Who are we?

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If a downturn is happening in the next few years...

...how do you make sure that you are prepared for this...

...and how can best-in-class cost management be particularly beneficial?
We are in the longest period of economic expansion in recorded history
Almost all downturns of the past 50 years...
... find their origins in 4 main types of root causes

<table>
<thead>
<tr>
<th>Financial</th>
<th>Non financial</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>01 Central banks / Government policies</strong></td>
<td><strong>02 Rising bubbles Exacerbated by harmful practices</strong></td>
</tr>
</tbody>
</table>
| - Shifts in monetary / central bank policies (tightening or over-stimulus) | - Sovereign debt  
- Stocks  
- Bonds  
- Real Estate  
- Others (student loans, health expenses, pensions liabilities, ...) |
| | **03 Detrimental political environment**  
- Trade disputes and protectionism  
  e.g., US/China, tariff increases, ...  
- Political upheavals  
  e.g., Islamic revolution, risk of “Hard” Brexit  
- International conflicts  
  e.g., Middle East, Ukraine, ...  
- Economic sanctions  
  e.g., Venezuela, Russia, ...  
- Commodities and O&G movements  
  e.g., oil shocks, ... |
| | **04 Unpredictable hazards**  
- Various hazards:  
  - Natural disasters  
  - Ecological  
  - Humanitarian crisis / epidemics  
  - Terrorist attacks  
  e.g., 9/11  
- Cyber attacks  
- ... |

Source: Deloitte Analysis
The strong interconnections between these root causes explain most systemic crises...
... such as the sub-prime crisis in 2007-2008
If a recession happens, it tends to last about a year...

**Postwar US business cycles by length of recession, months**

Average: 11 months

Sources: Bachman, "What to Expect When You’re Expecting . . . a Recession"; National Bureau of Economic Research; Haver Analytics.
... and impact a few sectors significantly harder than others

### Average maximum decline in main GDP expenditure categories across all post–World War II recessions percent

- **Residential investment**: -22.6%
- **Exports**: -13.5%
- **Consumer durable goods**: -9.2%
- **Imports**: -9.2%
- **Nonresidential investment**: -9.2%
- **Federal spending**: -9.2%
- **GDP**: -2.1%
- **Consumer nondurable goods**: -1.3%
- **State and local spending**: -1.2%
- **Consumer services**: -0.4%

Sources: Bachman, "What to Expect When You’re Expecting . . . a Recession"; National Bureau of Economic Research; Haver Analytics.
The nature/timing/triggers are still very hard to predict...
... and the stakes are high in a downturn, where history has favored the prepared
If a downturn is happening in the next few years, how do you make sure that you are prepared for this, and how can best-in-class cost management be particularly beneficial?
Preparing for volatile times is all about building a truly agile and scalable business

A misaligned operating model creates inefficiencies and inflexibility

An aligned operating model is the foundation for scalability and responsiveness

Typical benefits from fast transition

- Increase probability of achieving organizational strategy
- Improve flow of resources to areas of strategic importance
- Achieve greater alignment of business functions
- Reduce level of cost inefficiencies
- Minimize effects of organizational weaknesses
- Decrease amount of effort dedicated to non-strategic activities

A scalable operating model rapidly realigns to the changes a downturn would put on the business model and capital model.
We have found 6 key levers in preparing for potential changes in the economy:

- Set the foundation
- Defend and drive revenue
- Reduce and manage costs
- Optimize assets, liabilities, and liquidity
- Accelerate digital
- Manage expectations
Set the foundation: Scenario planning is a key foundational tool for mitigation planning against potential changes in the global markets.

What is Scenario Planning?

- Rich, data-driven, **stories about tomorrow** that can help you make better **decisions today**!

- Hypotheses that describe a **range of possibilities** for the future — not predictions

- Imaginative narratives that stretch thinking, but are **always plausible and logical**

- Together, a set of scenarios form an **organizing framework** that can be used to **make sense of** conflicting or ambiguous **market signals** more **holistically** — today, and as they appear over time

Aligning of business with scenarios

<table>
<thead>
<tr>
<th>Observed Trends and Events</th>
<th>Scenario A</th>
<th>Scenario B</th>
<th>Scenario C</th>
</tr>
</thead>
<tbody>
<tr>
<td>BM</td>
<td>OM</td>
<td>CM</td>
<td>BM</td>
</tr>
<tr>
<td>CM</td>
<td>OM</td>
<td>CM</td>
<td>CM</td>
</tr>
</tbody>
</table>

**Scenario Planning**

**Business alignment**
Set the foundation: Combining scenario-based strategic thinking with cutting-edge Artificial Intelligence

Dynamic Strategy Approach

**Perceive**
Understand your market and competitors

**Anticipate**
Build a future-proof strategy based on scenarios

**Navigate**
Keep your strategy up to date

Deep View

Future-Proofing

Gnosis.strategy

1. Identify driving forces
2. Develop scenario model
3. Determine strategic implications
4. Wind tunnel existing strategies
5. Develop actionable strategies
6. Monitor and adjust strategy
Set the foundation: Sample driving forces analyses for retail
Set the foundation: Combining scenario-based strategic thinking with cutting-edge Artificial Intelligence

**Dynamic Strategy Approach**

**Perceive**
Understand your market and competitors

1. Deep View

**Anticipate**
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**Identify driving forces**

- Perceive
- Understand your market and competitors

**Develop scenario model**

- Develop
- Scenario model

**Determine strategic implications**

- Determine
- Strategic implications

**Wind tunnel existing strategies**

- Wind tunnel
- Existing strategies

**Develop actionable strategies**

- Develop
- Actionable strategies

**Monitor and adjust strategy**

- Monitor
- And adjust strategy

Deep View

Future-Proofing
Reduce and manage costs: There is nothing more harmful than a blind, generic blanket approach to cost savings

Recession will act as catalyst exacerbating the gap between best-in-class and dull players

Hence, clear objectives and priