strategies. The APAC region is already the leading contributor to global GDP, and its overall role in the global economy is expected to continue growing.
- As in the rest of the world, APAC economies have faced significant market volatility and uncertainty in recent years. Deceleration of global trade volumes since 2008 has contributed to slower growth in the region; however, signs of recovery in global trade offer a positive outlook for APAC's export-based economies. Also, middle-class spending is growing much more quickly than in other regions², helping the region's economies develop healthy internal markets.
- Although China and India experienced mixed growth in recent years, those two economies remain by far the most vibrant in APAC, and will likely lead the region's growth resurgence.

Key findings from the study

- **Political and economic factors are the top external risks:** The top external risks in APAC revolve around politics and economics. Macroeconomic concerns are viewed as the biggest risk in China and Singapore. However, for the region as a whole, the top external risk is political climate, with macroeconomic concerns a close second.
- **Saving to grow:** The top three strategic priorities are sales growth, product profitability, and cost reduction. This mixed set of priorities typifies a cost management strategy we call 'save to grow': using cost savings to fund growth activities.
- **Growth expectations are rising:** Expectations for positive revenue growth over the next 24 months are slightly higher than historical growth performance over the past 24 months.
- **Thriving in uncertainty:** The top two drivers for cost reduction are 'to gain competitive advantage,' followed by 'required investment in growth areas.' Both of these are distinctly growth-oriented. However, the next five cost reduction drivers are all defensive in nature. This mixed combination of cost drivers suggests that while APAC companies are aggressively pursuing growth, they are also positioning themselves for an uncertain future.

¹World Bank Data

²OECD

- **Cost reduction is a common focus:** Companies throughout the APAC region expect to focus on cost reduction over the next 24 months, with cost reduction particularly likely in China, India, and Singapore.
- **Most cost reduction programs are failing:** The majority of companies (63%-83%, depending on the country) are not meeting their cost reduction goals. This is true despite the fact that more than 4-in-10 companies have cost improvement targets of less than 10%.
- **Implementation challenges are the biggest barrier to effective cost management:** This is particularly true in India and China, perhaps because they are pursuing the most aggressive cost targets.
- **Lessons learned:** Given that implementation challenges are the biggest barrier to effective cost management, it is not surprising that the top lessons learned revolve around change management, implementation strategy, and goals and objectives, all of which are critical to successful implementations.
- **Developing cost management capabilities:** Over the past 24 months, the most popular focus area for developing cost management capabilities was 'forecasting, budgeting, and reporting,' followed by 'new policies and procedures,' and 'IT infrastructures, IT systems, and business intelligence platforms.' Zero-based budgeting (ZBB) was the least popular focus area.
- **Strategic cost actions are underutilized:** In the APAC region, the two most likely cost actions are 'streamline business processes' and 'reduce external spend,' both of which are highly tactical in nature. The least likely cost action is 'outsourcing/off-shoring,' which is more strategic. This heavy emphasis on tactical cost actions is a key opportunity for improvement, since strategic cost actions are generally able to deliver greater cost savings.

Key Findings by country

- **China:** Aggressive focus on cost reduction and growth, driven by macroeconomic and competitive concerns; however, specifics vary based on company ownership structure, with state-owned enterprises the least likely to take cost actions.

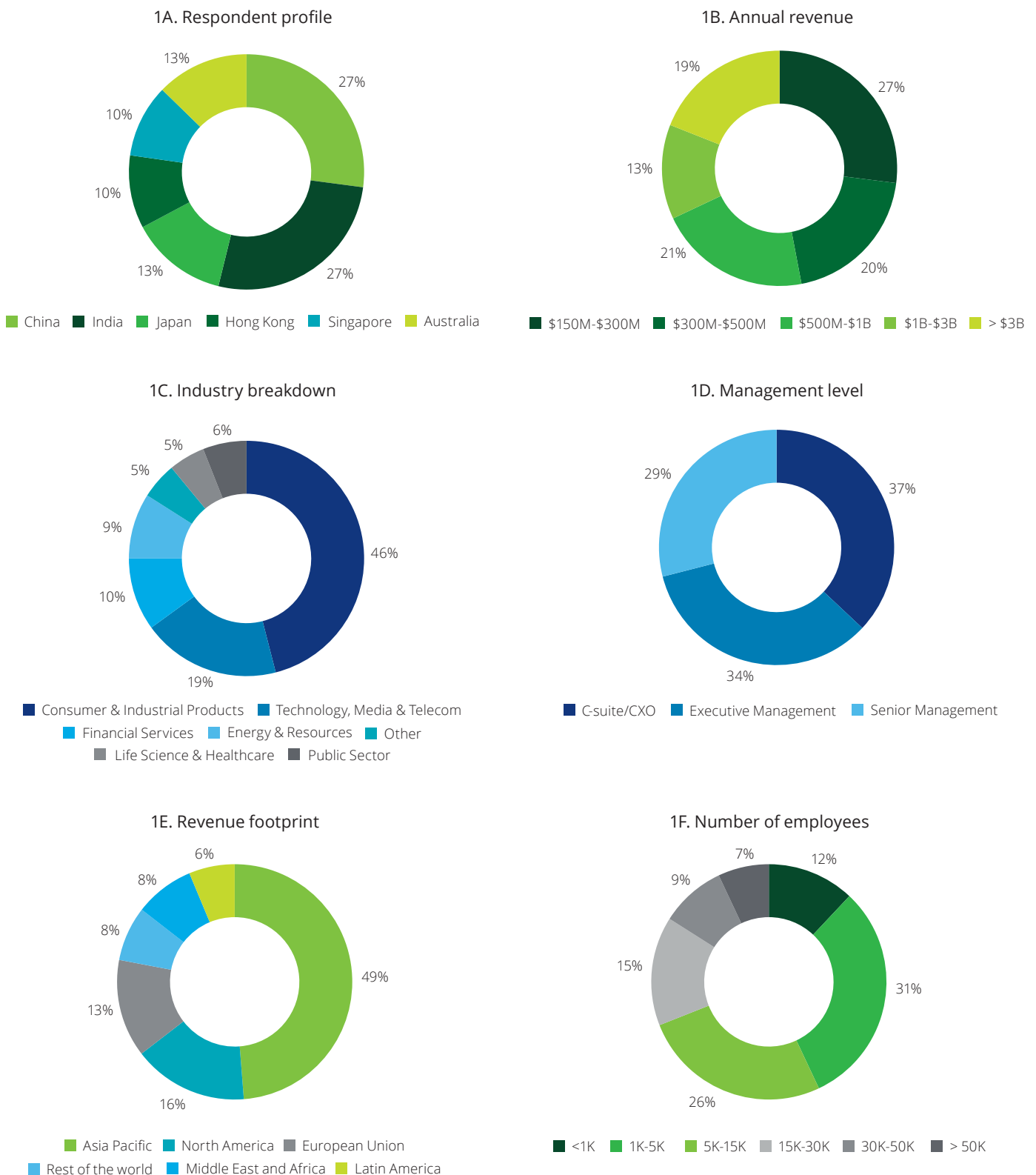
- **Hong Kong:** Rising expectations for future growth, and an unusually strategic view of cost reduction; however, higher than average targets coincide with higher than average failure rates.
- **India:** Highest cost reduction targets in the region, driven significantly by demonetization and its likely negative impact on consumer confidence and demand.
- **Japan:** More focus on growth than cost reduction, but relatively low expectations for both with below average survey numbers for virtually everything related to cost reduction.
- **Australia:** A more balanced approach to cost reduction and growth, perhaps reflecting a mature economy, political stability and a focus on strategic flexibility.
- **Singapore:** More closely aligned with the APAC average than any other country surveyed.

Choosing the right cost management approach

- Businesses in pursuit of cost improvements have traditionally fallen into one of three categories: (1) distressed, (2) positioned for growth, or (3) growing steadily. However, today's volatile and complex global business environment seems to be giving rise to a fourth category that we call 'thriving in uncertainty'. A scenario that straddles the line between 'distressed' and 'positioned for growth'.
- It remains to be seen whether this fourth category is a new and permanent feature of the business landscape, or simply a stepping-stone to one of the traditional categories. In China, and India, conditions seem to be moving in a more positive direction and may require a play-book with value creation levers that emphasize growth. At the other end of the spectrum, conditions in Japan seem to be pushing companies toward greater uncertainty, which may require a more defensive play-book.
- Moving forward, many APAC companies will likely need to adopt a more strategic and transformational approach to cost reduction, which is likely to include capitalizing on digital breakthroughs such as robotic process automation (RPA) and cognitive technologies. Companies that stick to tactical cost actions and the status quo will likely continue to face implementation problems and high cost program failure rates.

About the survey

Figure 1. Firmographic summary for all APAC respondents (299)



In January and February of 2017, Deloitte Consulting LLP conducted its first biennial survey of current and future cost reduction initiatives at large and mid-size companies in China, India, Japan, Australia, Hong Kong, and Singapore – countries that together comprise 89% of the Asia Pacific economy based on gross domestic product (GDP)³.

We also analyzed key macroeconomic factors in order to establish a broader context for the survey results.

We have been conducting similar studies of large companies in the US since 2007 and in 2016 we decided to expand the studies to include Europe, Latin America, and Asia Pacific in order to gain a more global perspective supported by detailed regional insights.

Key objectives

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

Qualification criteria

- C-suite level (CEO, CFO, COO, CIO, Board of Directors, etc.), Executive management level (Division/Business Unit/Regional President, Controller, Treasurer, or other company officers), or senior management level (SVP/VP of a Business Group, or SVP/VP of an enabling function such as Finance, HR, or IT).
- Annual company revenue of at least \$150 million*.
- Personal involvement in managing cost reduction initiatives within the company.

Thirty-two percent of respondents were from companies earning \$1 billion in annual revenue or more; 41% were from companies earning \$300 million to up to \$1 billion; and 27% were from companies earning less than \$300 million but at least \$150 million (Figure 1B).

The top two industries represented by respondents were 'Consumer & Industrial Products' and 'Technology, Media & Telecommunications,' comprising 65% of the survey sample. The next two most frequently represented industries were 'Financial Services' and 'Energy & Resources,' comprising 19% of the survey sample (Figure 1C).

The distribution of responses across upper management levels was fairly even: C-suite/CXO (37%), executive management (34%), and senior management 29% (Figure 1D).

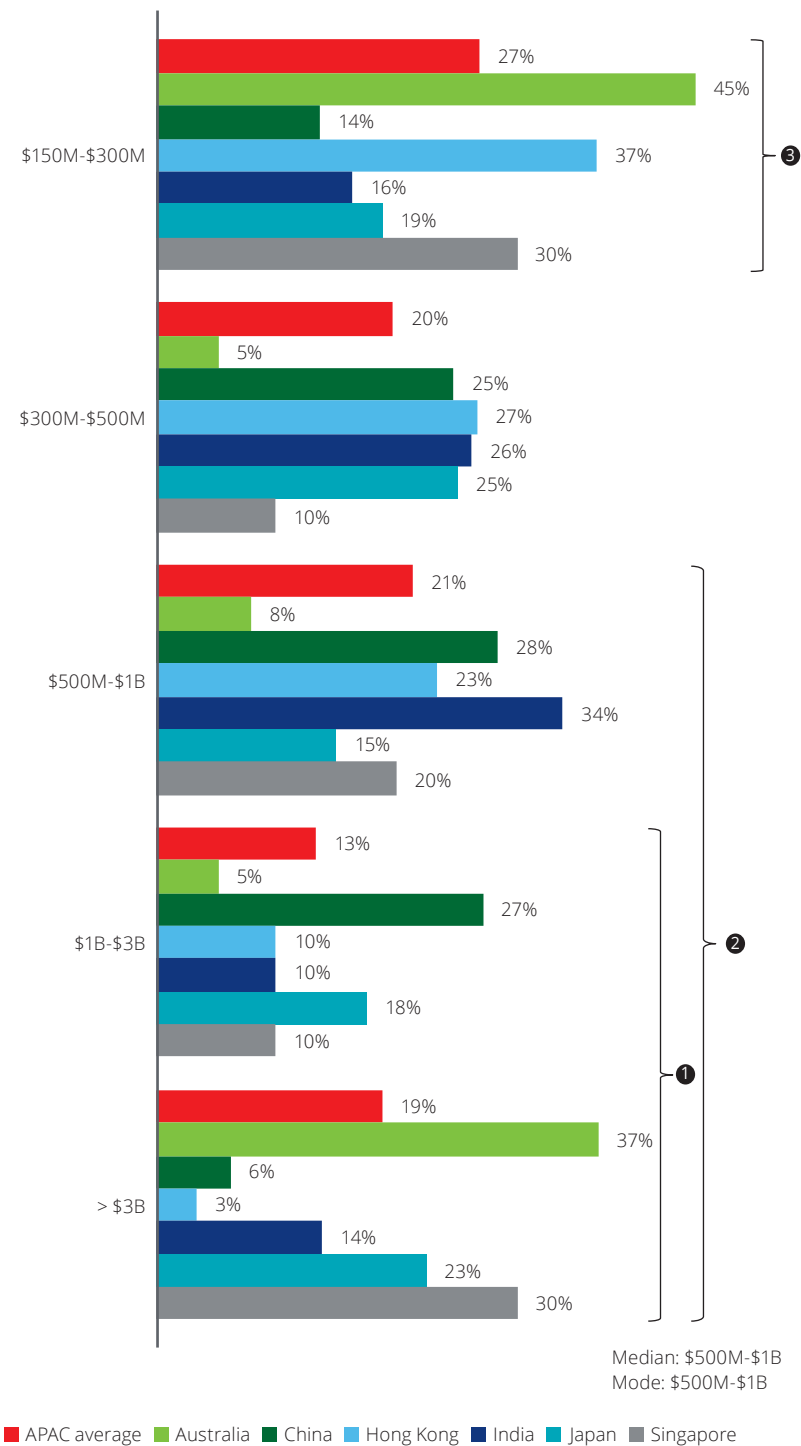
Thirty-one percent of respondents were from companies with 15,000 employees or more; 57% were from companies with 1,000 to 15,000 employees; and 12% were from companies with less than 1,000 employees (Figure 1F).

Initial results from Australia varied significantly from the rest of the region, prompting a supplemental survey in that market to ensure the findings were statistically valid. Results from the second round of surveys were consistent with the first round, validating the findings.

* Throughout this report, 'dollars' refer to US dollars unless otherwise specified; also, the survey was conducted in local currencies.

³World Bank Data

Figure 2. Respondents' annual revenue distribution
% of total respondents



Demographic comparisons

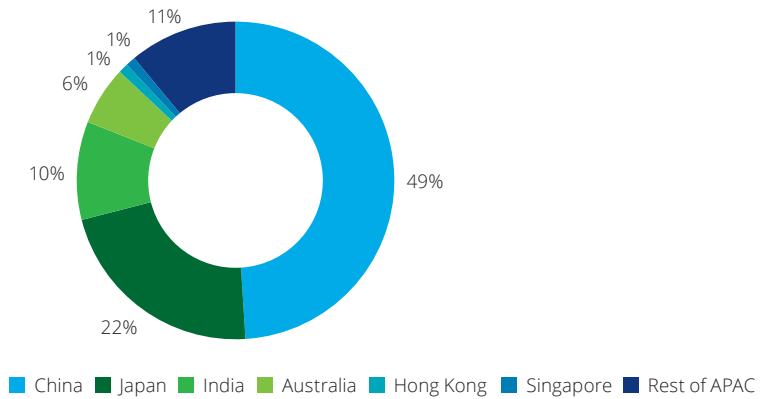
- 1 32% of respondents were from companies earning \$1 billion in annual revenue or more.
- 2 53% of respondents were from companies earnings \$500 million in annual revenue or more.
- 3 Only 27% respondents were from companies earning less than \$300 million in annual revenue.

Macroeconomic trends



The six markets covered in our survey comprise 89% of the APAC economy as measured by GDP (Figure 3).

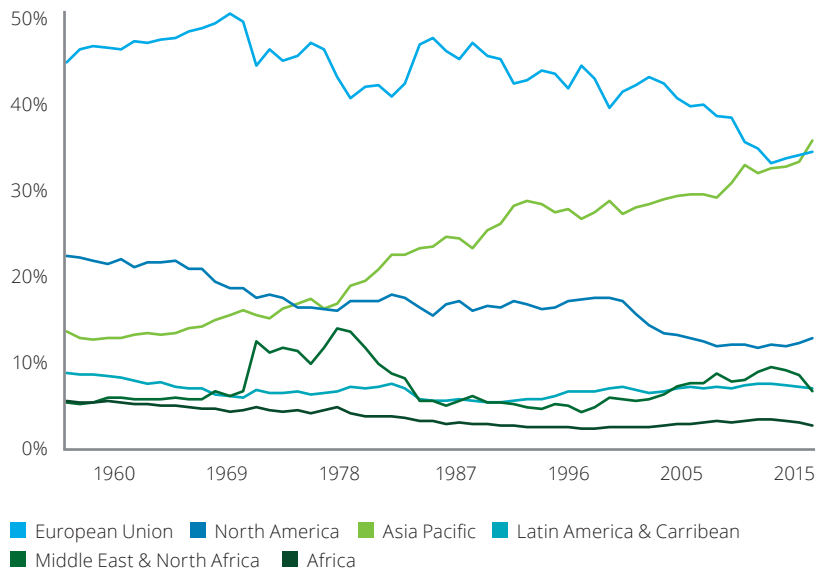
Figure 3. Survey sample coverage
(% of APAC economy by 2016 GDP)



Source: Economist Intelligence Unit

Since the 1960s, APAC growth has been largely driven by an export-focused strategy among Asian economies. In 2015, Asia Pacific surpassed the European Union as the world's leading export region (Figure 4).

Figure 4. Regional shares of global merchandise exports
Share of global merchandise exports (%)

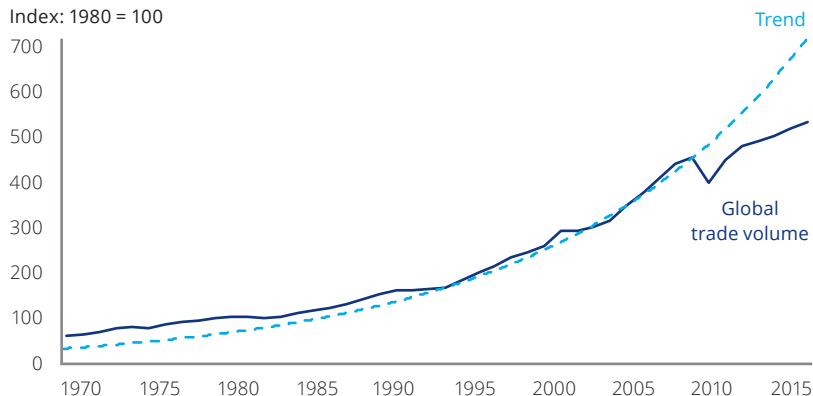


Source: World Bank

Figure 5. Global trade

Global trade volume

Index: 1980 = 100



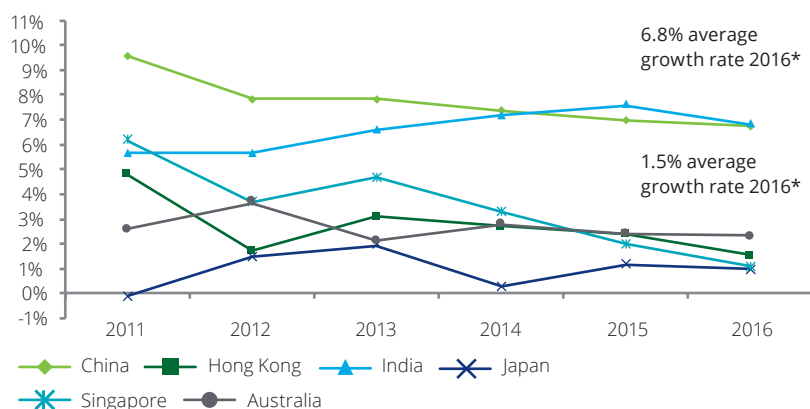
Source: World Bank

Deceleration of global trade volumes since 2008 has contributed to slower growth for most Asian economies (Figure 5).

Today, however, signs of recovery in global trade offer a positive outlook for export-based economies in the region. For example, global container throughput is rising again and recently surpassed its previous peak after sharply declining throughout much of 2015⁴.

Figure 6. Real GDP in past five years

(% change year-over-year)



*Average growth rates calculated based on 2016 reported figures. (e.g., India (6.8%) and China (6.7%) = average 6.8%)

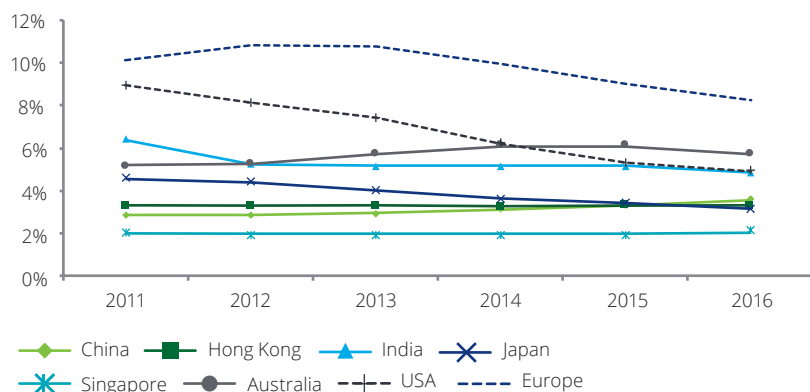
Source: Economist Intelligence Unit

Although China and India had mixed growth results in recent years, those two economies remain by far the most vibrant in Asia. Growth rates are down sharply in Hong Kong and Singapore, while remaining relatively stagnant in Japan (Figure 6).

- Although China's growth rate has slowed, China and India remain the economies with the highest growth in the region.
- Singapore and Hong Kong have followed similar paths, with both having service-based economies and similar relationships with China.
- Japan has experienced mixed results and stagnant growth over the past year.

Figure 7. Unemployment in past 5 years

(% change year-over-year)



Source: Economist Intelligence Unit, U.S. Bureau of Labor Statistics, Eurostat

Unemployment in Asia Pacific is much lower than in Europe, and on par with the US. Among the APAC economies represented in the study, Singapore currently has the lowest unemployment rate (2.1%) and Australia has the highest (5.7%), perhaps indicating room and opportunity for economic expansion (Figure 7).

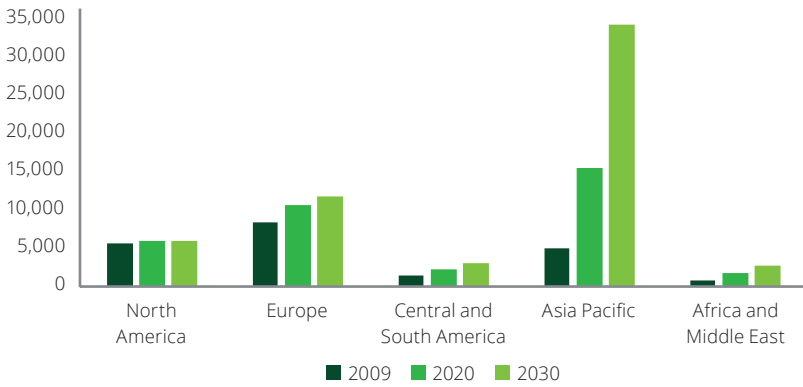
- Australia has the highest unemployment rate (5.7%) and Singapore has the lowest (2.1%) among the APAC countries in this report.

⁴Container Throughput Index (Jan 2011-Jan 2017), Institute of Shipping Economics and Logistics

Figure 8. Middle class spending in Asia is poised for sharp growth

Middle class spending in Asia is poised for sharp growth

2005 PPP US\$ Billion

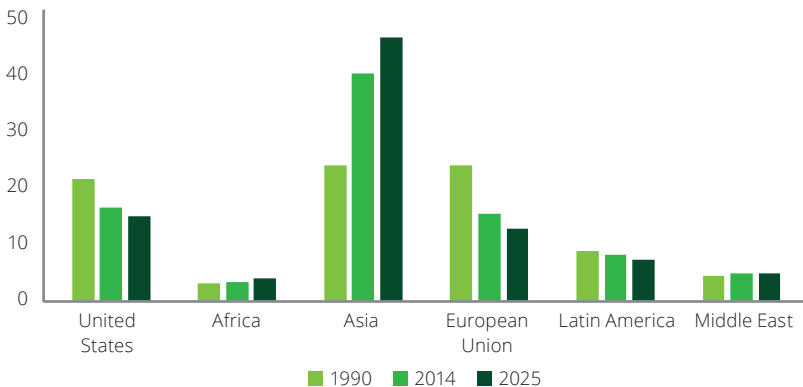


PPP = Purchase Power Parity
Source: Brookings institute, OECD

In addition to renewed export growth due to global trade, middle-class spending in Asia Pacific is growing much more quickly than in other regions, helping APAC economies develop healthy internal markets (Figure 8).

Figure 9. Asia's share (percentage) of global GDP (real US\$ PPP*) will increase further

2005 PPP US\$ Billion



PPP = Purchase Power Parity
Source: Oxford Economics

The Asia Pacific region is already the leading contributor to global GDP, and its overall role in the global economy is expected to continue growing, particularly in relation to the US, Latin America, and the European Union, all of which are seeing their relative contribution to global GDP steadily decline (Figure 9). Growth within Asia Pacific is largely being driven by China and India.

As in the rest of the world, APAC economies have faced significant market volatility and uncertainty in recent years. Also, APAC currencies – particularly the Australian dollar – have weakened relative to the US dollar.

APAC regional findings

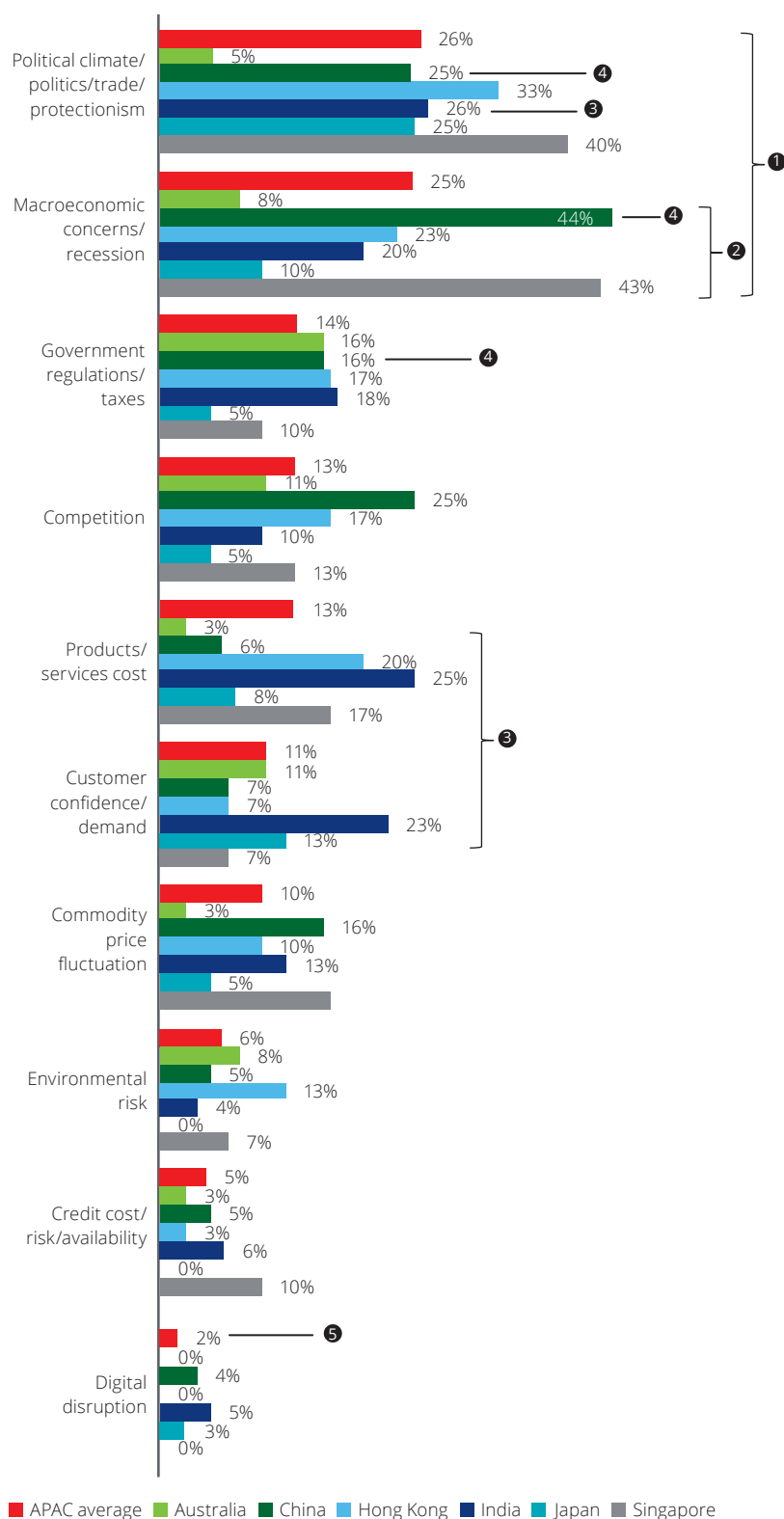
Political and economic factors are the top external risks

According to our survey, the top external risks in APAC revolve around politics and economics. Macroeconomic concerns are viewed by respondents as the biggest risk in China (44%) and Singapore (43%), by a wide margin. However, for the region as a whole, the top external risk is political climate (26%), with macroeconomic concerns a close second (25%) (Figure 10).

Survey findings

- ① The top risks are related to political climate (26%) and macroeconomic concerns (25%).
- ② The top external risk by far for China (44%) and Singapore (43%) is macroeconomic concerns.
- ③ In Addition to political climate (26%), India's top risks are related to products/services costs (25%) and customer confidence (23%).
- ④ Following macroeconomic concerns (44%), China's top risks are political climate (25%) and competition (25%).
- ⑤ Digital disruption is not perceived by most APAC respondents as a major external risk.

Figure 10. Top external risks





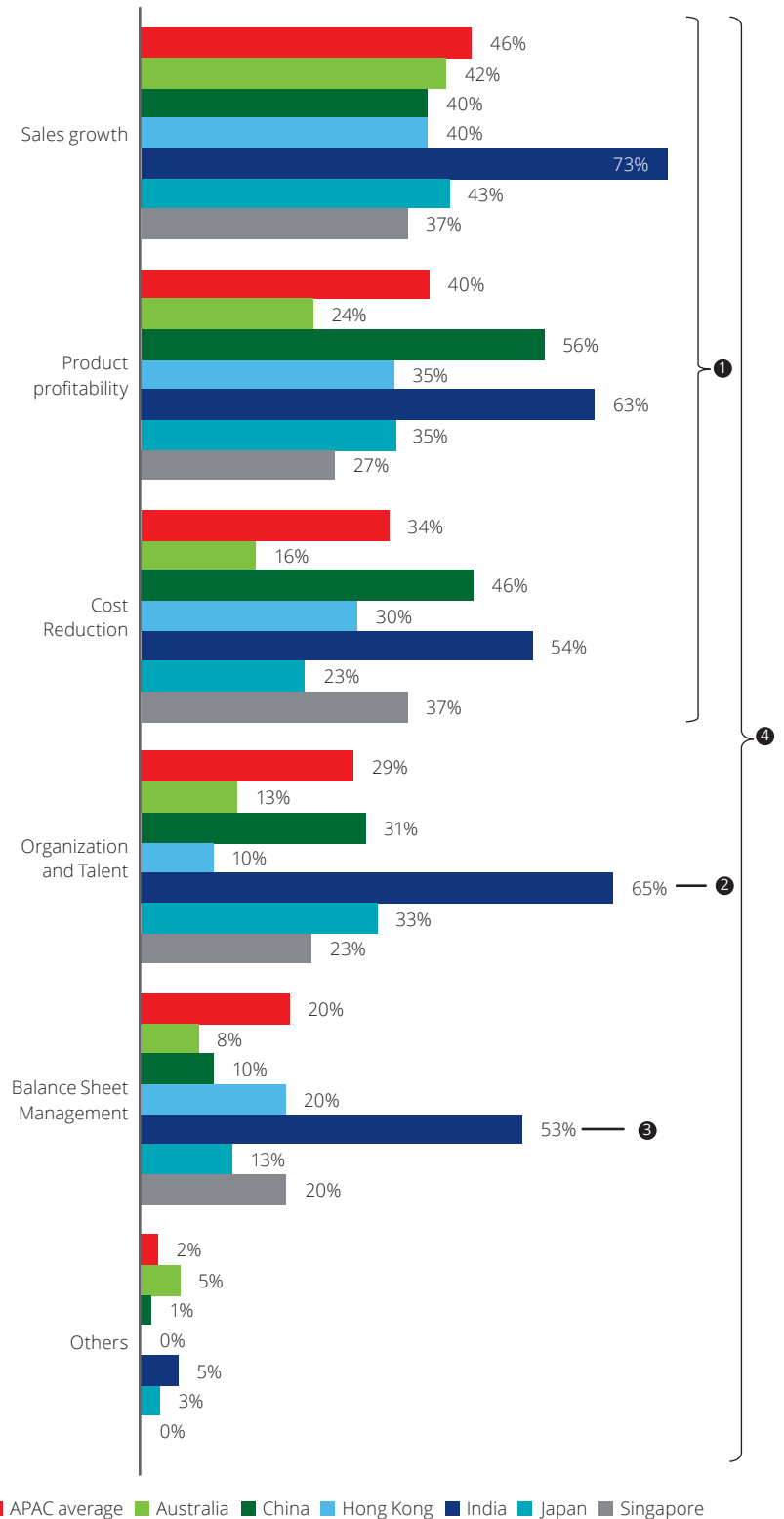
Save to grow

The top three strategic priorities among respondents are 'sales growth' (46%), 'product profitability' (40%), and 'cost reduction' (34%). This mixed set of priorities typifies a cost management strategy we call 'save to grow': using cost savings to fund growth activities. Response levels from India were significantly higher than average for all strategic priorities, especially for 'organization and talent' (65%) and 'balance sheet management' (53%) (Figure 11).

Survey findings

- ① The top three priorities cited by respondents were sales growth (46%), product profitability (40%), and cost reduction (34%).
- ② India cited organization and talent much more frequently than average (65% vs 29% for APAC).
- ③ Balance sheet management was cited much more frequently in India than in the region overall (53% vs 20% for APAC).
- ④ Responses from India are consistently higher than average across all priority areas.

Figure 11. Strategic priority in next 24 months





Growth expectations are rising

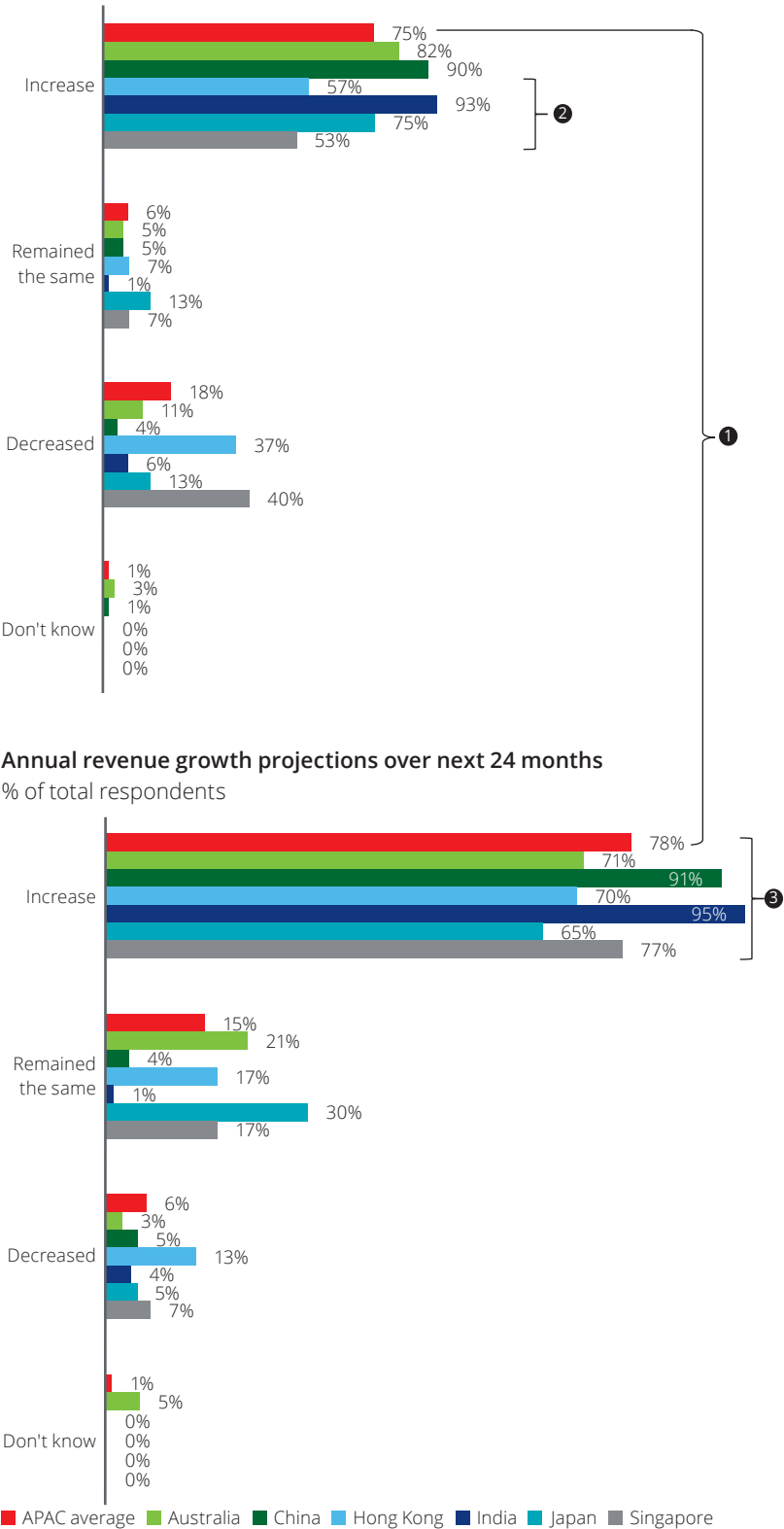
Respondent expectations for positive revenue growth over the next 24 months are slightly higher (78%) than historical growth performance over the past 24 months (75%). Growth expectations are below average in Japan (65%), Hong Kong (70%), and Australia (71%), but still positive overall (Figure 12).



Survey findings

- 1 On average, 75% of APAC respondents saw their revenues increase over the past 24 months, and 78% expect their revenues to increase over the next 24 months.
- 2 The percentage of respondents from Hong Kong and Singapore that saw revenues increase over the past 24 months is much lower than the average (57% and 53% vs 75%).
- 3 Respondents from Hong Kong (70%), Japan(65%), and Australia (71%) were more moderate than the average (78%) about future revenue growth.

Figure 12. Annual revenue growth
Annual revenue over past 24 months
% of total respondents





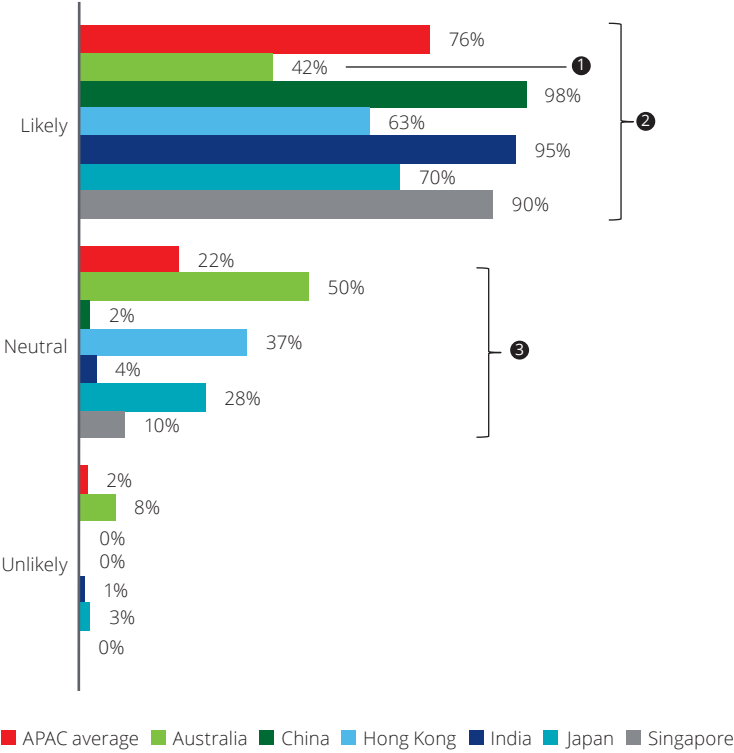
Cost reduction is a common focus

Companies surveyed throughout the APAC region expect to focus on cost reduction over the next 24 months, with cost reduction particularly likely in China (98%), India (95%), and Singapore (90%) (Figure 13).

Survey findings

- 1 Australian respondents cited the lowest likelihood for future cost reduction (42% vs the APAC average of 76%).
- 2 Likelihood of cost reduction in Hong Kong (63%) and Japan (70%) is also below the APAC average (76%).
- 3 Australian companies have the highest neutral view towards cost reduction (50%), followed by Hong Kong (37%) and Japan (28%).

Figure 13. Likelihood of cost reduction in the next 24 months
% of total respondents





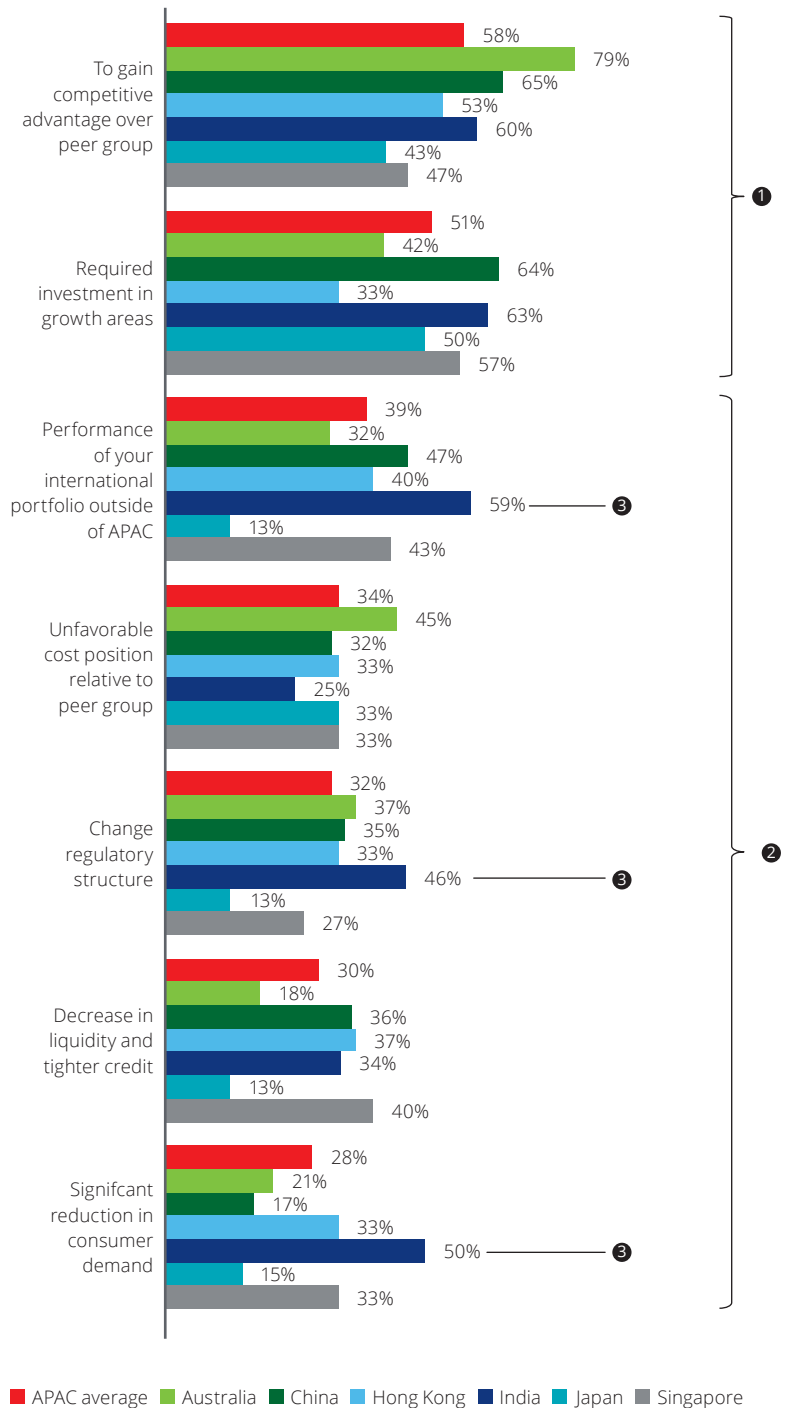
Thriving in uncertainty

The top two drivers for cost reduction are 'to gain competitive advantage' (58%), followed by 'required investment in growth areas' (51%), according to respondents. Both of these are distinctly growth-oriented. However, the next five cost reduction drivers are all defensive in nature. This mixed combination of cost drivers suggests that while APAC companies are aggressively pursuing growth, they are also positioning themselves for an uncertain future (Figure 14).

Survey findings

- ① The top two drivers of cost reduction are 'to gain competitive advantage over peer group' (58%) and 'required investment in growth areas' (51%). Both are offensive in nature and related to growth.
- ② Five of the seven drivers of cost reduction are defensive in nature and related to political and macroeconomic uncertainty.
- ③ Indian companies rated three cost reduction drivers much higher than average: performance of portfolio outside APAC (59% vs 39%); changed regulatory structure (46% vs 32%); and significant reduction in consumer demand (50% vs 28%).

Figure 14. Drivers of cost reduction





Most cost reduction programs are failing

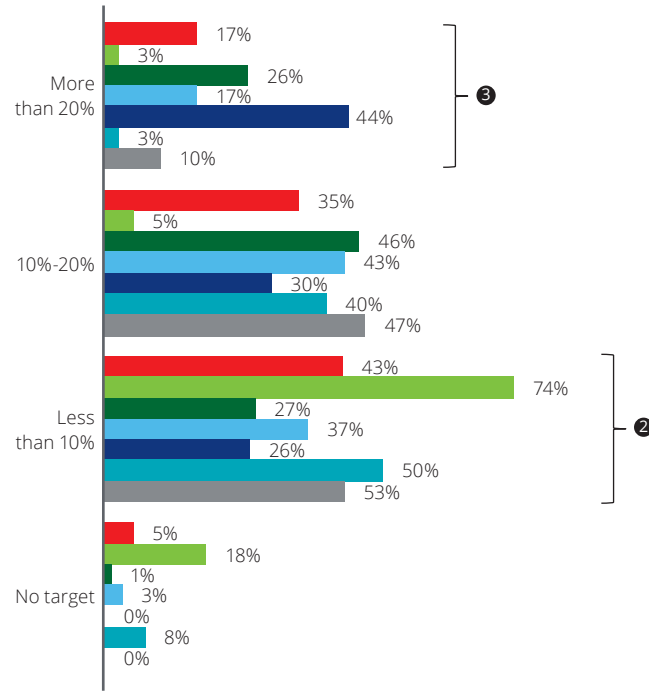
The majority of respondents (63%-83%) are not meeting their cost reduction goals. This is true despite the fact that a significant number of companies (43%) have cost improvement targets of less than 10%. On average, Australia is the country with the least aggressive cost targets. Cost improvement targets in excess of 20% are most common in India (44%) and China (26%) (Figure 15).



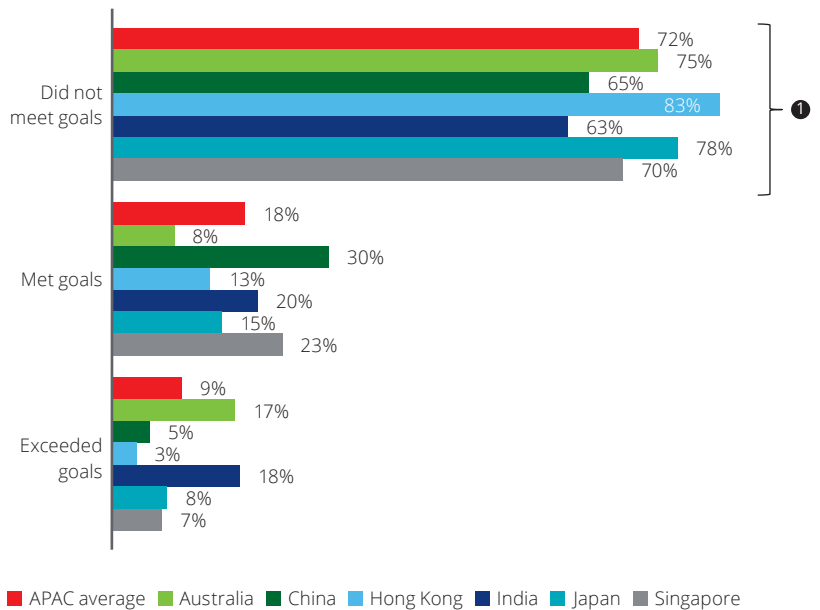
Survey findings

- ❶ The majority of companies did not meet their cost reduction targets (range of 63-83%; APAC average of 72%).
- ❷ Across APAC, the greatest percentage of survey respondents with cost reduction targets below 10% were in Australia (74%), compared to a region average of 43%.
- ❸ The greatest percentage of survey respondents with cost reduction targets above 20% were in China (26%) and India (44%), compared to a region average of 17%.

Figure 15.
A) Annual cost reduction targets
% of total respondents



B) Success in meeting cost targets
% of total respondents



■ APAC average ■ Australia ■ China ■ Hong Kong ■ India ■ Japan ■ Singapore

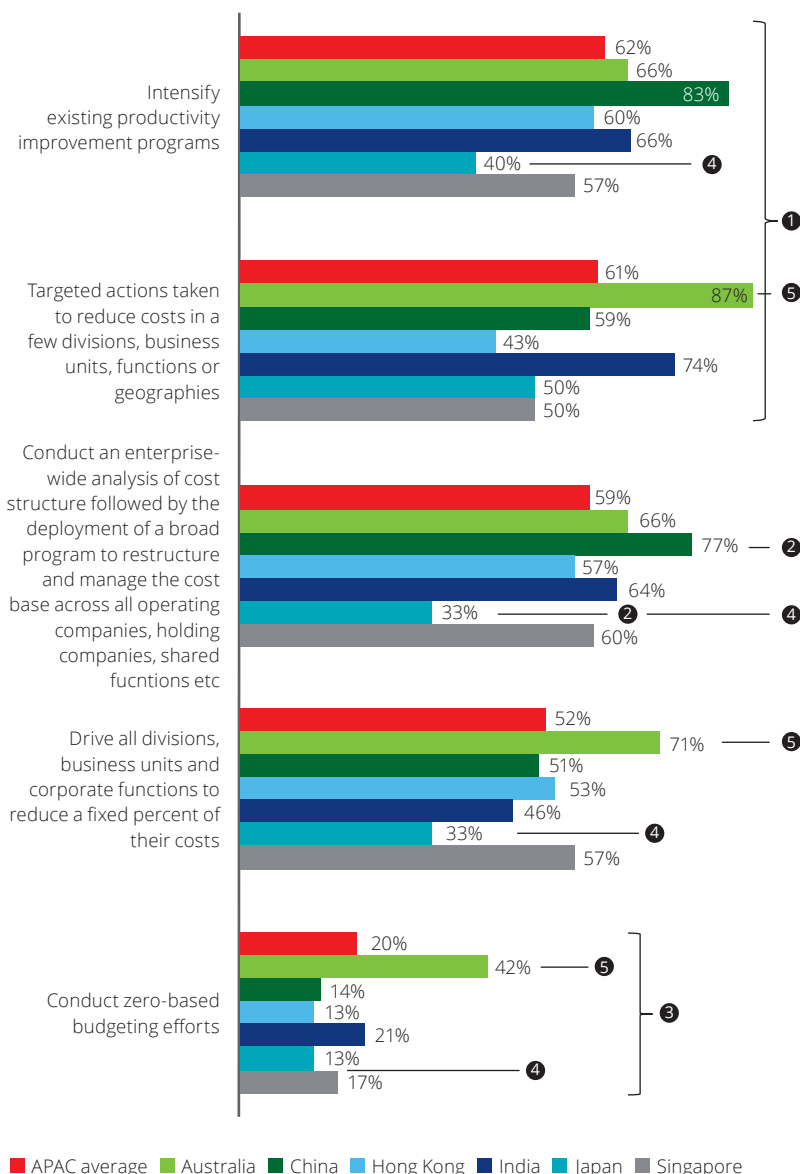
A variety of cost reduction approaches are being used

The two most popular cost reduction approaches for respondents over the past 24 months are 'intensifying existing productivity programs' (62%) and 'targeted action to reduce costs' (61%). However, the most popular cost reduction approach in China is 'conducting enterprise-wide analysis' (77%). Zero-based budgeting (ZBB) is the least popular of the cost reduction approaches cited in the survey, although it is much more common in Australia (42%) than across the APAC region as a whole (See sidebar on zero-based budgeting). Although Australian companies cite ZBB much more frequently than average, the same is true for other approaches such as 'drive all divisions to reduce a fixed percentage of costs' and 'targeted actions to reduce costs', potentially inferring a higher level of cost reduction activity in Australia over the past 24 months (Figure 16).

Survey findings

- ① The top two approaches for cost reduction are: intensifying existing productivity programs (62%), and targeted actions to reduce costs (61%).
- ② China rated enterprise-wide analysis much higher than average (77% vs 59% for APAC); Japan's rating in this area was the lowest (33%).
- ③ Over the past 24 months, zero-based budgeting (ZBB) was much less popular than other approaches to cost management (response rates range from 13%-42%, with an average of 20%).
- ④ Japanese companies had the lowest ratings for four of the five approaches, suggesting a lower prevalence of cost reduction in Japan.
- ⑤ Australian companies had the highest ratings in 3 of 5 approaches, suggesting that their low expectations for future cost reduction might be understated.

Figure 16. Approaches to manage costs over the past 24 months





Barriers to effective cost management

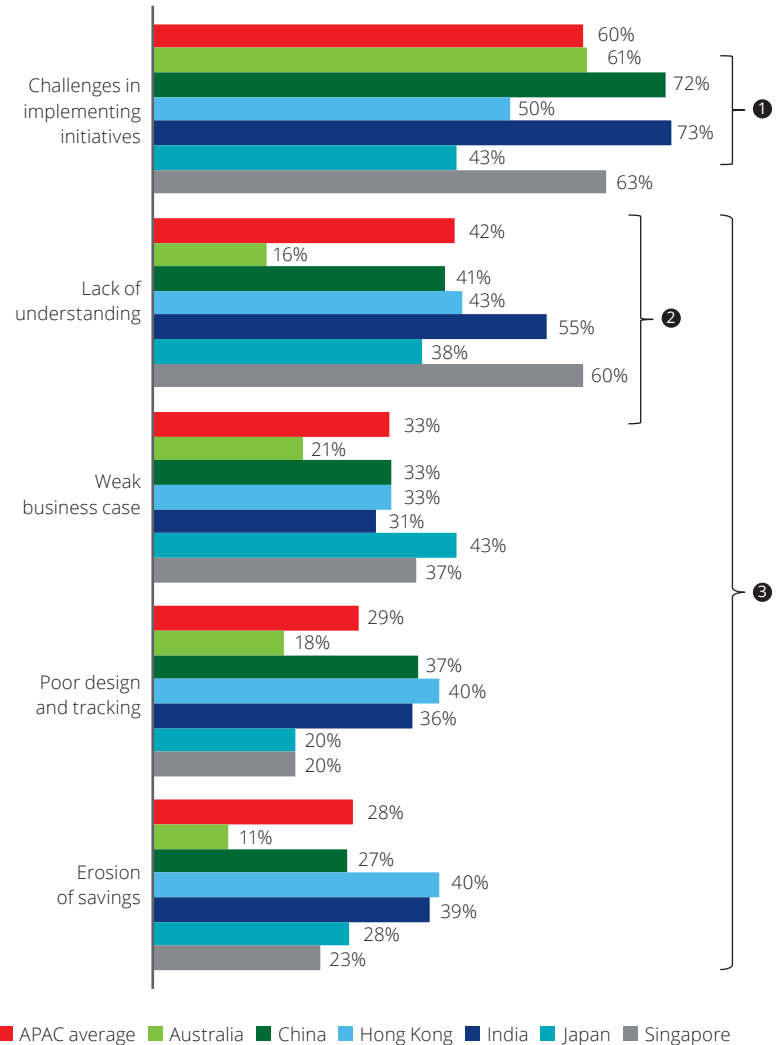
According to respondents, implementation challenges are the biggest barrier to effective cost management. This is particularly true in India (73%) and China (72%), perhaps because they are pursuing the most aggressive cost targets. Lack of understanding is cited as the second biggest barrier, although the other barriers are not far behind (Figure 17).



Survey findings

- ① India (73%) and China (72%) rate implementation challenges much higher than other barriers; this is consistent with their higher than average cost targets.
- ② Lack of understanding was cited much more frequently in India (55%) and Singapore (60%) than in APAC overall (42%).
- ③ Australia's responses were the lowest on 4 of 5 barriers, implying a lack of broad focus on cost reduction.

Figure 17. Barriers to effective cost management





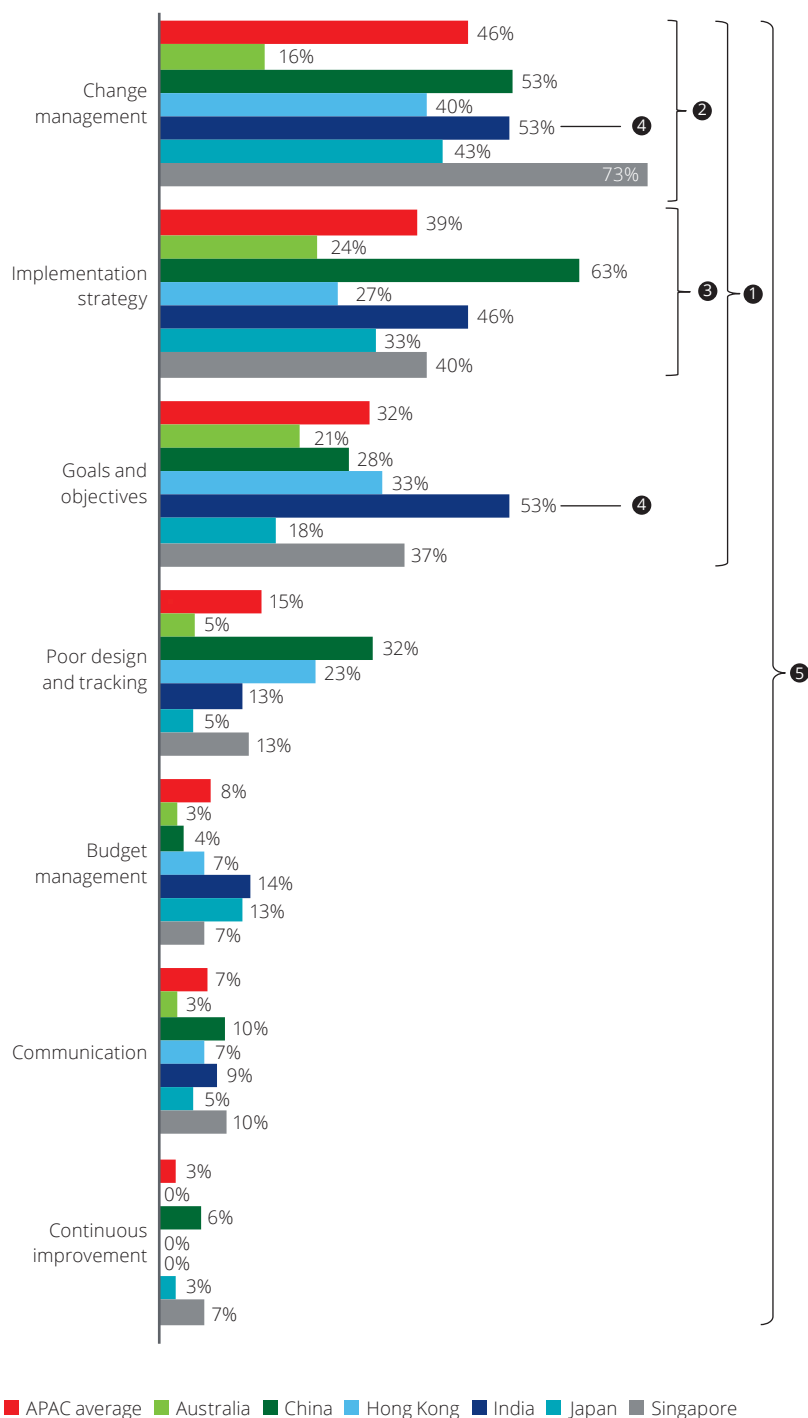
Lessons learned

Given that implementation challenges are the biggest barrier to effective cost management for respondents, it is not surprising that the top lessons learned are 'change management' (46%), 'implementation strategy' (39%), and 'goals and objectives' (32%) – all of which are critical to successful implementations. China ranked implementation strategy particularly high (63%) (Figure 18).

Survey findings

- ① The top three lessons learned are related to change management (46%), implementation strategy (39%), and goals and objectives (32%).
- ② Singapore (73%), India (53%), and China (53%) cited change management more frequently than the APAC average (46%).
- ③ China (63%) and India (46%) cited implementation strategy more frequently than the APAC average (39%).
- ④ India had the highest response rates in the region for goals and objectives (53%) and change management (53%).
- ⑤ Responses were lower across the board from Australian respondents.

Figure 18. Lessons learned-past 24 months



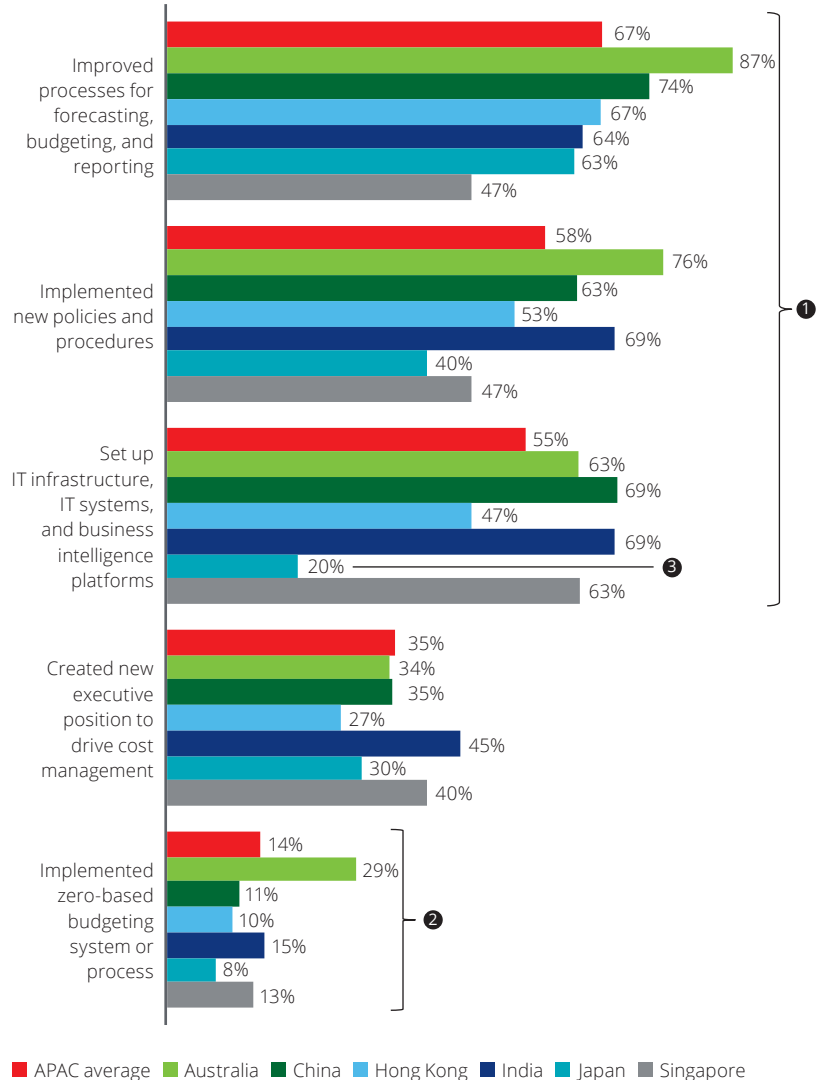
Developing cost management capabilities

Over the past 24 months the most popular focus area for developing cost management capabilities cited by respondents was 'forecasting, budgeting, and reporting' (67%), followed by 'new policies and procedures' (58%), and 'IT infrastructures, IT systems, and business intelligence platforms' (55%). Zero-based budgeting was the least popular development area (Figure 19).

Survey findings

- ① The most frequently cited capabilities developed over the past 24 months were: improved processes for forecasting, budgeting, and reporting (67%); implement new policies and procedures (58%); and set up IT infrastructure, IT systems, and business intelligence platforms (55%).
- ② ZBB was the least developed capability over the past 24 months; Australian companies cited this capability more than average (29% vs 14%), but it was still their least developed capability.
- ③ Japan's responses were consistently lower than average, especially for setting up IT infrastructure and systems (20% for Japan vs 55% for APAC).

Figure 19. Capabilities developed over past 24 months



Strategic cost actions are underutilized

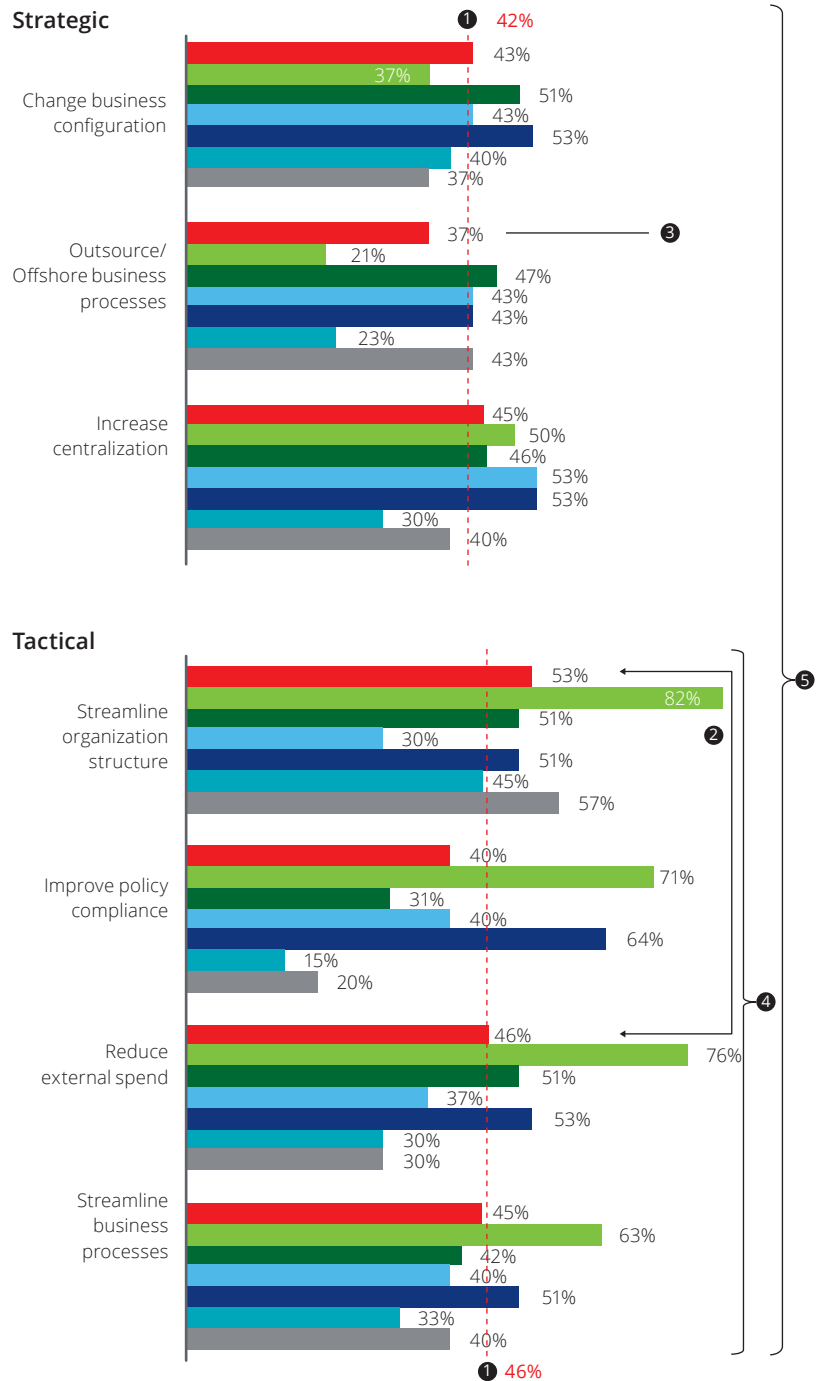
Across the APAC region, likely cost actions over the next 24 months tend to be more tactical (46%) than strategic (42%), according to respondents. The two most likely cost actions are 'streamline business processes' (53%) and 'reduce external spend' (46%), both of which are highly tactical in nature. The least likely cost action is outsourcing/off-shoring (37%), which is more strategic. This heavy emphasis on tactical cost actions can be a key opportunity for improvement, since strategic cost actions are generally able to deliver greater cost savings (Figure 20).



Survey findings

- ① On average, 42% of respondents plan to undertake a strategic cost action vs 46% that plan to undertake a tactical cost action.
- ② The most frequently cited cost actions are 'streamline business processes' (53%) and 'reduce external spend' (46%); both of these actions are tactical in nature.
- ③ The least frequently cited cost action is outsourcing/off-shoring business processes (37%); this action is strategic in nature.
- ④ Australia cites use of all tactical cost actions more frequently than average, perhaps reflecting recent focus on cost reduction and shifting focus of conducting combined cost and growth transformations.
- ⑤ Japan's responses were lower than average for 6 of 7 cost actions, providing additional evidence for a lower prevalence of cost programs in Japan.

Figure 20. Cost actions viewed as most likely in next 24 months



Zero-based budgeting: breakthrough or passing fad?

The traditional approach for developing a budget is to start with the previous period's budget and make adjustments 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). The theory is that ZBB prompts 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?

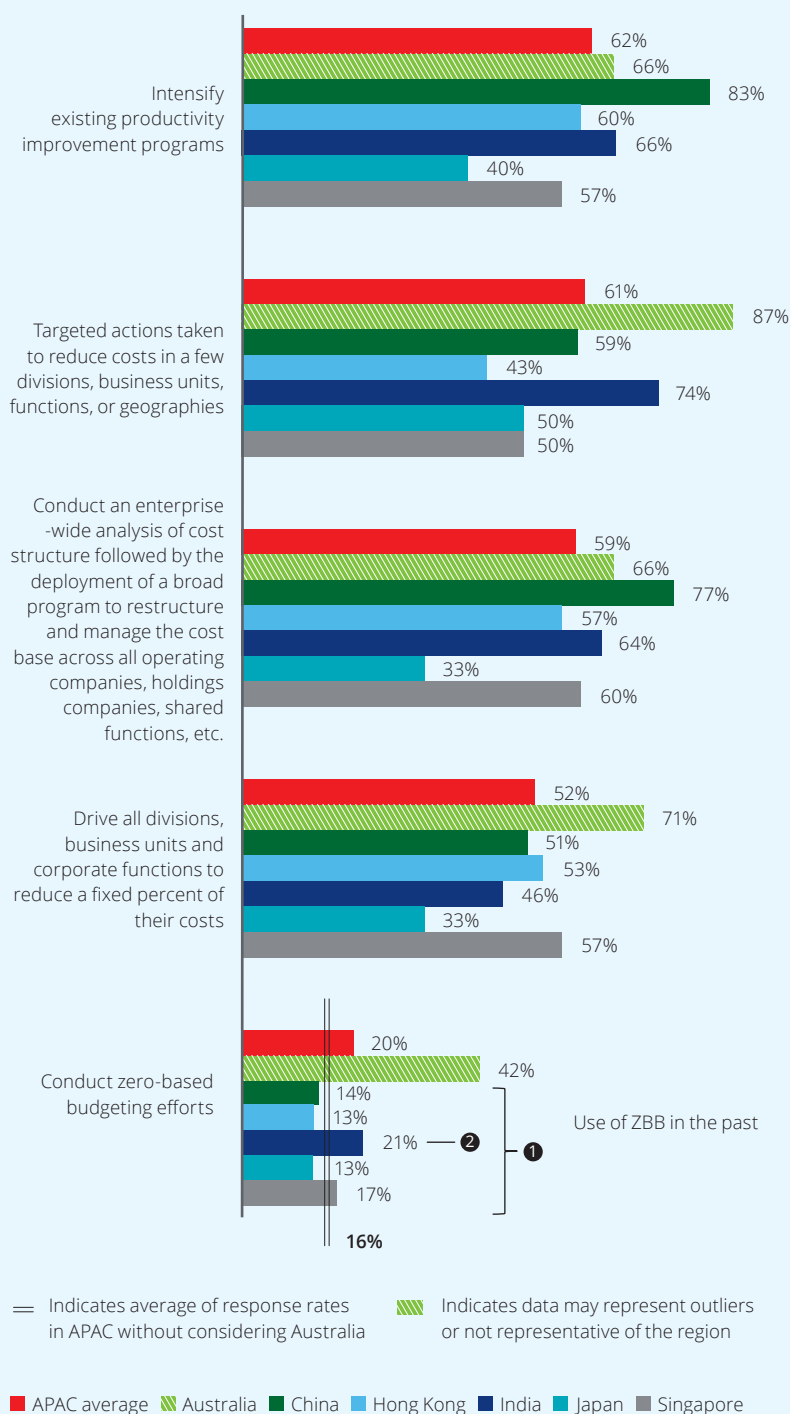
In our survey of APAC companies, ZBB was the lowest ranked approach to managing costs over the past 24 months. Note that ZBB is far more popular in Australia (42%) than in the region as a whole (20%). To prevent this disparity from biasing the results, our ZBB analysis generally includes two different views: one with Australia, and one without. In this case, for example, excluding Australia from the data set drops the average for ZBB use in APAC from 20% to 16%.

It should be noted that ZBB is not the only cost management approach that shows higher use in Australia. In fact, in 3 of the 5 approaches compared, Australia shows a much higher response than the regional APAC averages (Figure 21).

Survey findings

- 1 Average use of ZBB across all of APAC over the past 24 months is only 16% (excluding Australia), with a range of 13-21%.
- 2 After Australia, India has the highest use of ZBB (21%).

Figure 21: Approaches to manage costs over the past 24 months
% of total respondents





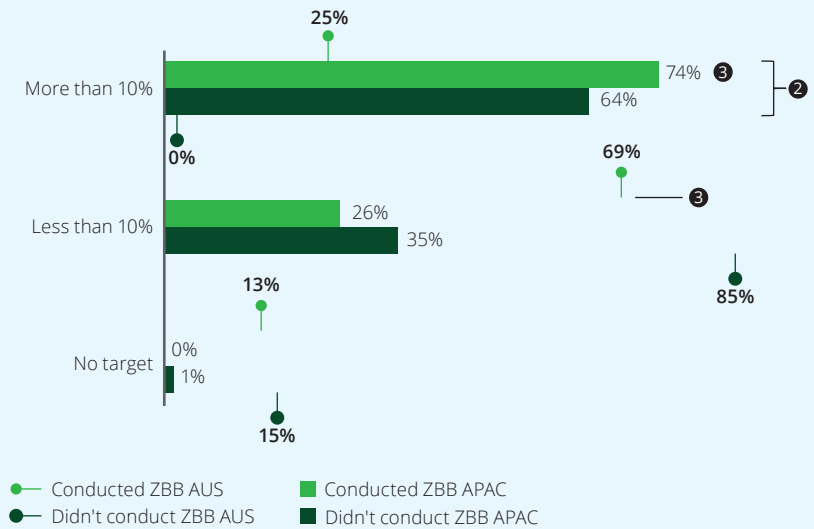
APAC respondents that use ZBB are less likely to miss their cost targets (60%) than are non-ZBB users (71%); however, the cost program failure rate for companies in Australia that use ZBB is actually higher (63%) than the 60% APAC average, despite ZBB's popularity in that country (Figure 22).



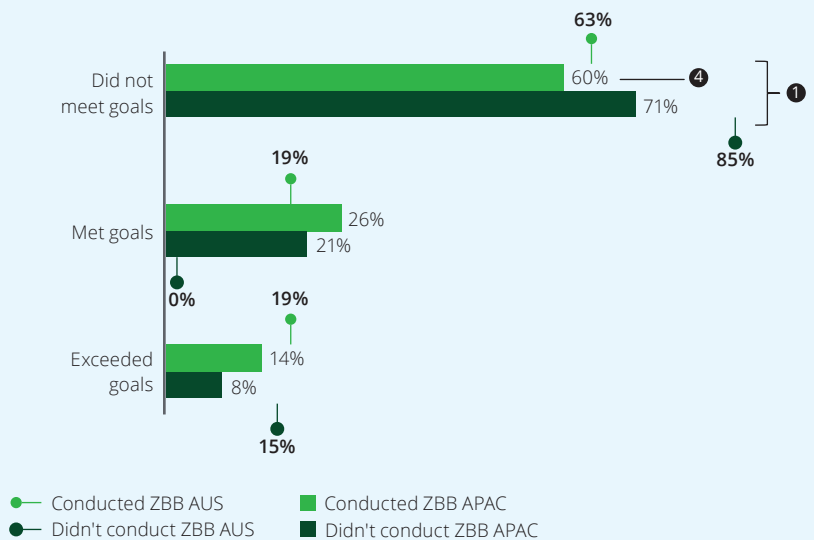
Survey findings

- 1 According to the survey, APAC companies that used ZBB were less likely to miss their goals (60% vs 71% for non-ZBB users).
- 2 ZBB users were more likely to have cost reduction targets greater than 10% (74% vs 64% for non-ZBB users).
- 3 ZBB users in Australia tended to have cost reduction targets of less than 10% (69%), whereas ZBB users across the entire APAC region tended to have targets of more than 10% (74%).
- 4 Failure rates were similar for ZBB users in Australia (63%) and in APAC as a whole (60%).

Figure 22.
A) Annual cost reduction targets
% of total respondents



B) Success in meeting cost targets
% of total respondents



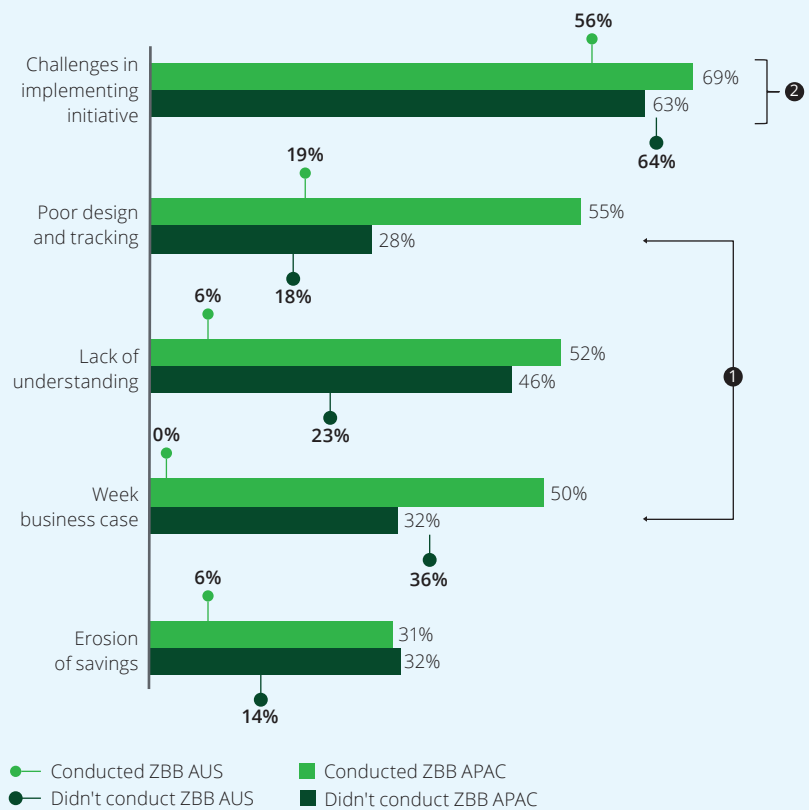
Companies surveyed that used ZBB over the past 24 months report more barriers to effective cost management. In particular, ZBB users rank two barriers much higher than do non-ZBB users: 'poor design and tracking' (55% for ZBB users vs 28% for non-ZBB users) and 'weak business case' (50% for ZBB vs 32% for non-ZBB) (Figure 23).

Survey findings

- Two barriers were rated much higher by ZBB users than non-ZBB users: poor design and tracking (55% vs 28% non-ZBB) and weak business case (50% vs 32% non-ZBB).
- Australian responses were directionally consistent with the APAC averages on implementation challenges. However, responses for other barriers varied significantly between Australia and the rest of APAC.

Figure 23: Barriers to effective cost management (ZBB use)

% of total respondents



Looking ahead, the survey data shows that adoption of ZBB over the next 24 months is expected to hold steady at 20% (17% if Australia is removed from the analysis) (Figure 24). This relatively flat adoption rate suggests the ZBB trend might already be topping out (Figure 24).

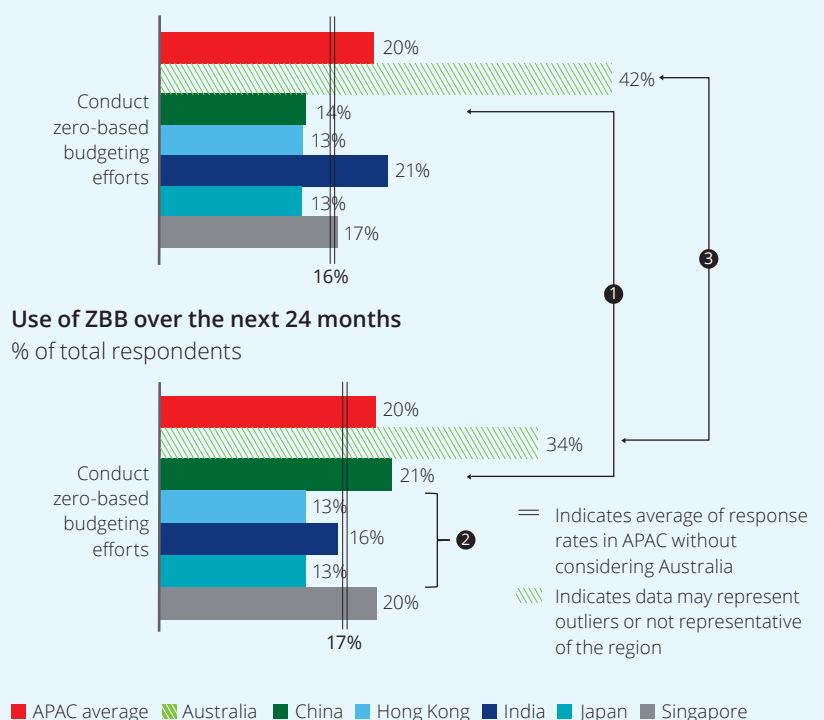
Survey findings

- Respondents from China and Singapore expect to increase their use of ZBB over the next 24 months, with Chinese companies expecting the largest increase, from 14% to 21%.
- Companies in Hong Kong and Japan expect ZBB use to hold steady at 13%, while Indian companies expect a decline from 21% to 16%.
- Australian respondents also expect a decline in ZBB use, from 42% to 34%.

Figure 24. Past and future ZBB use

Use of ZBB over the past 24 months

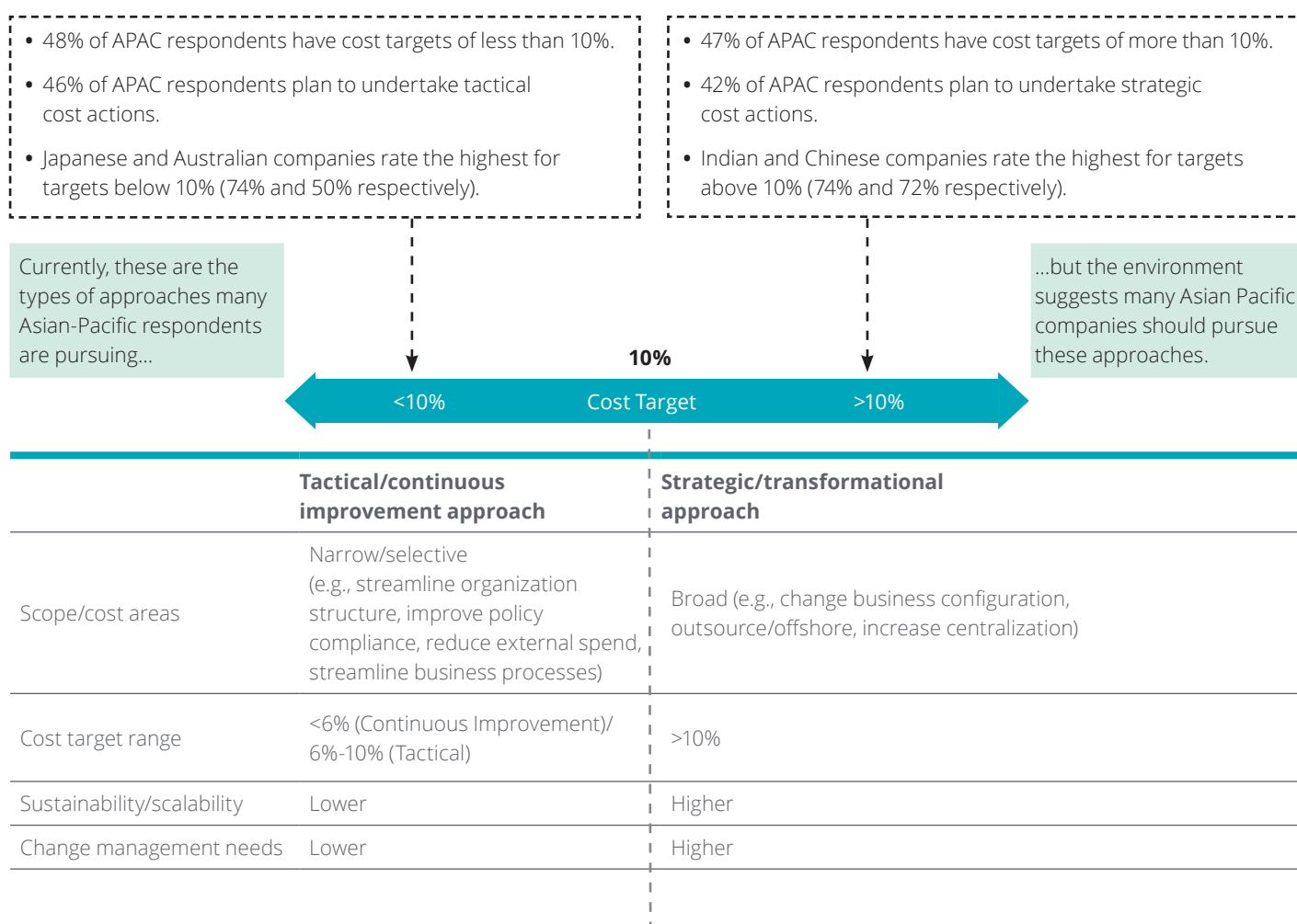
% of total respondents



Choosing the right cost management approach




High failure rates suggest that cost programs in Asia Pacific are not as effective as they could be, creating an opportunity for companies in the region to significantly improve how they manage costs. The right approach varies from one company to the next, depending on its unique situation and challenges. However, achieving cost targets greater than 10% will generally require a cost management approach that is more strategic and transformational in nature, as tactical improvements alone are unlikely to produce more than single-digit cost savings (Figure 70).

Figure 70. The cost management continuum



Traditionally, companies in pursuit of strategic cost improvements have fallen into one of three categories: (1) distressed, (2) positioned for growth, or (3) growing steadily (Figure 71).

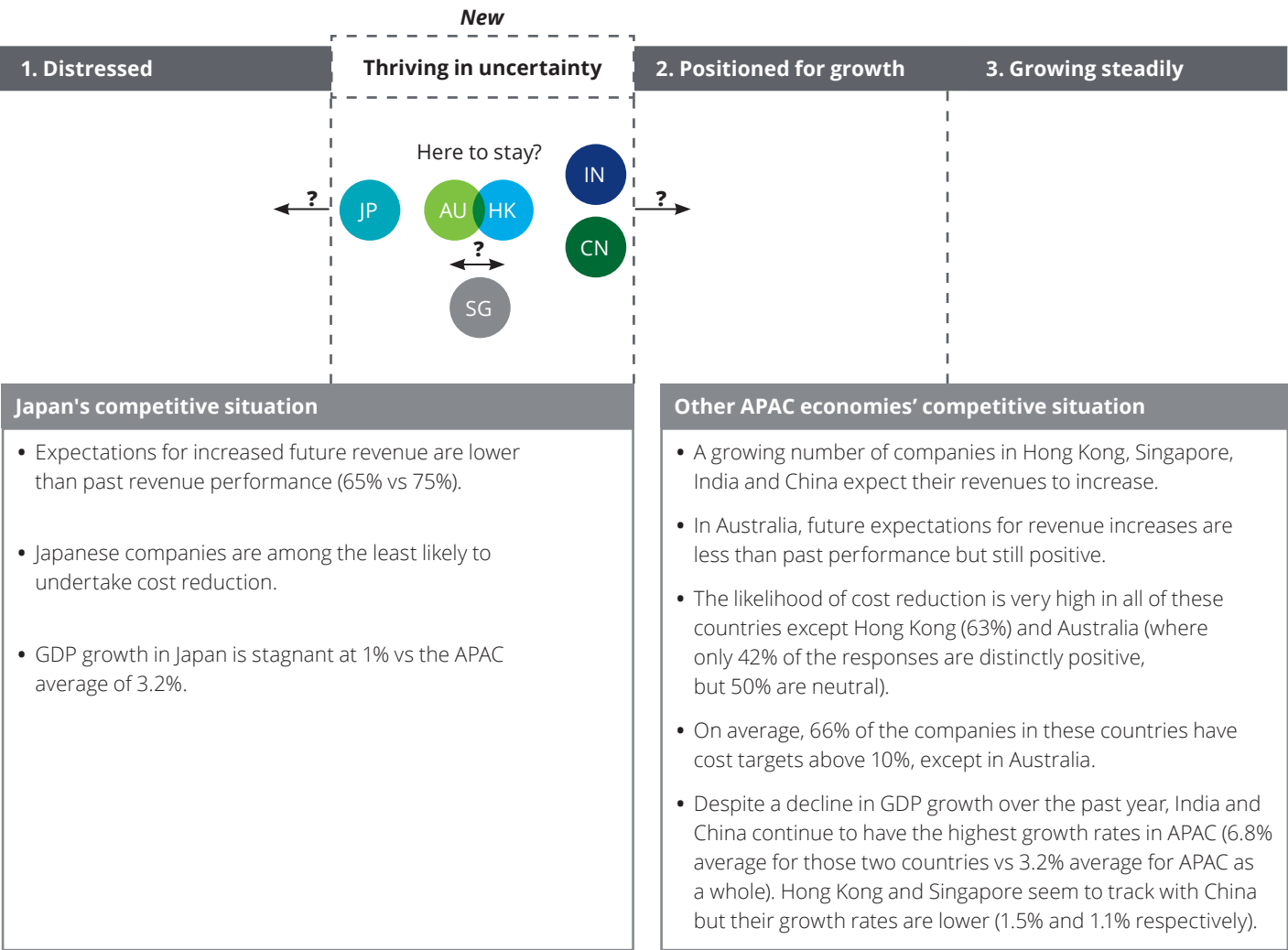
Figure 71: Traditional cost management scenarios

	1. Distressed	2. Positioned for growth	3. Growing steadily
Competitive situation	<ul style="list-style-type: none"> Losing market share. Structural operating flaws. Liquidity concerns. No clear growth options. 	<ul style="list-style-type: none"> Recovering from recession. Adjusting to demand levels. Growth concerns. Conditional options for growth. 	<ul style="list-style-type: none"> Healthy balance sheet. Excess cash flow/reserves. High growth potential. Unconstrained options.
Priority balance	<p>Low Focus</p>  <p>High Focus</p>	<p>Low Focus</p>  <p>High Focus</p>	<p>Low Focus</p>  <p>High Focus</p>
Primary objectives	<ul style="list-style-type: none"> Conserve cash. Renegotiate costs. Restructure debt. Downscale business model. 	<ul style="list-style-type: none"> Transform operating model. Optimize business processes. Right-size FTE structure. Fuel growth through savings (capital efficiency). 	<ul style="list-style-type: none"> Focus on investment and M&A. Optimize and align customer and product portfolios. Focus on efficient execution and delivery.

A 'distressed' business typically focuses on short-term survival and balance sheet improvement -- looking for any cost and liquidity improvements that can help stabilize the business. A business that is 'positioned for growth' typically starts by focusing on structural improvements, such as choosing the right operating model; it can then look for additional cost reduction opportunities to help fund its growth initiatives. A company that is 'growing steadily' typically focuses on achieving profitable and sustainable growth through structural cost efficiencies and improvements – such as smart investments, M&A, and management of customer and product portfolios – actions that can strengthen its performance and competitive position.

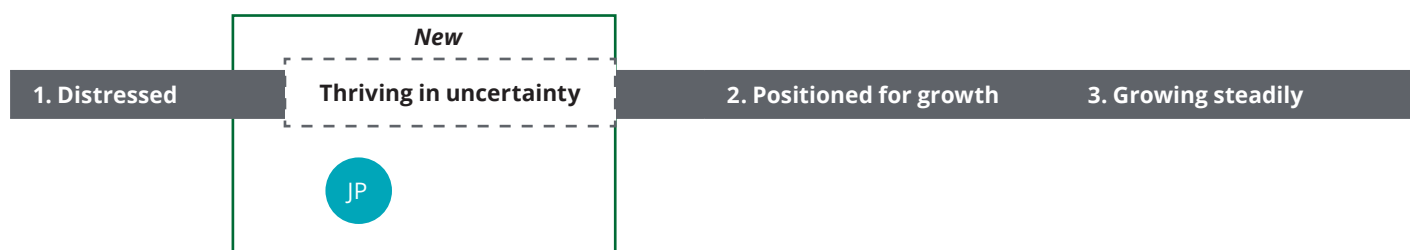
Now, however, today's volatile and complex global business environment seems to be giving rise to a fourth category that we call 'thriving in uncertainty' – a scenario that straddles the line between 'distressed' and 'positioned for growth.' It remains to be seen whether this fourth category is a new and permanent feature of the business landscape, or simply a stepping-stone to one of the traditional categories (Figure 72).

Figure 72: Thriving in uncertainty



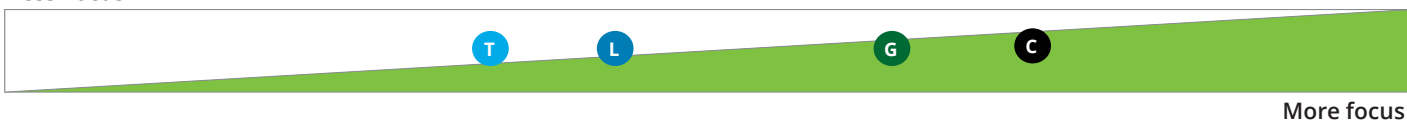
In Japan, macroeconomic factors seem to be pushing companies toward greater uncertainty, requiring a play-book with value creation levers that may be more defensive in nature (Figure 73).

Figure 73: Defence-oriented play-book



Value creation levers on which to focus

Less Focus



More focus

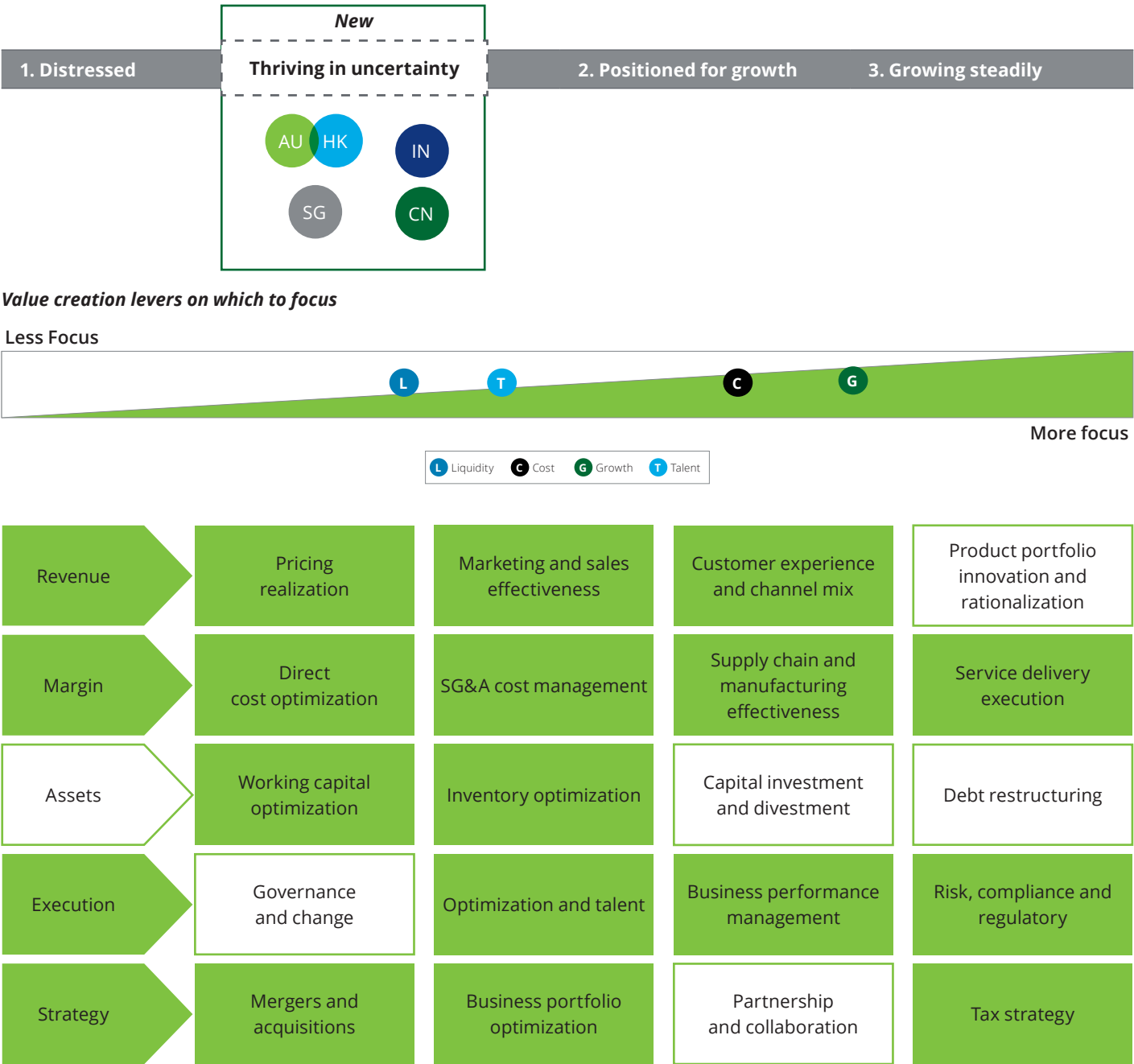
L Liquidity C Cost G Growth T Talent

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

■ Indicates levers that Deloitte identified as potential focus areas

The other APAC markets surveyed – particularly China and India – seem to be moving toward a more positive outlook, requiring a different play-book with value creation levers that emphasize growth (Figure 74).

Figure 74: Growth-oriented play-book



■ Indicates levers that Deloitte identified as potential focus areas

Looking ahead

Companies across the Asia Pacific region face a number of challenges, including global economic uncertainty driven in part by an unpredictable political climate and shifting views about the benefits of global trade. In addition, the tidal wave of change driven by digital disruption is poised to spread beyond the US, potentially reshaping the competitive landscape in all global regions.

To tackle these complex and varied challenges, many APAC companies may need to pursue cost reduction more strategically. Tactical cost actions alone will likely not be able to deliver the required level of cost savings.

Instead, companies may need to adopt new approaches to cost management, shifting to actions that are more strategic and structural, such as increasing centralization, reconfiguring the business, and outsourcing/off-shoring business processes – as well as capitalizing on digital breakthroughs such as robotic process automation (RPA) and cognitive technologies.

During periods of uncertainty, companies that take bold action can recover more quickly and gain sustainable competitive advantages that boost performance both in good times and bad. Looking ahead, companies that are able and willing to make bold cost moves could find that today's challenging environment is a prime opportunity to position themselves for long-term success.



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Appendix A: China



Aggressive focus on cost reduction and growth, driven by macroeconomic and competitive concerns; however, specifics vary based on company ownership structure, with state-owned enterprises the least likely to take cost actions.

Generally speaking, cost reduction in China is ubiquitous, aggressive, and relatively successful. However, the survey results vary widely depending on a company's ownership structure. Multinationals and joint ventures have the highest propensity to take cost actions; state-owned enterprises the least. Private companies have the most aggressive targets, but also the highest failure rates.

Economic risk is #1

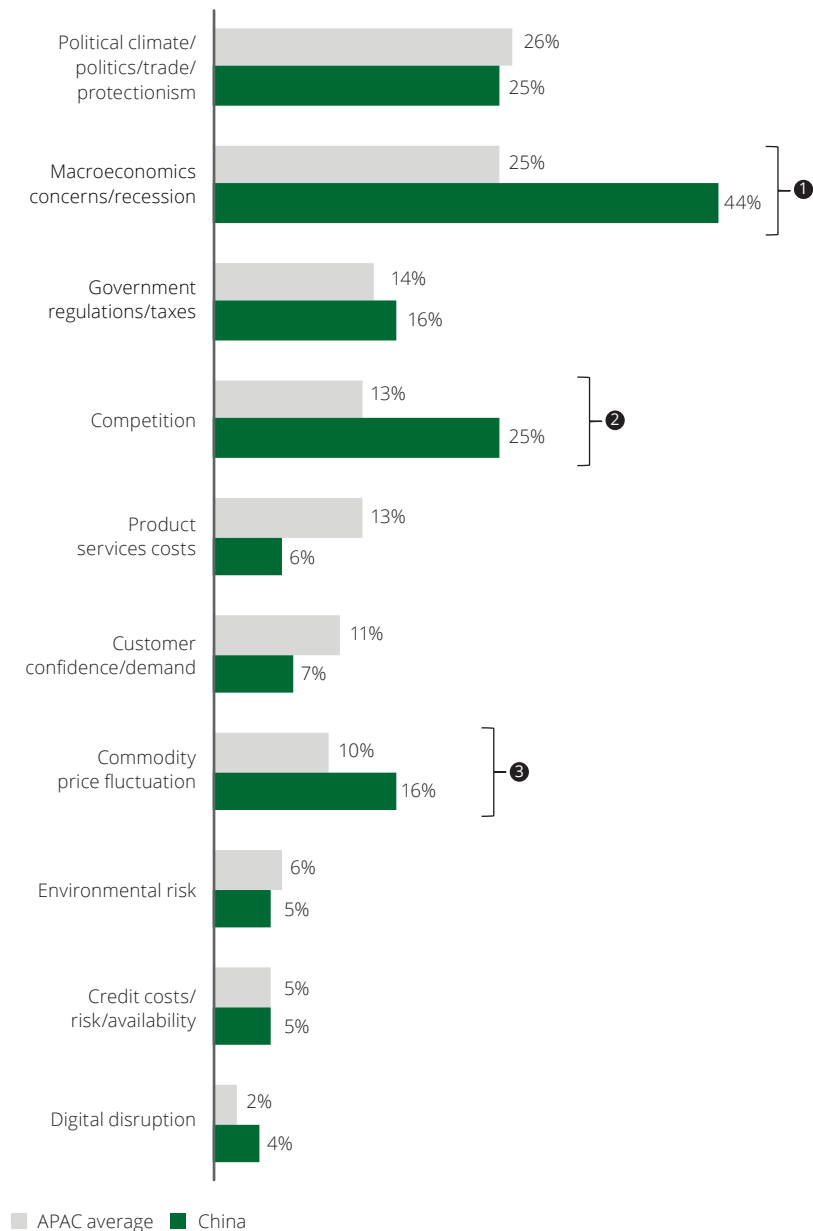
Macroeconomic concerns are considered the top external risk in China (44%) by respondents, much higher than the regional average (25%). Chinese respondents are also more concerned than average about competition (25% vs 13% for APAC as a whole) and commodity price fluctuation (16% vs 10% for APAC) (Figure 25).



Survey findings

- ① Chinese respondents rate macroeconomic concerns as their top external risk, citing it much more frequently than the APAC average (44% vs 25%).
- ② Chinese respondents also rate competition as a major risk, citing it much more frequently than the APAC average (25% vs 13%).
- ③ The third most frequently cited external risk for Chinese companies is commodity price fluctuation (16% vs 10% across the region).

Figure 25. Top external risks



Growth performance and future expectations are high

Despite their macroeconomic concerns, the percentage of Chinese companies reporting increased revenue over the past 24 months is higher than the APAC average (90% vs 75%). So is the expectation for increased revenue over the next 24 months (91% vs 78%) (Figure 26).



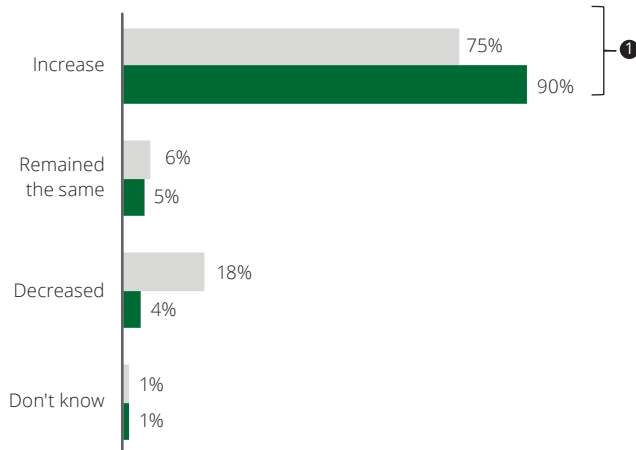
Survey findings

- ① 90% of Chinese respondents reported revenue growth over the past 24 months, compared to the APAC average of 75%.
- ② 91% of Chinese respondents expect revenue to increase over the next 24 months, compared to the APAC average of 78%.
- ③ China's overall positive outlook is underscored by the fact that only 4% of its respondents expect their revenue to remain the same over the next 24 months vs 15% for APAC as a whole.

Figure 26. Annual revenue growth

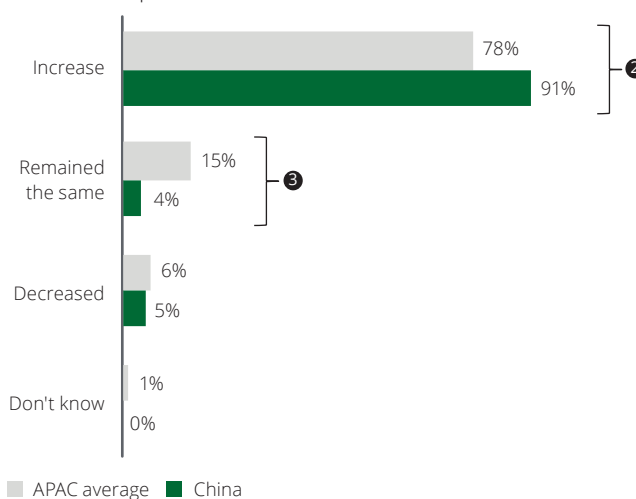
Annual revenue over past 24 months

% of total respondents



Annual revenue growth projections over next 24 months

% of total respondents



■ APAC average ■ China

Cost reduction is ubiquitous

According to the survey results, Chinese companies are much more likely than average to pursue cost reduction over the next 24 months (98% vs 76% for APAC) (Figure 27).

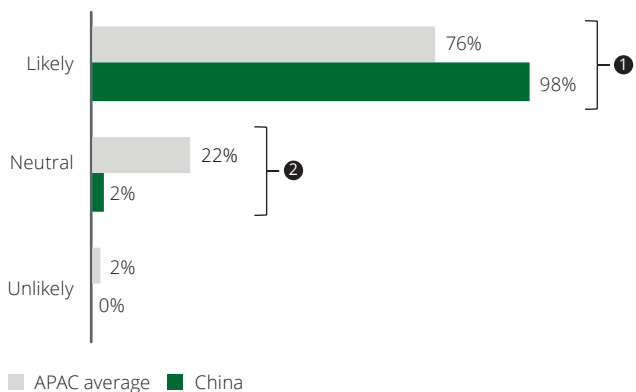


Survey findings

- ① Virtually all companies surveyed in China (98%) are likely to undertake cost actions over the next 24 months, versus only 76% for APAC as a whole.
- ② Only 2% of Chinese respondents are neutral about cost reduction, versus 22% for APAC as a whole.

Figure 27. Likelihood of cost reduction in next 24 months

% of total respondents



■ APAC average ■ China



State-owned enterprises are less likely to pursue cost reduction

In this survey, 15% of the Chinese respondents are state-owned enterprises. Such enterprises are much more prevalent in China than elsewhere, and tend to be some of the largest companies in the marketplace. Also, even companies that are not state-owned often receive significant support from government-related sources in the form of loans, subsidies, and investments.

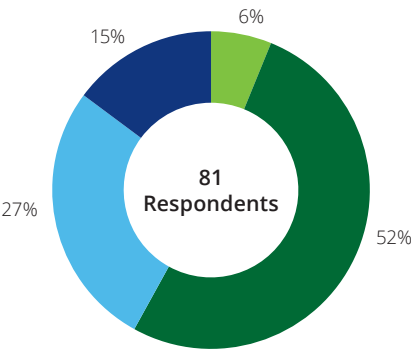
According to the survey results, relative to other types of companies, state-owned enterprises are less likely to pursue cost reduction over the next 24 months (92%), perhaps because they face less competitive pressure. However, 92% is still very high, especially relative to companies in other countries (Figure 28).



Survey findings

- 1 State-owned companies are the least likely to reduce costs (92%), but that number is still high and is consistent with other types of companies.
- 2 While state-owned companies are the most likely to have neutral feelings about cost reduction (8%), none view cost reduction as unlikely.

Figure 28. Company ownership breakdown
% of total respondents



Multinational Private Chinese enterprise Joint Venture State-owned enterprise

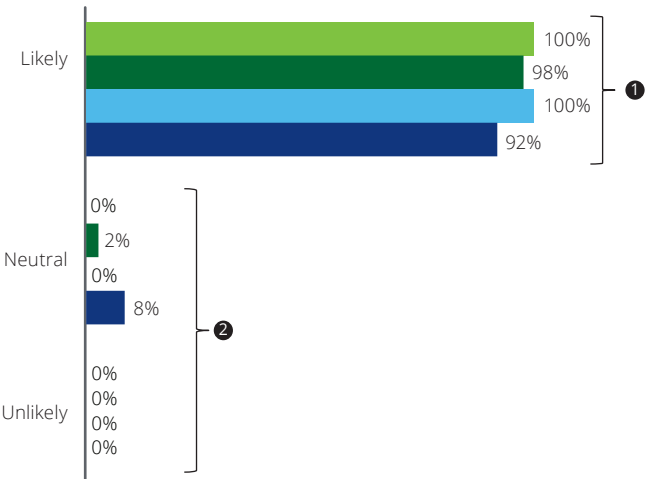
Multinational: A business that is wholly owned by a foreign enterprise but conducts operations in China.

Private Chinese enterprise: A Chinese business owned and controlled by private Chinese individuals and/or capital.

Joint Venture: A business where a portion of ownership is controlled by a Chinese enterprise and a portion by foreign enterprise(s).

State-owned enterprise: A Chinese business owned and controlled by the Chinese government.

Likelihood of cost reduction in next 24 months by ownership structure
% of total respondents



Multinational Private Chinese enterprise Joint Venture State-owned enterprise



Cost drivers are consistent with the region

In China, the drivers for cost reduction are generally consistent with the region, although the numbers are somewhat higher in most cases. The top drivers are 'to gain competitive advantage' (65% vs the APAC average of 58%), and 'required investment in growth' (64% vs the average of 51%).

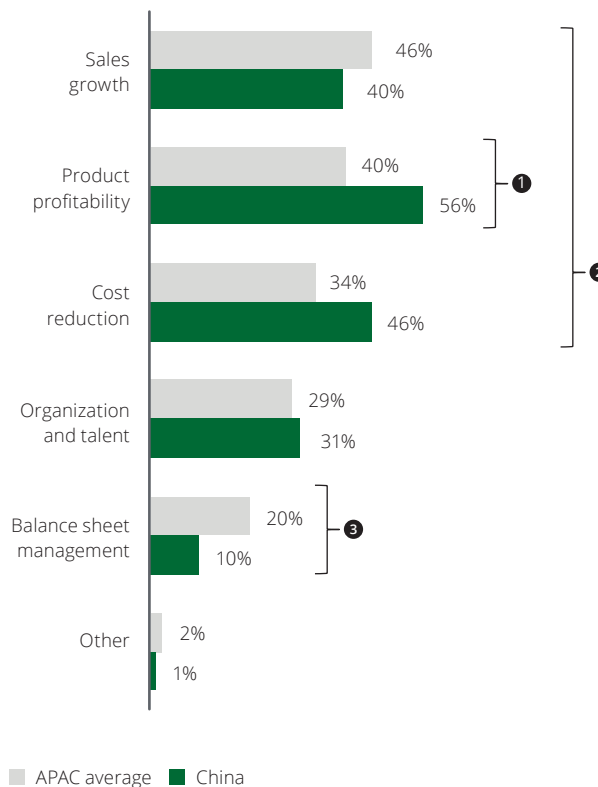
In terms of strategic priorities, Chinese respondents are much more focused than average on product profitability (56% vs 40%) and cost reduction (46% vs 34%). They are also focused on sales growth, which implies a strong 'save to grow' mindset (Figure 29).



Survey findings

- ① Chinese respondents cite product profitability as the top strategic priority (56% vs the APAC average of 40%).
- ② Underscoring a save-to-grow mindset, the top three strategic priorities cited by Chinese respondents are related to profitability (56%), cost reduction (46%), and sales growth (40%).
- ③ Balance sheet management is the least cited strategic priority for Chinese companies (10% vs 20% for APAC).

Figure 29. Strategic priority in next 24 months





Chinese cost programs are aggressive and relatively successful

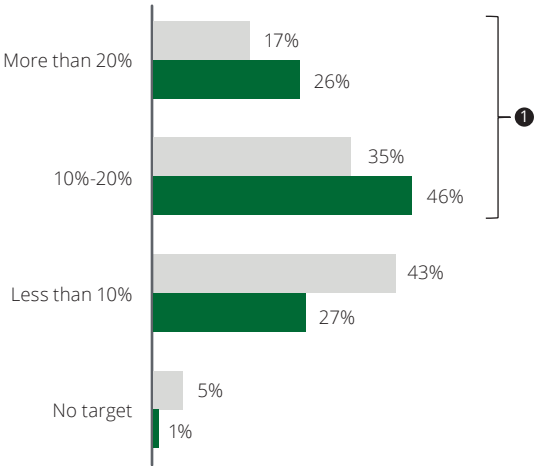
Chinese companies are pursuing cost reduction very aggressively, with higher than average cost reduction targets and lower than average failure rates. However, respondents report that a large majority of cost programs in China (65%) still fall short of their goals (Figure 30).



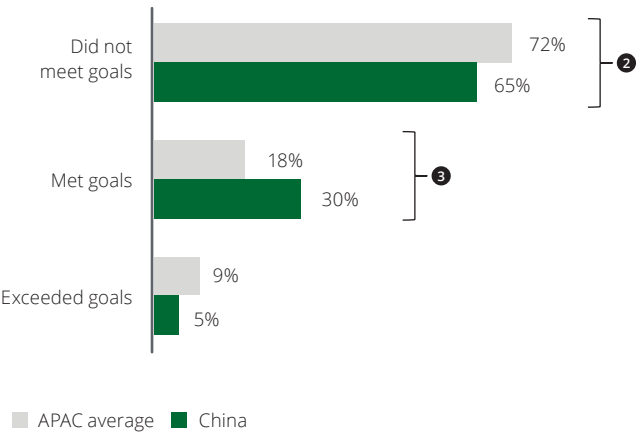
Survey findings

- 1 Chinese respondents have some of the highest cost targets in the region, with 72% having targets of 10% or more, compared to 52% for APAC overall.
- 2 Chinese companies report a lower-than-average failure rate (65% vs 72% for APAC).
- 3 Chinese companies are more likely to meet their cost targets (30% vs 18% for APAC).

Figure 30. Annual cost reduction targets
% of total respondents



Success in meeting cost targets
% of total respondents



■ APAC average ■ China

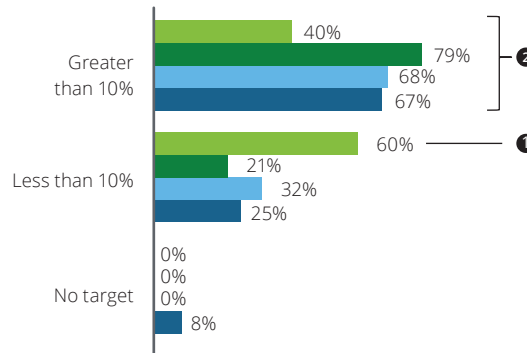


Private enterprises are most aggressive at cutting costs; multinationals the least

In China, multinationals are much more likely to have lower cost reduction targets than other types of companies, with 60% of respondents reporting annual targets of less than 10%. Private enterprises tend to have the highest cost targets (79% are pursuing cost targets in excess of 10%), as well as the highest failure rates (71%) (Figure 31).

Figure 31. Annual cost reduction targets

% of total respondents

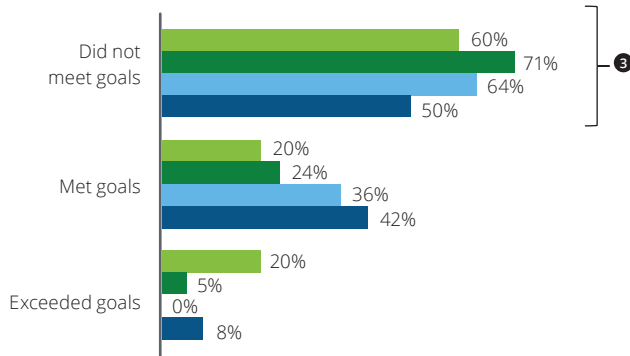


Survey findings

- ① Multinationals in China tend to have lower cost targets than other types of companies, with 60% pursuing targets of less than 10%.
- ② 79% of Private Chinese companies have cost targets of 10% or more, followed by Joint Ventures (68%), and State-owned companies (67%).
- ③ Private Chinese companies have the highest cost program failure rate (71%), while State-owned enterprises have the lowest (50%).

Success in meeting cost targets

% of total respondents



■ Multinational ■ Private Chinese enterprise ■ Joint Venture ■ State-owned enterprise



Focusing on productivity improvement

In China, the top approach among respondents to managing costs over the past 24 months was to 'intensify existing productivity improvement programs'. This was also the top approach for APAC as a whole, although Chinese companies rated it much higher (83% vs 62% for APAC). 'Conducting an enterprise-wide analysis of cost structure, followed by a broad restructuring program' was also much more popular in China (77%) than in the region as a whole (59%) (Figure 32).

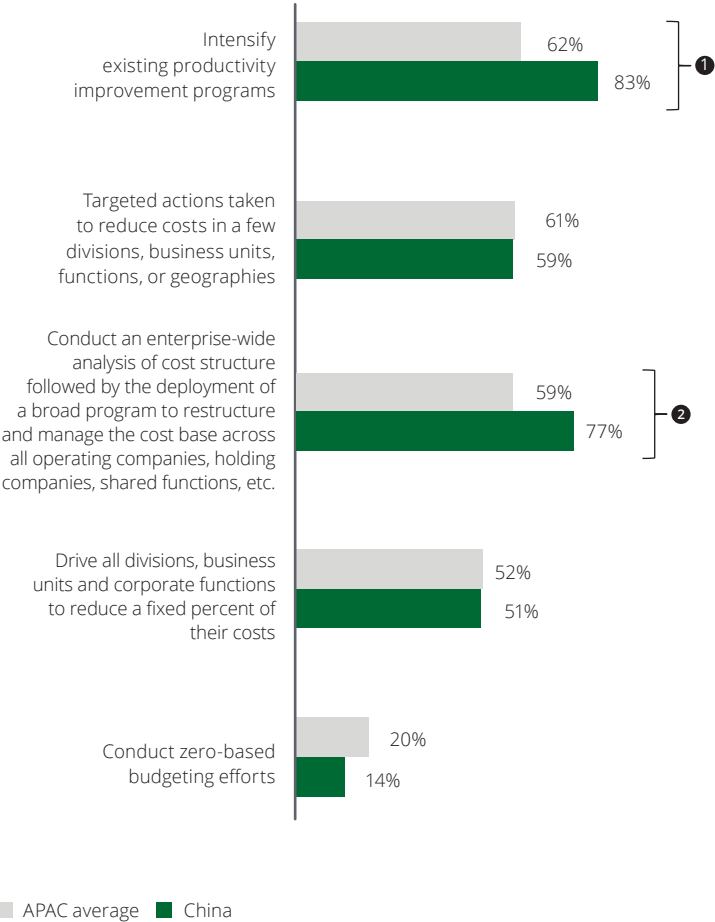
'Implementation challenges' is considered the top barrier to effective cost management, both for China and APAC as a whole, although it rates significantly higher in China (72% vs 60% for APAC). 'Poor design and tracking' is another barrier that stands out (37% for China vs 29% for APAC).



Survey findings

- 1 Chinese companies 'intensify existing productivity improvement programs' more often than APAC companies overall (83% vs 62% for APAC).
- 2 Chinese companies 'conduct an enterprise-wide analysis of cost structure followed by the deployment of a broad program' more often than the APAC average (77% vs 59% for APAC).

Figure 32. Approaches to manage costs over the past 24 months





Greater focus on building IT capabilities

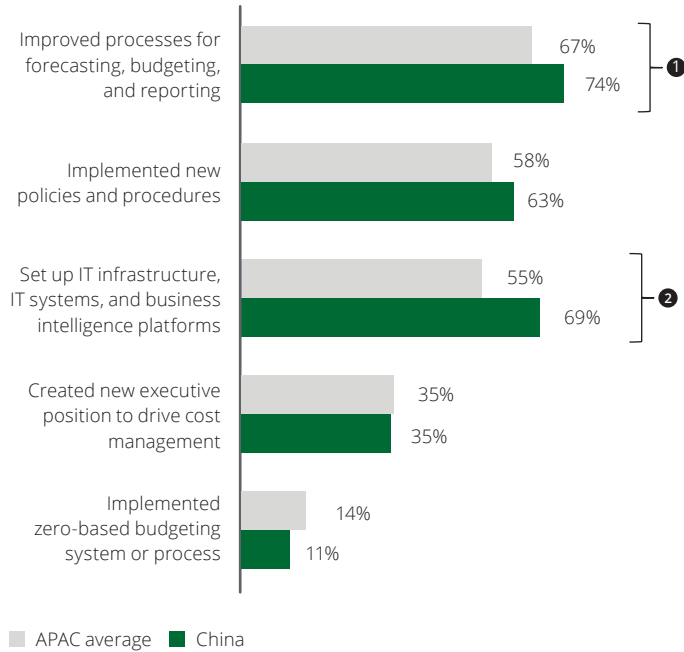
Chinese and other APAC companies surveyed are generally focused on building the same kinds of capabilities, with the top focus being 'improved processes for forecasting, budgeting, and reporting.' However, one capability area receiving significantly greater focus in China than elsewhere is 'IT infrastructure, IT systems, and business intelligence platforms' (69% versus 55% for the region) (Figure 33).



Survey findings

- ① 'Improved processes for forecasting, budgeting, and reporting' was the top capability developed in China over the past 24 months (74% vs 67% for APAC).
- ② Setting up IT infrastructure, IT systems, and business intelligence platforms was also cited more frequently than average (69% for China vs 55% for APAC).

Figure 33. Capabilities developed over the past 24 months



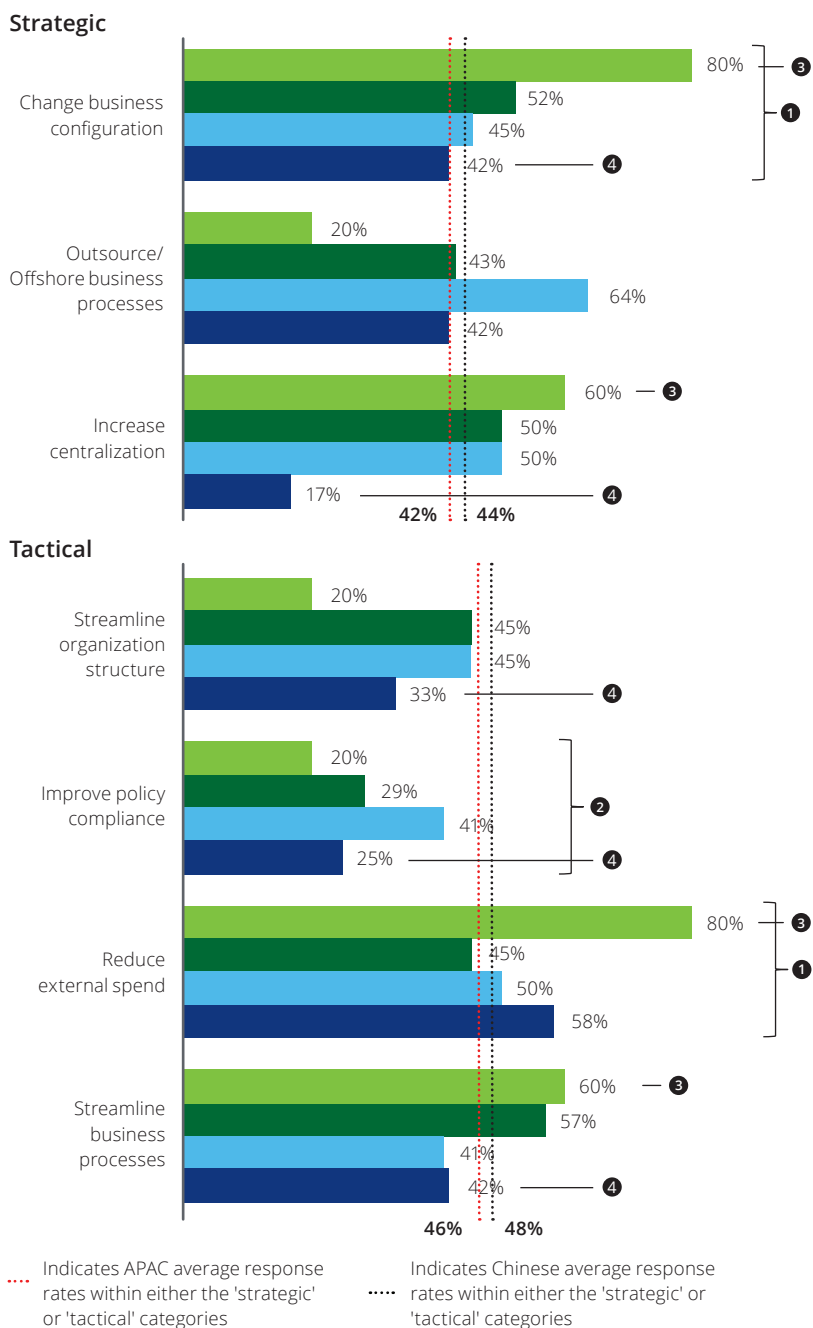
Ownership structure influences future cost actions

Over the next 24 months, Chinese companies as a group will generally be focusing more on tactical cost actions than strategic ones according to the survey. However, the probability of action -- and specific actions likely to be taken -- vary significantly based on ownership structure, with multinationals and joint ventures having the highest propensity for action. Multinationals rank highest on 4-of-7 cost actions, and in particular are much more likely than average to 'change business configuration' (80% vs 42-58%), and to 'reduce external spend' (80% vs 45-58%). Joint ventures rank first or second on 4-of-7 cost actions. State-owned enterprises are the least likely to act, ranking lowest or next-to-lowest on 5-of-7 cost actions (Figure 34).

Survey findings

- ① 'Change business configuration' and 'reduce external spend' are cited much more frequently than average by Multinationals (80% vs 42-58% for other types of companies).
- ② 'Improve policy compliance' was cited less often than all other tactical cost actions.
- ③ Multinational companies rank highest in 4 of 7 cost actions; Joint Ventures rank highest or second highest in 4 of 7 cost actions.
- ④ State-owned enterprises rank lowest or second lowest in 5 of 7 cost actions.

Figure 34. Cost actions viewed as most likely in next 24 months



■ Multinational ■ Private Chinese enterprise ■ Joint Venture ■ State-owned enterprise

Average	APAC	China	Multinational	Private Chinese enterprise	JV	SOE
Strategic	42%	44%	53% ↑	48% ↑	53% ↑	33% ↓
Tactical	46%	48%	45% ↓	44% ↓	44% ↓	40% ↓

↑ Indicates above the average ↓ Indicates below the average

Appendix B: **Hong Kong**



Rising expectations for future growth, and an unusually strategic view of cost reduction; however, higher than average targets coincide with higher than average failure rates.



Hong Kong respondents stand out for being unusually strategic in the cost actions they expect to take over the next 24 months. However, this strategic mindset toward the future has not fully translated into demonstrated results, with Hong Kong cost programs experiencing higher than average failure rates – perhaps due to the country's higher than average cost targets.

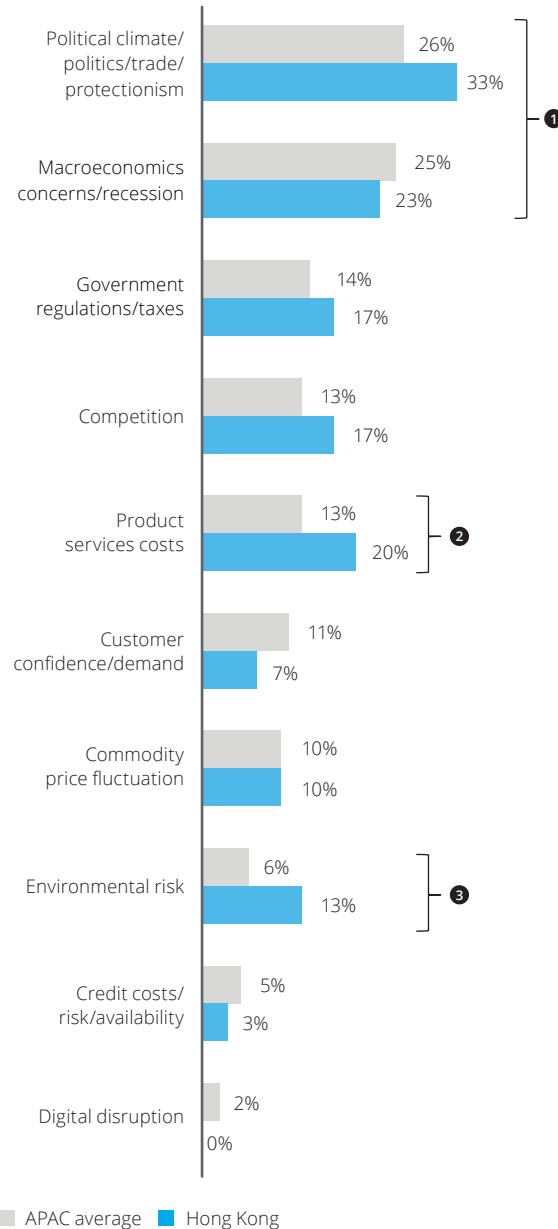
Political climate is the top risk

The top two external risks cited by Hong Kong companies are political climate (33%) and macroeconomic concerns (23%), which are consistent with APAC overall (Figure 35).

Survey findings

- ① Hong Kong respondents cite political climate (33%) and macroeconomic concerns (23%) more frequently than all other external risks, which is directionally consistent with APAC as a whole.
- ② 'Products/services costs' is cited more frequently than average by Hong Kong respondents (20% vs 13% for APAC).
- ③ Environmental risk is also cited more frequently than average by Hong Kong companies (13% vs 6% for APAC).

Figure 35. Top external risks



Rising growth expectations

Hong Kong companies' expectation for revenue growth over the next 24 months (70%) is significantly higher than the frequency of growth they reported over the past 24 months (57%), but still lower than the APAC average (Figure 36).

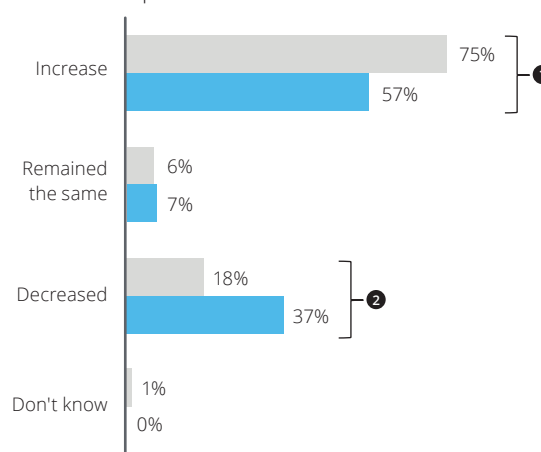
Survey findings

- 1 The percentage of Hong Kong respondents that saw their revenues increase over the past 24 months was lower than average (57% vs 75% for APAC).
- 2 The percentage of Hong Kong respondents that saw their revenues decrease over the past 24 months was higher than average (37% vs 18% for APAC).
- 3 The percentage of Hong Kong respondents that expect their revenues to increase over the next 24 months is lower than average (70% vs 78% for APAC).

Figure 36. Annual revenue growth

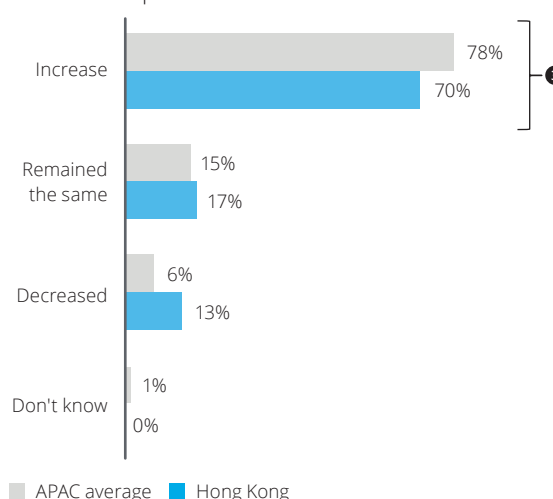
Annual revenue over past 24 months

% of total respondents



Annual revenue growth projections over next 24 months

% of total respondents



■ APAC average ■ Hong Kong

Less likely to pursue cost reduction

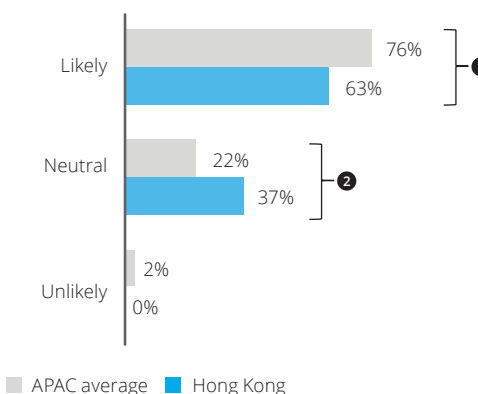
Relative to APAC as a whole, Hong Kong companies are less likely to undertake cost reduction (63% vs 76% for APAC) (Figure 37).

Survey findings

- 1 The percentage of Hong Kong companies that expect to undertake cost reduction over the next 24 months is lower than average (63% vs 76% for APAC).
- 2 The percentage of neutral responses from Hong Kong companies was higher than average (37% vs 22% for APAC).

Figure 37. Likelihood of cost reduction in next 24 months

% of total respondents



■ APAC average ■ Hong Kong

Higher targets and higher failure rates

Cost targets in Hong Kong tend to be somewhat more aggressive than in APAC as a whole; however, the failure rate of cost programs in Hong Kong is significantly higher (83% VS 72% for APAC) (Figure 38).

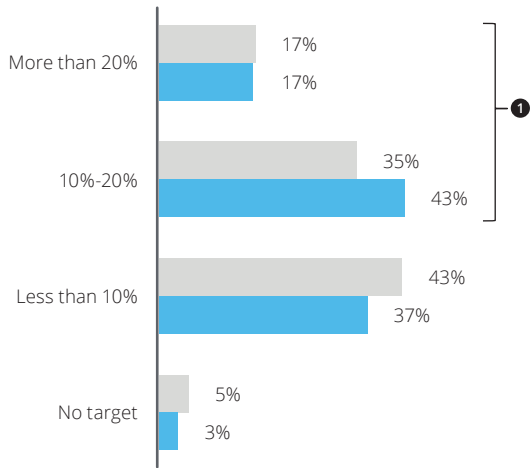
For Hong Kong respondents, 'implementation challenges' is the most frequently cited barrier to effective cost management (50%), and the most commonly used approach to manage costs is 'intensifying existing productivity improvement programs' (60%).



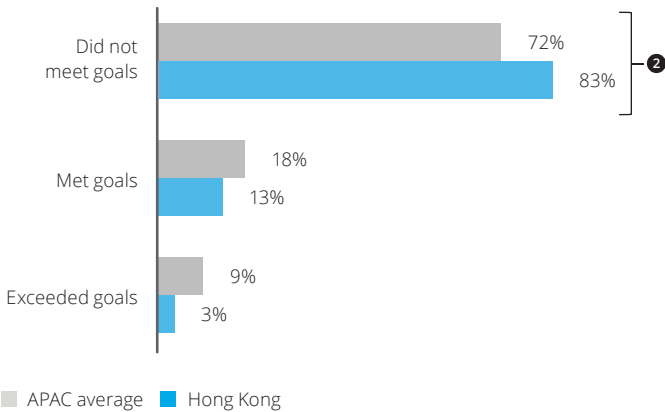
Survey findings

- 1 The percentage of Hong Kong respondents with cost reduction targets of 10% or more is higher than average (60% vs 52%).
- 2 A higher than average percentage of Hong Kong companies did not meet their cost goals (83% vs 72% for APAC).

Figure 38. Annual cost reduction targets
% of total respondents



Success in meeting cost targets
% of total respondents



Unusually strategic

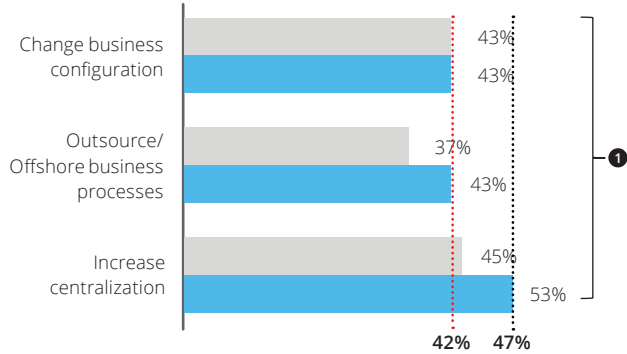
In contrast with companies throughout the APAC region – and most of the world – Hong Kong companies lean heavily toward strategic actions (47%) rather than tactical actions (37%) (Figure 39).

Survey findings

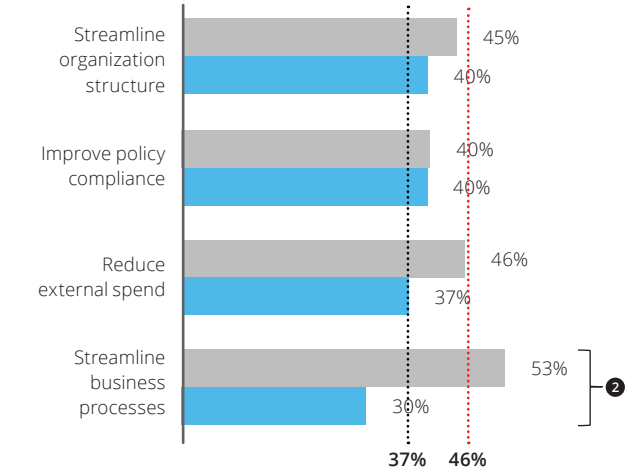
- ① Hong Kong's responses are at or above the APAC average for all strategic cost actions, with 'Increase centralization' at the top of the list (53% vs 45% for APAC).
- ② Hong Kong's responses were at or below the APAC average for 3 of 4 tactical actions, with the biggest difference being 'streamline business processes' (30% vs 53% for APAC).

Figure 39. Cost actions viewed as most likely in next 24 months

Strategic



Tactical



..... Indicates APAC average response rates within either the 'strategic' or 'tactical' categories

..... Indicates Hong Kong average response rates within either the 'strategic' or 'tactical' categories

■ APAC average ■ Hong Kong

Appendix C:

India



Highest cost reduction targets in the region, driven significantly by demonetization and its likely negative impact on consumer confidence and demand.⁵

⁵The Economist: The high economic costs of India's demonetisation

Indian respondents have high expectations for growth and cost reduction. In fact, their cost reduction targets are the highest in APAC. They also have cost program failure rates that are much lower than the regional average. One of the biggest factors that companies face in India is demonetization, which had a significant impact on consumer confidence and demand, and spurred nearly all companies to undertake cost reduction.

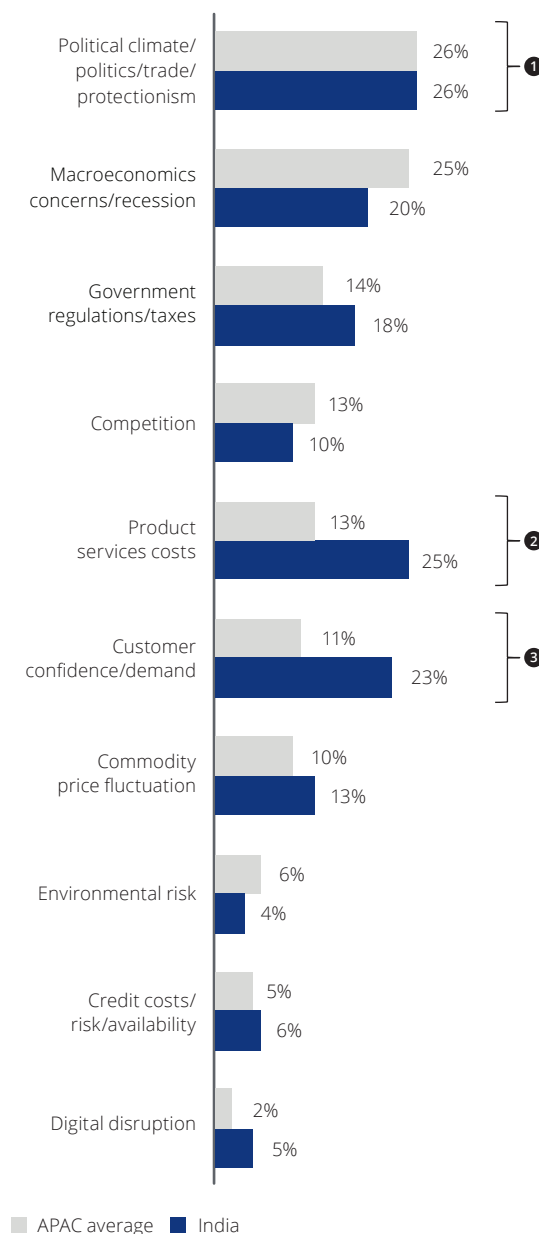
A balanced view of external risk

Political climate ranks as the top external risk among India respondents (26%), consistent with the overall region. However, India's next two highest-rated risks are just a step behind, with ratings that are well above the APAC average: 'products/services costs' (25% vs 13% for the region) and 'customer confidence/demand' (23% vs 11% for the region) (Figure 40).

Survey findings

- ❶ The highest external risk for Indian respondents is political climate at 26% (same as APAC average).
- ❷ Indian respondents cite products/services costs almost twice as frequently as the APAC average (25% vs 13%).
- ❸ Indian respondents cite customer confidence/demand more than twice as frequently as the APAC average (23% vs 11%).

Figure 40. Top external risks



Strong past and future growth

When it comes to growth, India is well above average with 93% of surveyed companies reporting an increase in revenue over the past 24 months (vs 75% for APAC as a whole), and 95% expecting to see a revenue increase over the next 24 months (vs 78% for APAC) (Figure 41).

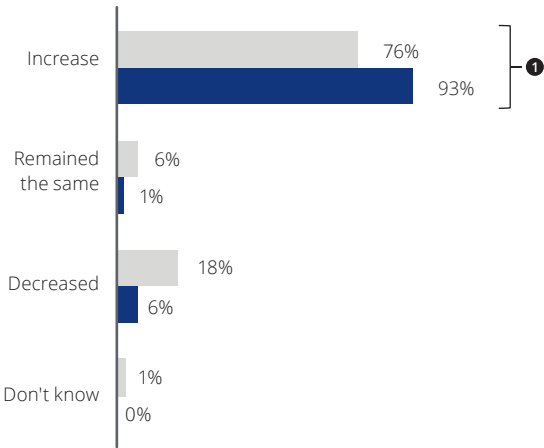


Survey findings

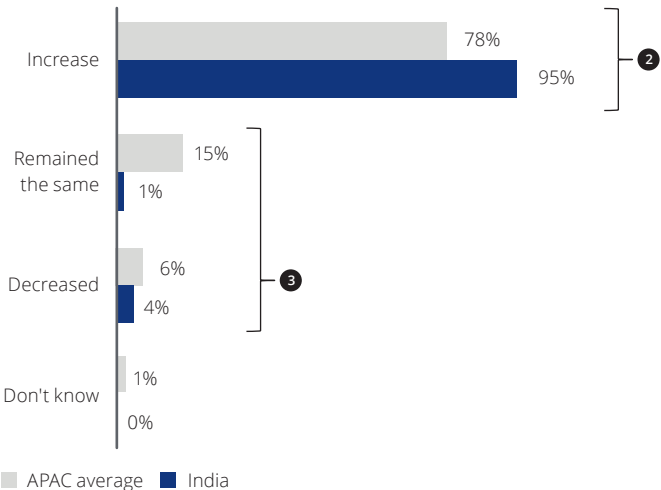
- 1 India has the highest percentage of companies with increased revenue over the past 24 months (93% vs 75% for APAC).
- 2 India also has the highest percentage of companies that expect revenue to increase over the next 24 months (95% vs 78% for APAC).
- 3 Only 5% of Indian respondents expect revenue to remain the same or decrease over the next 24 months (APAC average is 21%), underscoring India's positive outlook.

Figure 41. Annual revenue growth

Annual revenue over past 24 months
% of total respondents



Annual revenue growth projections over next 24 months
% of total respondents



A strong focus on cost reduction

Looking ahead, Indian companies surveyed also have higher expectations for undertaking cost reduction (95%) than do their APAC peers (76%) (Figure 42).

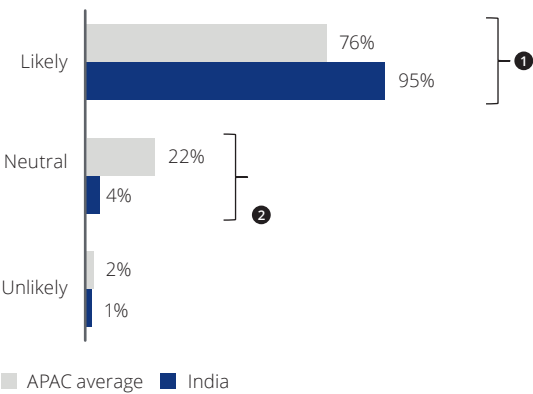


Survey findings

- 1 Indian companies are more likely than average to pursue cost reduction (95% vs 76% for APAC).
- 2 Only 4% of Indian companies have neutral expectations about cost reduction (APAC average is 22%).

Figure 42. Likelihood of cost reduction in next 24 months

% of total respondents





Demonetization has a major impact

India's demonetization effort, which aimed to cause problems for the country's criminals, also caused a slowdown in India's economy⁶. One result was a cost reduction focus that cut across all industries, with respondent expectations for cost reduction triggered by demonetization ranging from 92% in financial services to 100% in consumer & industrial products (C&IP), the public sector, and life sciences & healthcare (Figure 43).

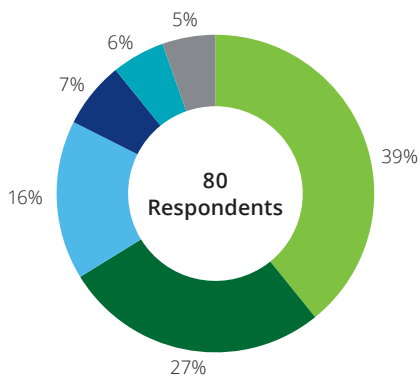


Survey findings

- Companies in financial services are least likely to pursue cost reduction (92%); however, the likelihood is still high and consistent with other industries.

Figure 43. India respondents

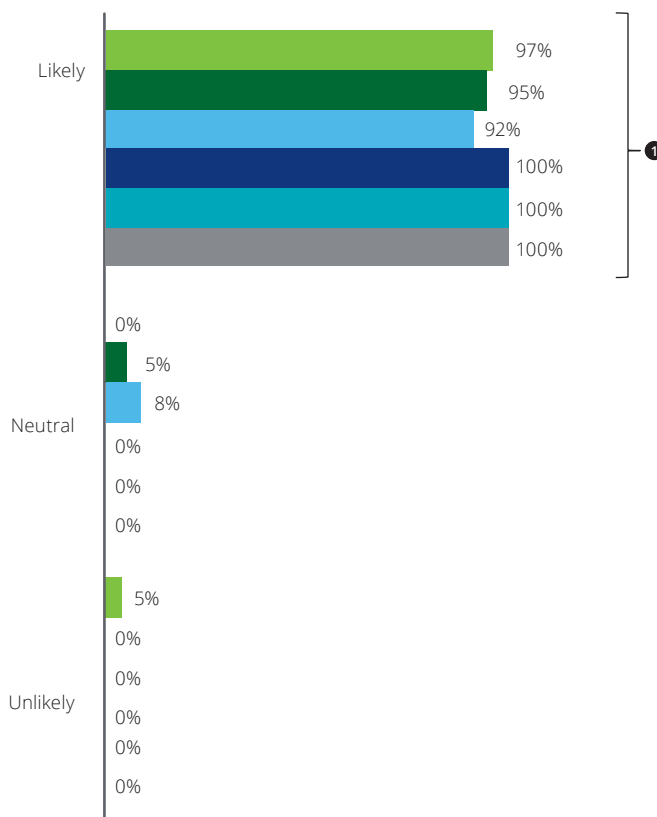
Industry breakdown



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

Given the recent demonetization of high value currency, how likely are you to undertake a cost reduction

% of total respondents



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

⁶The Economist: Modi's attempt to crush the black economy is hurting the poor



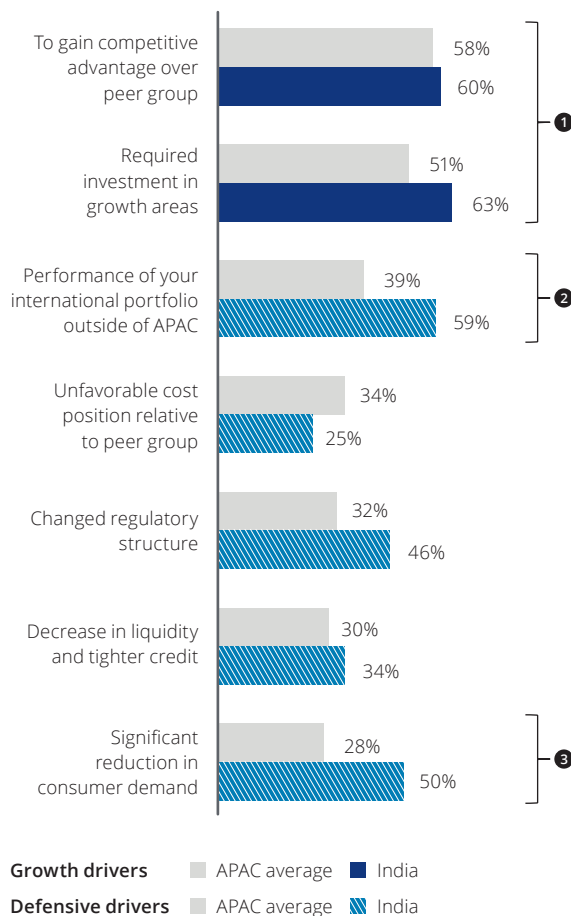
When citing cost reduction drivers, India's ratings for 'significant reduction in consumer demand' are much higher than the regional average (50% vs 28% for APAC). This high rating is likely due in part to demonetization (Figure 44).



Survey findings

- ❶ The top two drivers are growth oriented, with companies citing 'gain competitive advantage' (60%) and 'required investment' (63%) more frequently than the APAC average (58% and 51% respectively).
- ❷ Performance of portfolio outside of APAC is also rated higher than the APAC average (59% vs 39%).
- ❸ Significant reduction in consumer demand is rated much higher in India than the APAC average (50% vs 28%), which could be due to demonetization.

Figure 44: Drivers of cost reduction





India's companies are aggressively pursuing the full range of strategic priorities

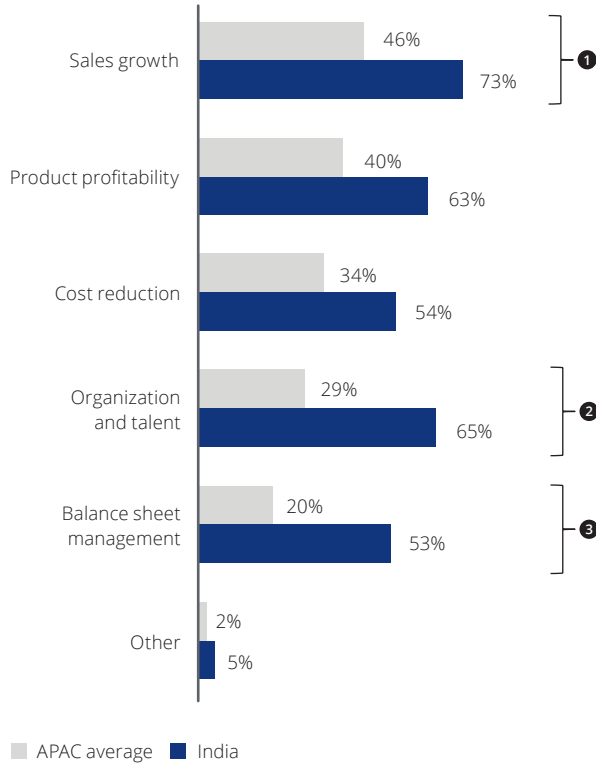
Respondents in India also rate all of the strategic priorities in the survey much higher than average. Sales growth is the top priority (73%); however the two priorities where India's ratings are the most above average are 'organization and talent' (65% vs 29% for APAC) and 'balance sheet management' (53% vs 20%) (Figure 45).



Survey findings

- ① Sales growth is the most frequently cited strategic priority in India (73% vs the APAC average of 46%).
- ② Organization and talent is cited as a strategic priority much more frequently in India than in APAC overall (65% vs the APAC average of 29%).
- ③ Indian respondents also cite balance sheet management much more frequently than average (53% vs 20% for APAC).

Figure 45. Strategic priority in next 24 months



India’s cost reduction efforts are very aggressive and relatively successful

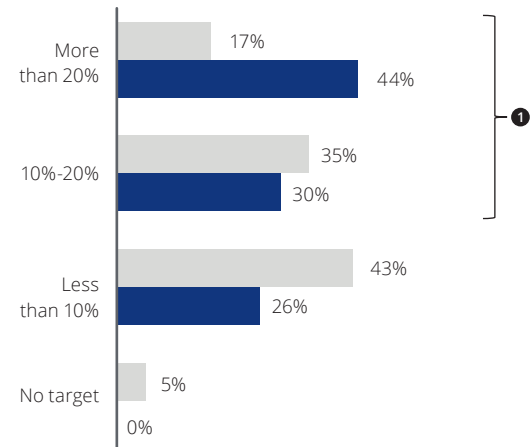
India has the highest cost reduction targets in the region among respondents, with a failure rate that is significantly below the APAC average (63% vs 72%) (Figure 46).

Barriers and capability development

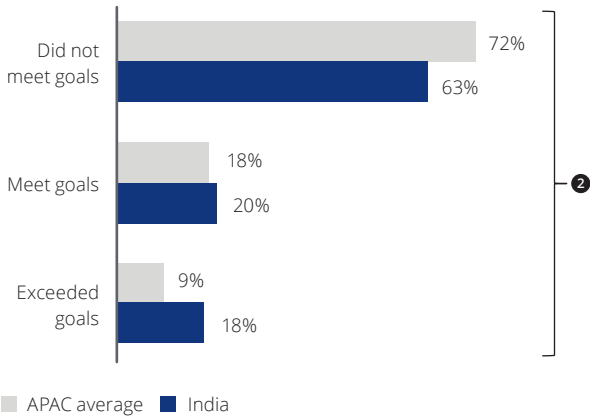
In India, as well as APAC overall, 'implementation challenges' is cited by respondents as the primary barrier to effective cost management (73%), followed by 'lack of understanding' (55%).

When developing their capabilities, the top focus areas for Indian companies over the past 24 months were to 'implement new policies and procedures' (69%), and 'set up IT infrastructure, IT systems, and business platforms' (69%). The top focus area for APAC as a whole was 'improved processes for forecasting, budgeting, and reporting' (64%), which was only rated third highest in India.

Figure 46.
Annual cost reduction targets
% of total respondents



Success in meeting cost targets
% of total respondents



Survey findings

- 1 Indian respondents have the highest cost targets in the region, with 74% citing targets of 10% or more (APAC average is 52%).
- 2 Indian companies had the best results for their cost reduction programs, with 18% exceeding their goals (APAC average is 9%).



Tactical actions lag slightly behind strategic actions

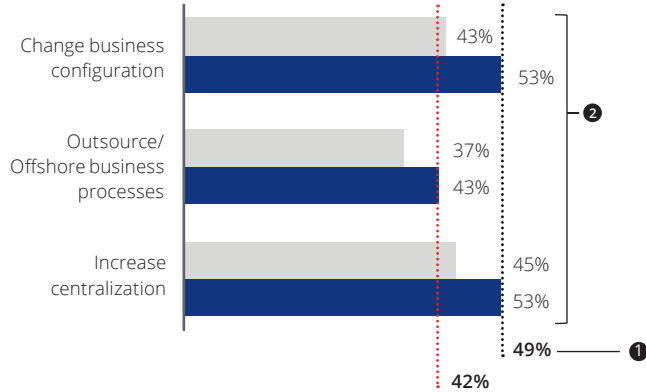
In India, the most common approach for managing costs over the past 24 months was 'targeted actions' to reduce costs in a few divisions, business units, functions, or geographies. Looking ahead at the next 24 months, most Indian companies surveyed expect to take cost actions that are more tactical (55%) than strategic (49%). One tactical action that is much more popular in India than elsewhere in APAC is 'improving policy compliance' (64% vs 40% for APAC) (Figure 47).

Survey findings

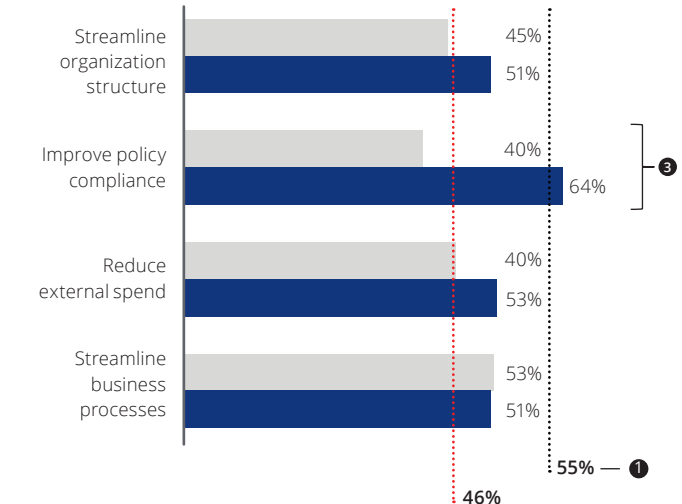
- ① On average, Indian companies cite tactical actions (55%) more frequently than strategic actions (49%).
- ② Indian respondents cite all strategic cost actions more frequently than the APAC average: Change business configuration (53% vs 43% for APAC); Outsource/Offshore business processes (43% vs 37% for APAC); Increase centralization (53% vs 45% for APAC).
- ③ 'Improve policy compliance' is the most frequently cited tactical action in India (64% vs 40% for APAC).

Figure 47. Cost actions viewed as most likely in next 24 months

Strategic



Tactical



.... Indicates APAC average response rates within either the 'strategic' or 'tactical' categories

..... Indicates India average response rates within either the 'strategic' or 'tactical' categories

■ APAC average ■ India

Appendix D: **Japan**



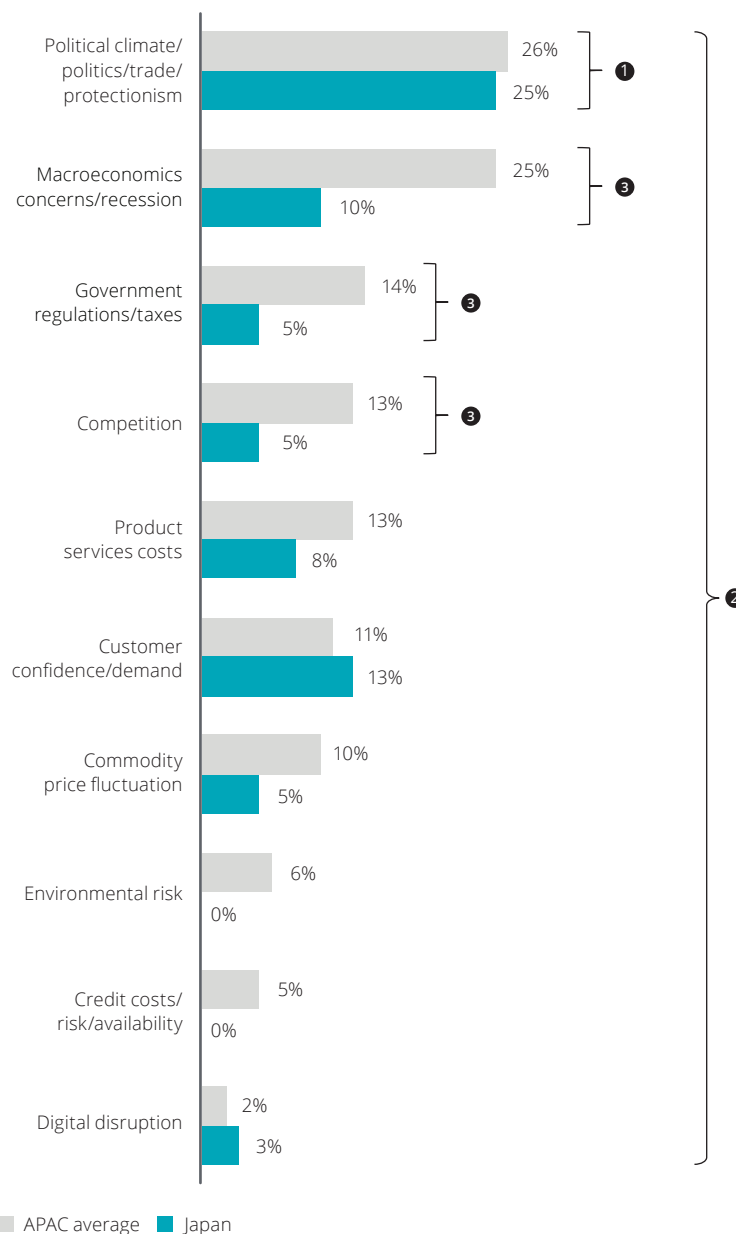
More focus on growth than on cost reduction, but relatively low expectations for both – with below average survey numbers for virtually everything related to cost reduction.

Companies in Japan seem to have a significantly different posture than those in China and India. Although the majority of Japanese respondents (65%) expect to increase their revenue over the next 24 months. That number is much lower than for respondents from China (91%), India (95%), and APAC as a whole (78%). Japanese companies are also much less focused on cost reduction, with numbers that are much lower than average in everything from the likelihood of cost reduction, to cost reduction actions and approaches, to cost reduction as a strategic priority.

Lower concerns about external risks

Compared to the APAC region as a whole, Japanese respondents generally expressed less concern than average about external risks. However, two risks stand out. The first is concern about the political climate, which Japanese companies rated #1, as did their APAC counterparts. The second is 'customer confidence/demand, which is the only risk Japanese companies cited more frequently than the regional average (13% vs 11% for APAC) (Figure 48).

Figure 48. Top external risks



Survey findings

- 1 'Political climate' is the top external risk for Japanese companies, consistent with the region (25% vs 26% for APAC).
- 2 Seven of 10 risks were rated significantly lower than average by Japanese respondents; ratings for the other three risks were consistent with the region.
- 3 Key differences between Japan and APAC: macroeconomic concerns (10% vs 25% for APAC), government regulations (5% vs 14% for APAC), and competition (5% vs 13% for APAC).



Lower expectations for future growth

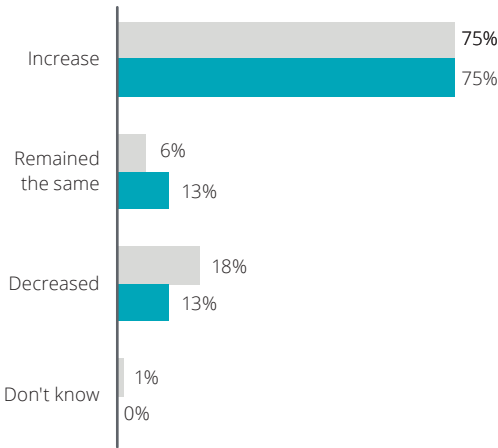
Over the past 24 months, Japanese companies and their APAC counterparts reported the same revenue growth performance. However, looking ahead to the next 24 months, Japanese companies' growth expectations were significantly lower than the average (65% vs 78% for APAC) (Figure 49).



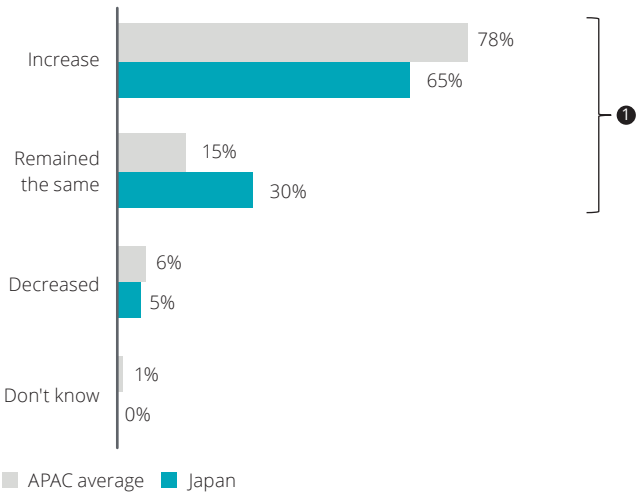
Survey findings

- 1 Relative to the APAC average, fewer Japanese respondents expect revenue to increase over the next 24 months (65% vs 78% for APAC), and more expect revenue to remain the same (30% vs 15% for APAC).

Figure 49. Annual revenue growth
Annual revenue over past 24 months
% of total respondents



Annual revenue growth projections over next 24 months
% of total respondents



Lower expectations for future cost reduction

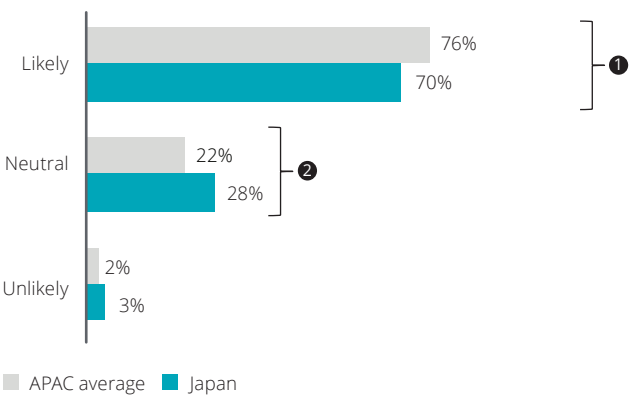
Japanese companies also have lower expectations for pursuing cost reduction over the next 24 months (70% vs 76% for APAC) (Figure 50).



Survey findings

- 1 Relative to the APAC average, a lower percentage of Japanese companies expect to pursue cost reduction (70% vs 76% for APAC).
- 2 Neutral responses are higher in Japan (28%) than in APAC overall (22%).

Figure 50. Likelihood of cost reduction in next 24 months
% of total respondents





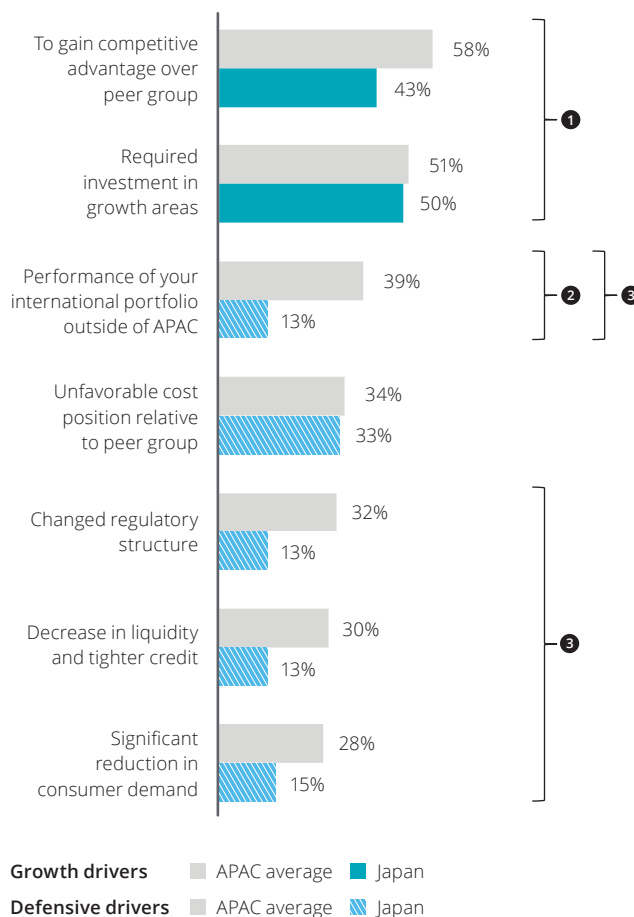
More focus on growth than defence

In Japan, the ratings for all cost drivers among respondents are lower than the APAC average, particularly for defensive cost drivers. The only defensive cost driver where Japan and APAC are roughly on par is 'unfavorable cost position relative to peer group.' Japan's ratings for growth-related cost drivers are significantly higher than for defensive cost drivers, although still lower than APAC, especially in the pursuit of competitive advantage (Figure 51).

Survey findings

- ① The top two cost reduction drivers for Japanese companies are: gaining competitive advantage (43%) and required investment for growth (50%); however, the ratings are lower than the APAC averages of 58% and 51%, respectively.
- ② 'Performance of portfolio outside of APAC' is cited much less frequently than average by Japanese companies (13% vs 39% for APAC).
- ③ Relative to APAC, four of five defensive cost drivers are cited much less frequently by Japanese companies: Performance of portfolio outside of APAC (13% vs 39%); Changed regulatory structure (13% vs 32%); Decrease in liquidity (13% vs 30%); and Significant reduction in consumer demand (15% vs 28%).

Figure 51: Drivers of cost reduction





Cost reduction is a lower priority than in APAC

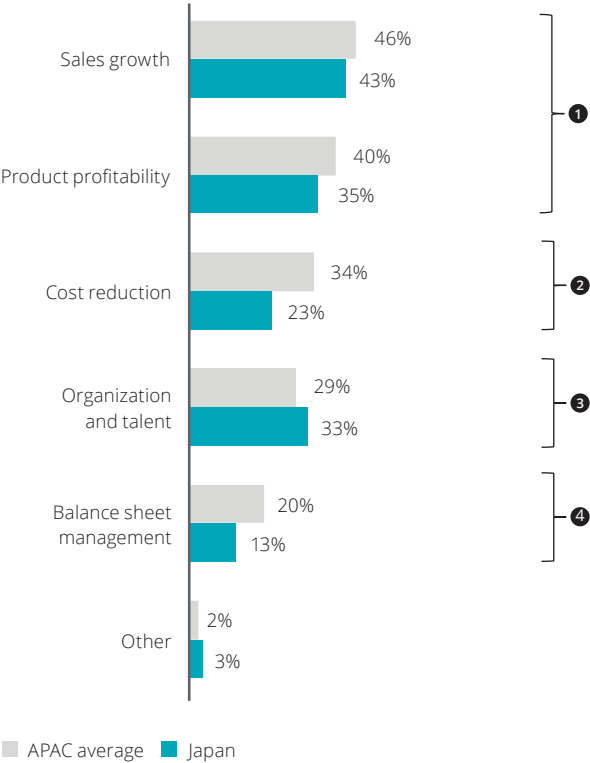
As with their APAC peers, growth and profitability are the top strategic priorities for Japanese respondents. However, unlike APAC companies as a whole, Japanese companies view cost reduction as a lower priority than 'organization and talent' (23% vs 33%). Balance sheet management is also a much lower priority than in APAC overall (13% vs 20%) (Figure 52).

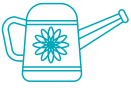


Survey findings

- 1 Although lower than the APAC average, Japanese respondents cite sales growth (43% vs 46% for APAC) and product profitability (35% vs 40% for APAC) as their top strategic priorities.
- 2 Japanese respondents cite cost reduction as a strategic priority less frequently than average (23% vs 34% for APAC).
- 3 Organization and talent is the only strategic priority that Japanese respondents cite more frequently than average (33% vs 29% for APAC).
- 4 Japanese respondents cite balance sheet management less frequently than average (13% vs 20% for APAC).

Figure 52. Strategic priority in next 24 months





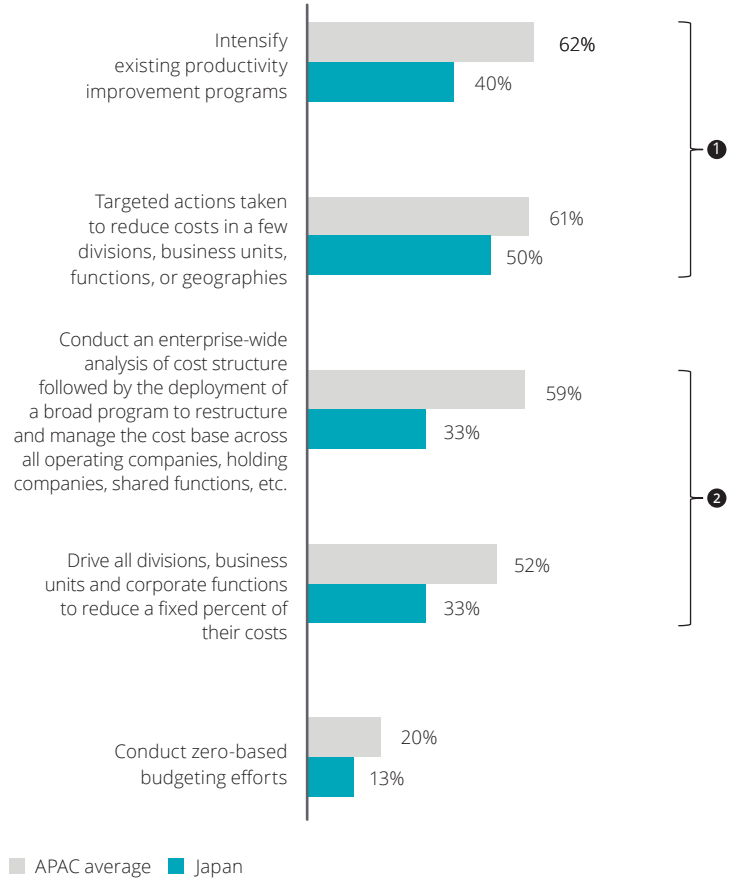
Given the relatively low priority placed on cost reduction, it is not surprising that all approaches to managing costs over the past 24 months were cited much less frequently by Japanese companies than by APAC companies as a whole (Figure 53).



Survey findings

- ① For Japanese respondents, the most common approach to managing costs over the past 24 months was 'targeted actions' (50%), followed by 'intensifying existing productivity improvement programs' (40%).
- ② 'Conduct an enterprise-wide analysis' (33%) and 'drive all divisions to reduce a fixed percent of costs' (33%) were both done much less frequently by Japanese companies relative to the APAC averages (59% and 52% respectively).

Figure 53. Approaches to manage costs over the past 24 months





Low cost reduction targets and high failure rates

Japanese respondents cited much less aggressive cost reduction targets than did their APAC peers. They also reported a significantly higher failure rate (78% vs 72%) (Figure 54).

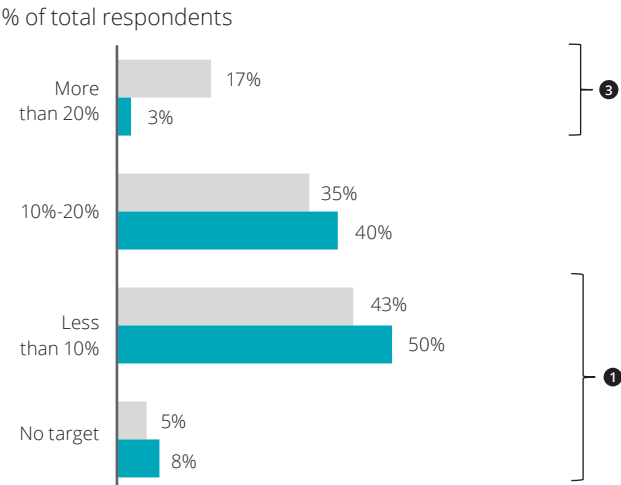
In Japan, the top three barriers to effective cost management all received similar ratings: implementation challenges (43%), a weak business case (43%), and lack of understanding (38%). This is different from APAC overall, which ranked implementation challenges as the top barrier by a wide margin (60%).



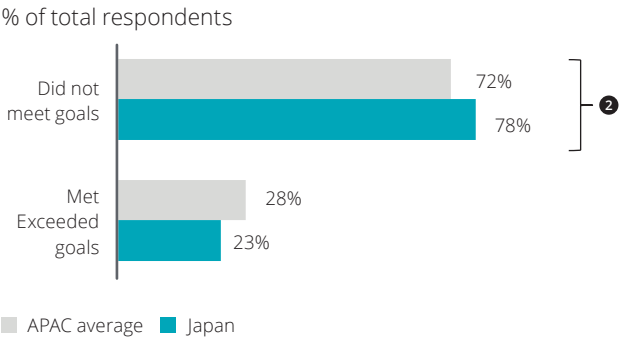
Survey findings

- 1 A higher than average percentage of Japanese respondents have cost targets of less than 10%, or no targets at all (58% for Japan vs 48% for APAC).
- 2 Japanese cost programs have higher-than-average failure rates (78% vs 72% for APAC).
- 3 The percentage of Japanese respondents with cost targets of more than 20% is much lower than average (3% vs 17% for APAC).

Figure 54. Annual cost reduction targets



Success in meeting cost targets





Forecasting, budgeting, and reporting is the #1 development focus

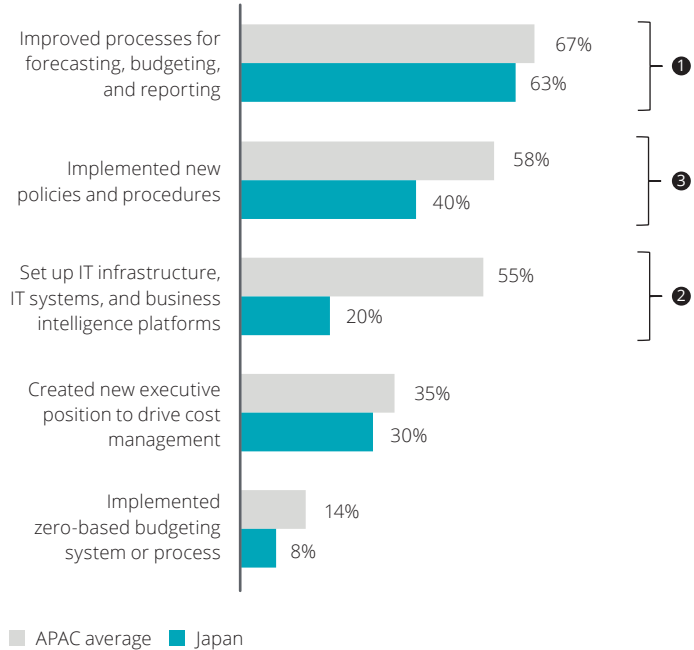
As with APAC as a whole, 'forecasting, budgeting, and reporting' was the most frequently cited development area. However, in APAC the second and third-rated areas were just slightly behind, whereas in Japan there was a big drop off (Figure 55).



Survey findings

- ① Although slightly below the APAC average, Japanese respondents cited improve forecasting, budgeting, and reporting as the top capability developed (63%).
- ② Japanese respondents cited 'set up IT infrastructure, IT systems, and business intelligence platforms' much less frequently than average (20% vs 55% for APAC).
- ③ Japanese respondents also cited 'implement new policies and procedures' much less frequently than average (40% vs 58% for APAC).

Figure 55. Capabilities developed over the past 24 months



Japan's expected cost actions are lower across the board

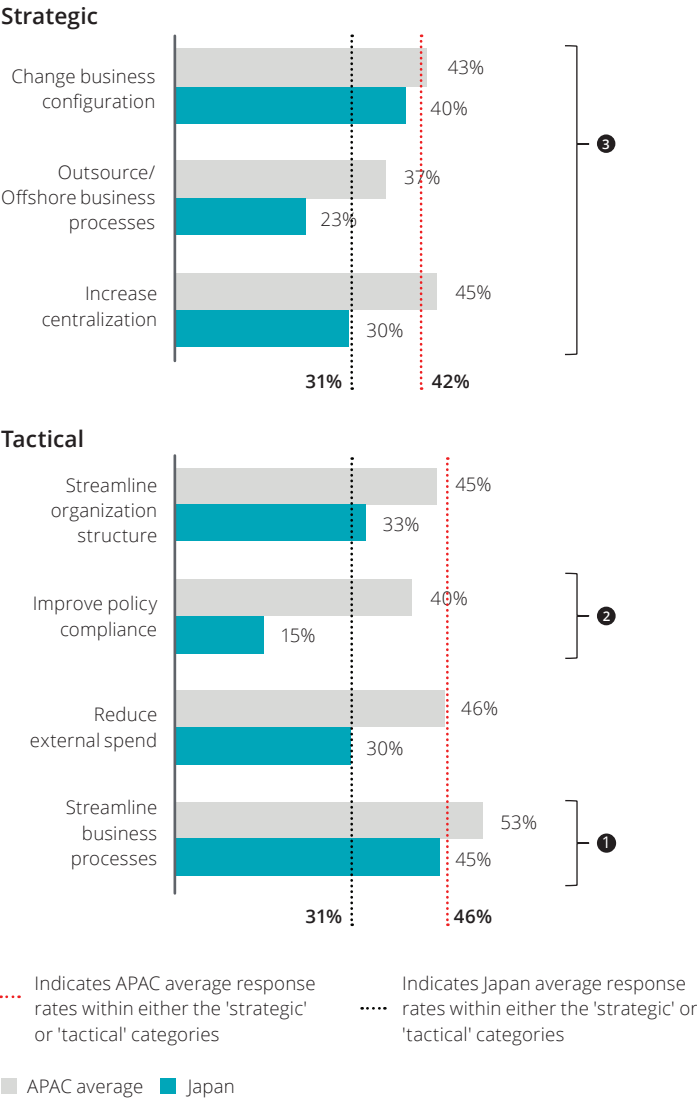
Over the next 24 months, Japanese companies view all cost actions as less likely than do their APAC peers. Japan's average ratings for strategic cost actions were much lower than the APAC average (31% vs 42%). The gap was even wider for tactical cost actions, where Japan's average rating was 31% vs 46% APAC (Figure 56).



Survey findings

- 1 The most frequently cited cost action for Japanese companies is 'streamline business processes' (45%).
- 2 The least frequently cited cost action for Japanese companies is 'improve policy compliance' (15%).
- 3 The strategic cost actions most frequently cited by Japanese respondents are: Change business configuration (40%); Increase centralization (30%); and Outsource/Offshore business processes (23%).

Figure 56. Cost actions viewed as most likely in next 24 months



Appendix E:

Australia



A more balanced approach to cost reduction and growth, perhaps reflecting a mature economy, political stability and a focus on strategic flexibility.

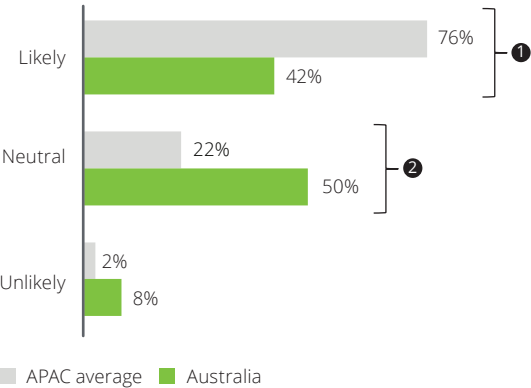


Australian respondents as a group expressed views that varied significantly from the rest of APAC. To help ensure the validity of the sample set, additional survey responses were obtained and further analysis was done; however, the resulting analysis was consistent with the initial findings and showed noteworthy differences between Australia and other countries in the region.

Much lower likelihood of cost reduction

According to the survey data, Australian companies say they are less likely than average to undertake cost reduction over the next 24 months (42% vs 76% for APAC). However, this position may be driven by a need for strategic flexibility, as Australia also has the highest frequency of neutral responses towards cost reduction (50%) (Figure 57).

Figure 57. Likelihood of cost reduction in next 24 months
% of total respondents



Survey findings

- 1 Australian companies report a significantly lower likelihood of pursuing cost reduction action in the next 24 months (42%) relative to the APAC average (76%).
- 2 The percentage of neutral responses from Australia is significantly higher than the regional average (50% vs 22%).

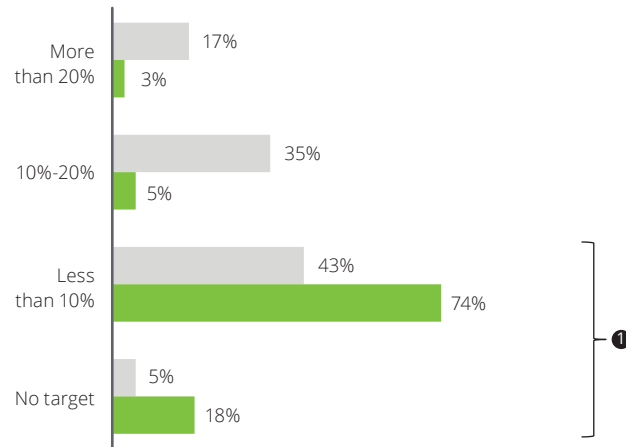


Lower cost reduction targets

74% of Australian respondents cited a cost reduction target of less than 10% and a further 18% cited no target. This is significantly less aggressive than the APAC regional averages, and there are two potential explanations. Either firms have already undertaken cost reduction and the 'low hanging fruit' has been picked, or companies are suffering from the 'new mediocre' arising from Australia's record run without a recession.⁷ In either case, what remains probable is that the residual cost reduction opportunities are likely transformative in nature – more complex to deliver and with outcomes that are harder to achieve (Figure 58).

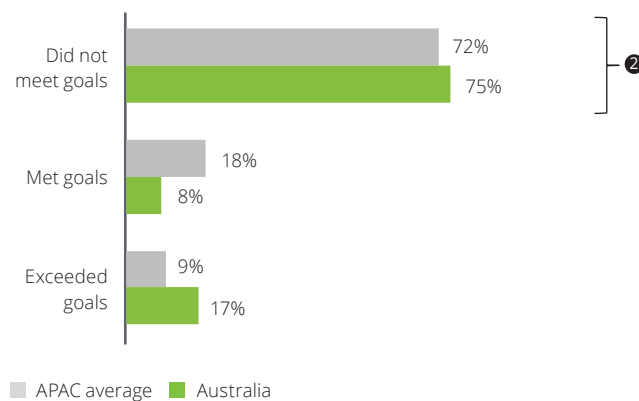
Figure 58. Annual cost reduction targets

% of total respondents



Success in meeting cost targets

% of total respondents



Survey findings

- ① The percentage of Australian respondents with cost reduction targets of less than 10%, or no targets at all, was significantly higher than average (92% vs 48% for APAC).
- ② Despite lower cost targets, 75% of Australian respondents did not meet their goals (vs the APAC average of 72%).

⁷Deloitte: Building the Lucky Country #6



More mature cost reduction capabilities

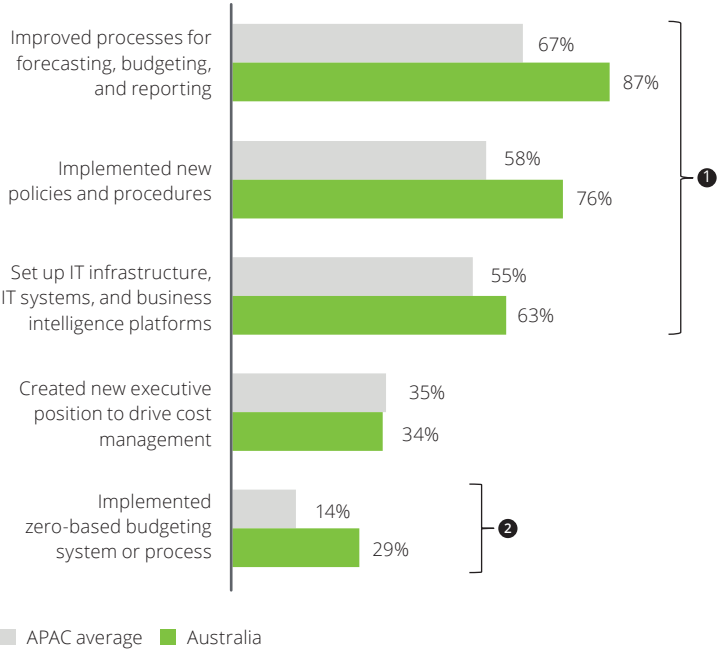
Australian companies cite nearly all cost reduction capabilities more often than do their APAC counterparts (Figure 59). Implementation of zero-based budgeting (ZBB) stands out (29% in Australia vs 14% in APAC), particularly because global survey results show that adoption of ZBB seems to be flat or declining in most other parts of the world. This seemingly greater focus on ZBB may in part be a side effect of Australia's greater focus on developing improved processes for forecasting, budgeting, and reporting capability.



Survey findings

- 1 The top three capabilities developed over the past 24 months are cited much more frequently than average by Australian respondents: Improved processes (87% vs 67% for APAC); Implement new policies and procedures (76% vs 58% for APAC); and set up IT infrastructure/systems (63% vs 55% for APAC).
- 2 Zero-based budgeting is cited more frequently than average by Australian companies (29% vs 14% for APAC).

Figure 59. Capabilities developed over past 24 months





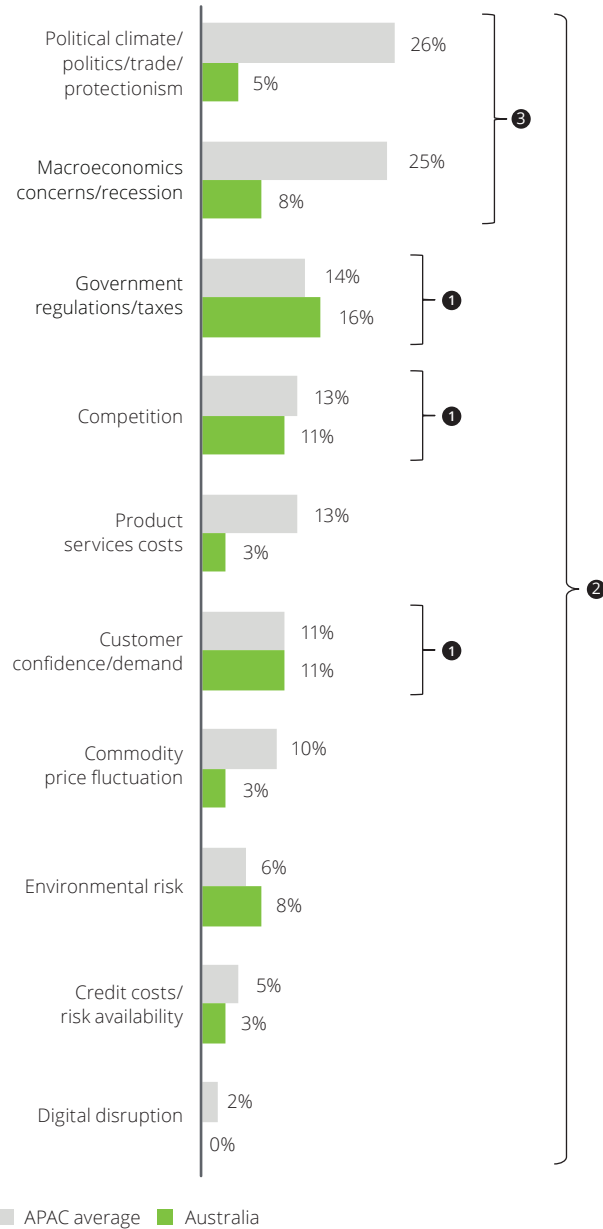
Less concern about external risks

Compared to their APAC peers, Australian respondents are less concerned about nearly all types of external risk. In particular, two types of risk-politics (5% vs 26% for APAC) and macroeconomics (8% vs 25% for APAC). are noteworthy because those risks are ranked highly in most other countries and their relative absence is suggestive of a more positive environment in the Australian market going forward (Figure 60).

Survey findings

- ① The top external risks cited by Australian respondents are: Government regulations/taxes (16%); Customer confidence (11%); and Competition (11%).
- ② Seven of 10 risk factors are rated lower by Australia than by APAC overall, with only three factors rated the same or higher: Government regulations/taxes (16% vs 14% for APAC); customer confidence/demand (11% vs 11% for APAC); and Environmental risk (8% vs 6% or APAC).
- ③ The two top risks for APAC overall were rated much lower by Australian respondents: Political climate (5% vs 26% for APAC) and Macroeconomic concerns (8% vs 25% for APAC).

Figure 60. Top external risks





Lower expectations for future growth

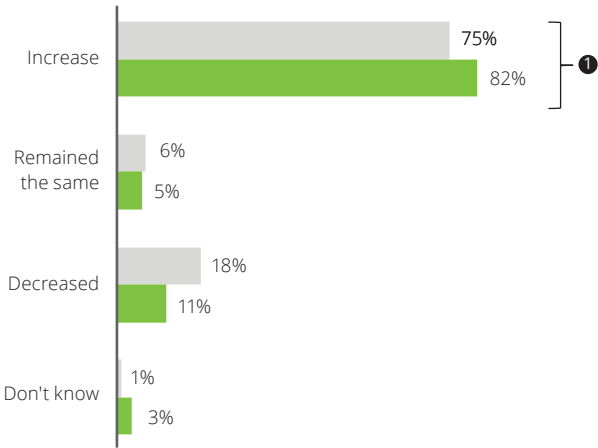
Relative to APAC as a whole, more Australian companies report positive revenue growth over the past 24 months (82% vs 75%). However, looking ahead, Australian companies are slightly less optimistic than average about their future prospects for growth (71% vs 78% for APAC), although their overall outlook for growth is still decidedly positive (Figure 61).



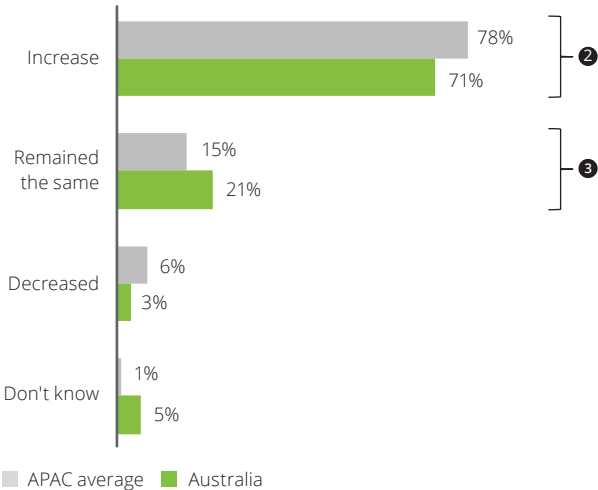
Survey findings

- 1 A higher-than-average percentage of Australian respondents increased their revenues over the past 24 months (82% vs 75% for APAC).
- 2 71% of Australian companies expect to increase their revenue over the next 24 months (compared to the APAC average of 78%).
- 3 The percentage of Australian companies that expect their revenues to remain the same over the next 24 months is higher than average (21% vs 15% for APAC).

Figure 61. Annual revenue growth
Annual revenue over past 24 months
% of total respondents



Annual revenue growth projections over next 24 months
% of total respondents





Trying every approach

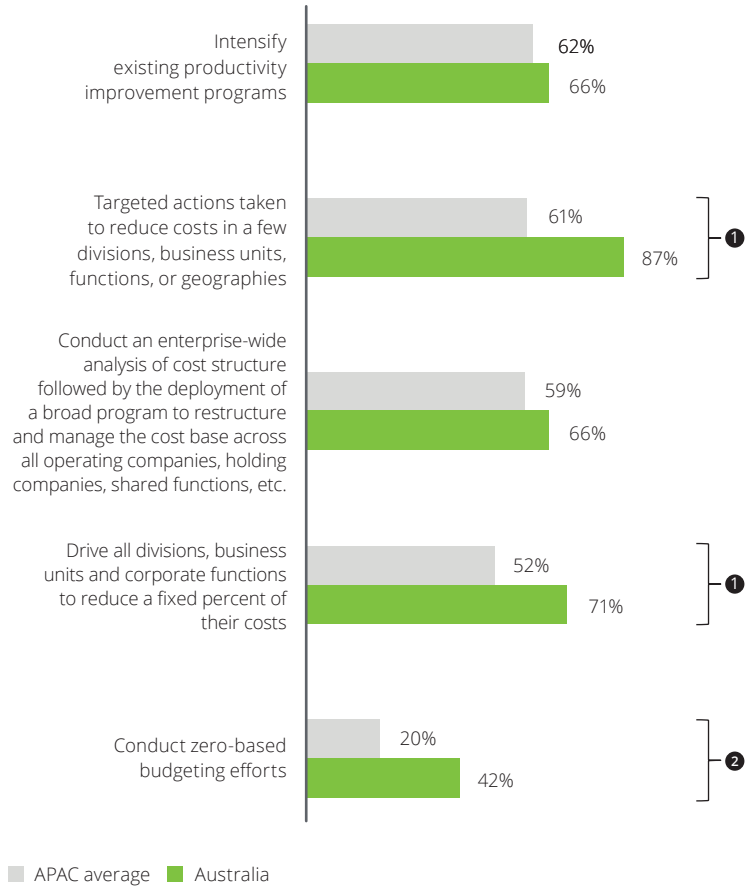
Despite having relatively low cost targets, Australian respondents appear to be making an effort on many different fronts, citing all approaches to cost reduction more frequently than their APAC peers (Figure 62).



Survey findings

- ① The cost management approach most frequently cited by Australian respondents is 'targeted actions' (87%), which is rated much higher than the APAC average (61%). Next highest is 'driving all divisions to reduce a fixed percent of their costs' (71%), which is also rated much higher than the APAC average (52%).
- ② Zero-based budgeting is cited more frequently by Australian companies than by APAC companies overall (42% vs 20% for APAC), but is still the least used approach by far, which is directionally consistent with the region.

Figure 62. Approaches to manage costs over the past 24 months





Pursuing competitive advantage

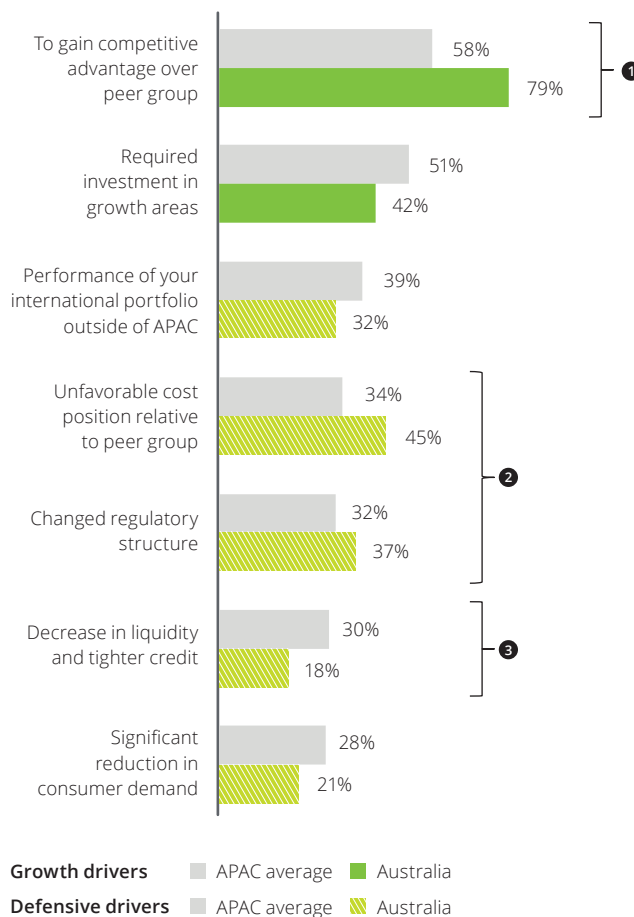
Cost reduction drivers in Australia closely align with the rest of APAC. The one driver that stands out is competitive advantage, which is rated much more highly in Australia (79%) than in APAC (58%); in both cases it is ranked #1 (Figure 63).



Survey findings

- ❶ The percentage of Australian respondents citing 'competitive advantage' as a cost reduction driver was higher than average (79% vs 58% for APAC).
- ❷ Australian companies cite two defensive drivers of cost reduction more frequently than average: Unfavorable cost position (45% vs 34% for APAC), and Changed regulatory structure (37% vs 32% for APAC).
- ❸ Australian respondents rate four of seven cost reduction drivers lower than average, with the lowest rated driver being 'Decrease in liquidity' (18% vs 30% for APAC).

Figure 63 Drivers of cost reduction



Tactical actions for pure cost reduction

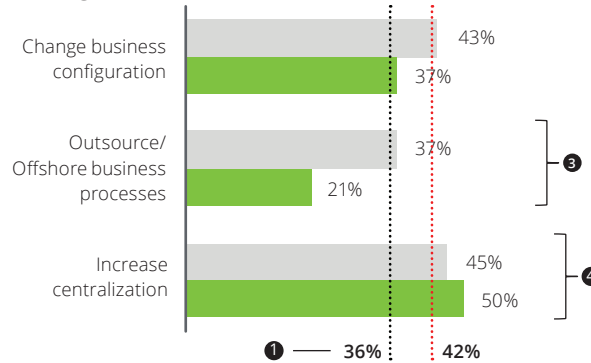
Australian respondents predict that cost reduction initiatives in the next 24 months are likely to be tactical rather than strategic in nature, with an average of 73% of respondents anticipating such actions as improving policy compliance, reducing external spend and streamlining business processes. The relatively low expectations for strategic action (36% in Australia vs 42% APAC region average) may be explained by the fact that many Australian companies may have already implemented significant actions (e.g., off-shoring, outsourcing) and many may now be focused on customer-centric transformations, which aim to deliver both growth and cost efficiency (Figure 64).

Survey findings

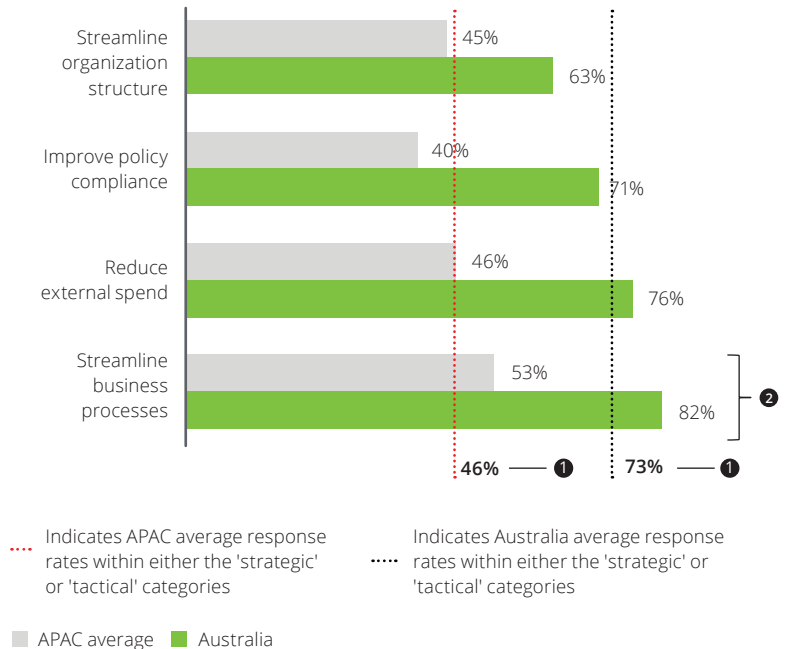
- ① Tactical actions are much more likely for Australian companies (73%) than for APAC companies overall (46%). For Australian respondents, tactical actions are also much more likely than strategic actions (73% vs 36%).
- ② The most frequently cited cost action for Australian companies is 'streamline business processes' (82%), which is cited significantly more often than the APAC average (53%).
- ③ Australian respondents cite 'Outsource/ Offshore business processes' significantly less often than average (21% vs 37% for APAC).
- ④ Among Australian respondents, 'Increase centralization' is the most frequently cited strategic action (50%), although it is rated 13 percentage points lower than the least frequently cited tactical action, which is 'streamline organization structure' (63%).

Figure 64. Cost actions viewed as most likely in next 24 months

Strategic



Tactical



Appendix F: **Singapore**



More closely aligned with the APAC average than any other country surveyed.



The survey results for Singapore were very consistent with APAC as a whole in many areas, including cost reduction drivers, approaches, barriers, targets, and success rates. Singapore's revenue growth over the past 24 months lagged significantly behind the APAC average, but is expected to catch up over the next 24 months. Singapore's view of external risks was also consistent with APAC, although the level of concern was higher for the top two risk areas.

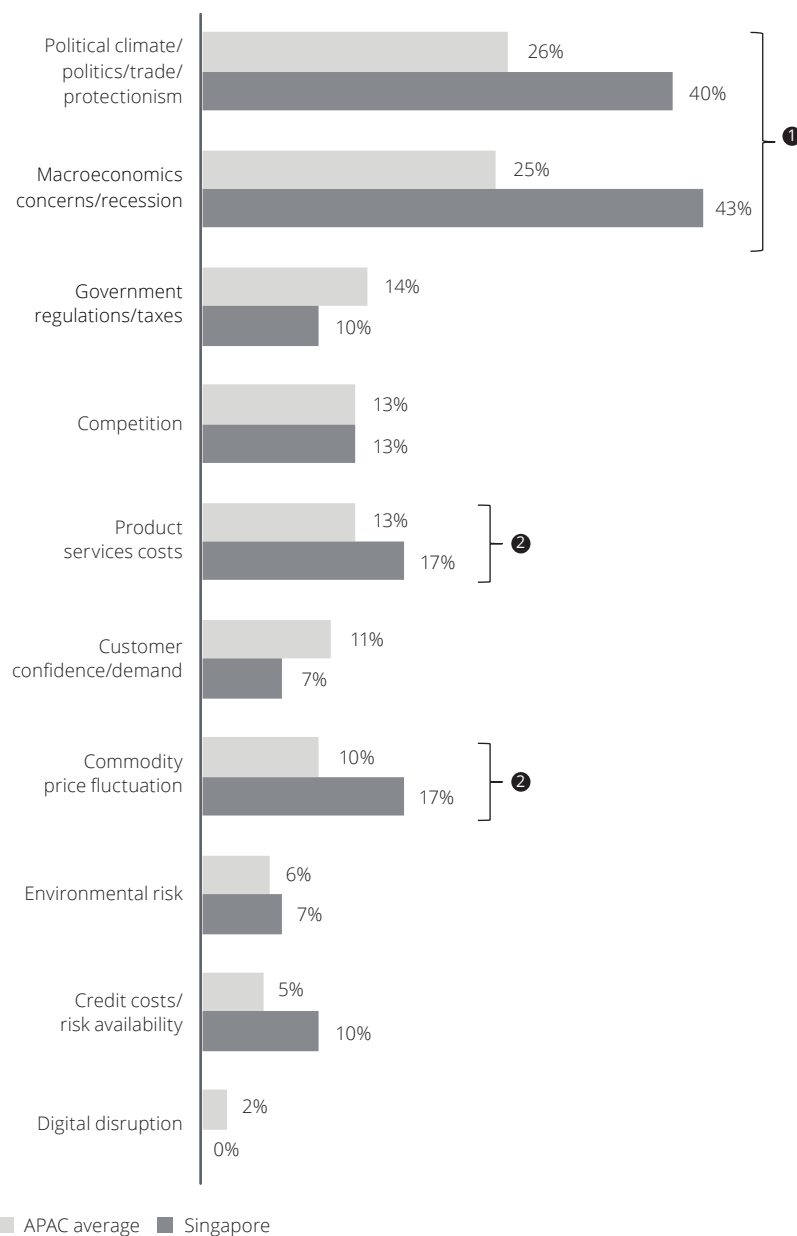
Higher than average concern about politics and economics

The top external risks for Singapore companies are political climate (40%) and macroeconomic concerns (43%), which is directionally consistent with the region but significantly higher in numeric terms (26% and 25% respectively for APAC) (Figure 65).

Survey findings

- ① Singapore respondents rank macroeconomic concerns (43%) and political climate (40%) as their top two external risks, citing those risks with much higher frequency than the APAC averages (26% and 25% respectively).
- ② Tied for third are commodity price fluctuation (17%) and product service costs (17%), both of which are cited more frequently than the APAC averages.

Figure 65: Top external risks



Growth is expected to catch up with APAC

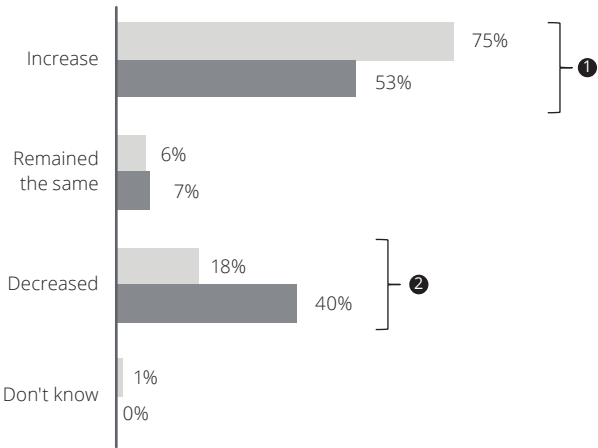
Revenue growth in Singapore over the past 24 months was much less prevalent than the APAC average (53% vs 75% for APAC). However, future expectations for growth are very closely aligned (77% for Singapore vs 78% for APAC) (Figure 66).



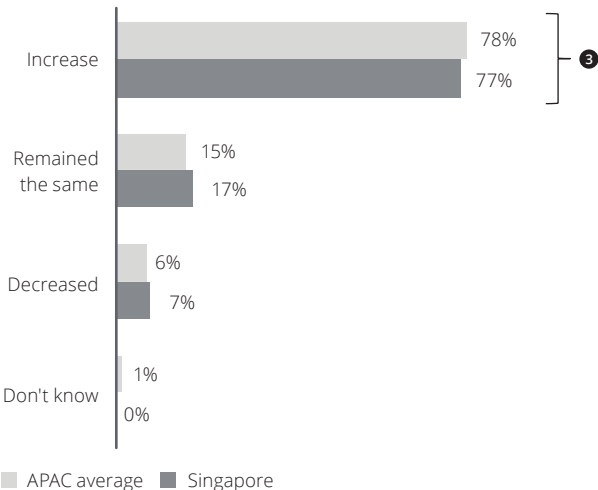
Survey findings

- 1 The percentage of Singapore respondents that reported increased revenues over the past 24 months was significantly lower than average (53% vs 75% for APAC).
- 2 The percentage of Singapore respondents that reported decreased revenues over the past 24 months was much higher than average (40% vs 18% for APAC).
- 3 Future growth expectations in Singapore are very consistent with APAC as a whole.

Figure 66. Annual revenue growth
Annual revenue over past 24 months
% of total respondents



Annual revenue growth projections over next 24 months
% of total respondents



Higher than average focus on cost reduction

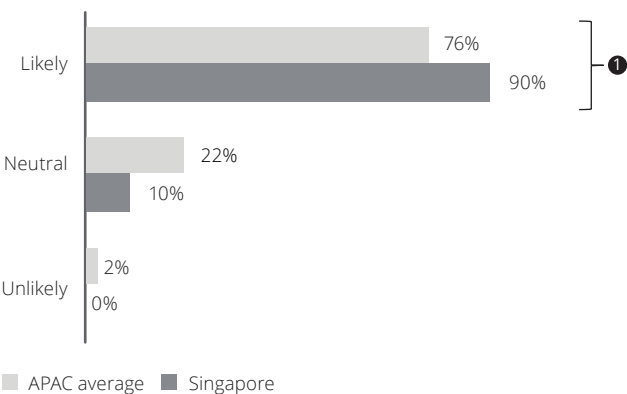
Singapore companies are significantly more likely than their APAC peers to undertake cost reduction (90% vs 76%) (Figure 67).



Survey findings

- 1 Singapore companies are more likely than average to pursue cost reduction (90% vs 76% for APAC).

Figure 67: Likelihood of cost reduction in next 24 months
% of total respondents





Higher cost targets but still high failure rates

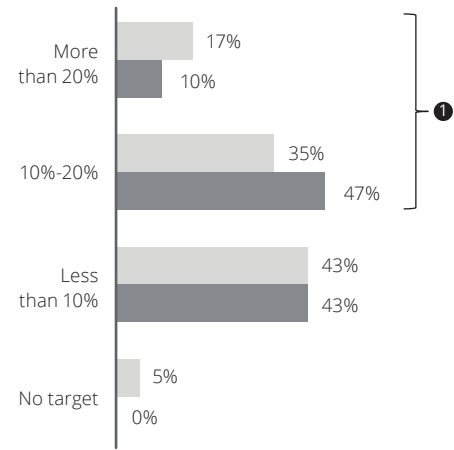
Cost reduction targets in Singapore are slightly higher than for APAC as a whole, as is the rate of success (70% failure rate for Singapore vs. 72% failure rate for APAC) (Figure 68).



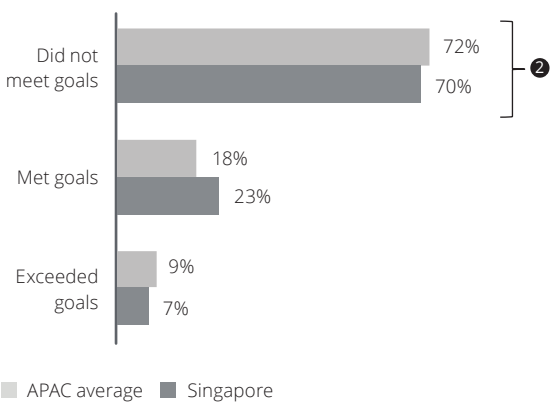
Survey findings

- 1 The percentage of Singapore respondents with cost reduction targets of 10% or more is higher than average (57% vs 52% for APAC).
- 2 Singapore companies reported cost program failure rates on par with the APAC average (70% vs 72% for APAC).

Figure 68. Annual cost reduction targets
% of total respondents



Success in meeting cost targets
% of total respondents





A balance of strategy and tactics

Companies in Singapore have fairly balanced expectations when it comes to strategic cost actions vs tactical cost actions. However, the most likely future cost action – 'streamlining business processes' (57%) – is tactical in nature (Figure 69).

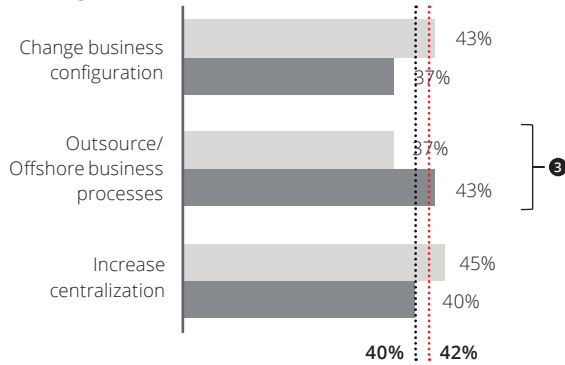


Survey findings

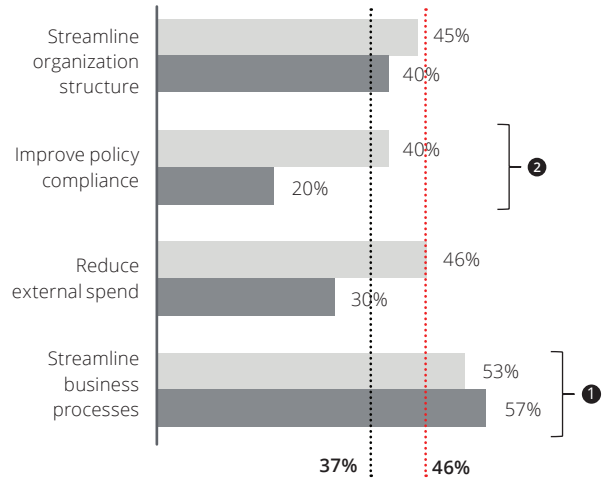
- ① For Singapore respondents, 'Streamline business processes' is the most frequently cited cost action (57%).
- ② 'Improve policy compliance' is the least cited cost action for Singapore, and is far below the APAC average (20% vs 40% for APAC).
- ③ The most likely strategic cost action for Singaporean companies is 'outsource/offshore business processes' (43% vs 37% for APAC).

Figure 69. Cost actions viewed as most likely in next 24 months

Strategic



Tactical



..... Indicates APAC average response rates within either the 'strategic' or 'tactical' categories

..... Indicates Singapore average response rates within either the 'strategic' or 'tactical' categories

■ APAC average ■ Singapore

Notes

Notes



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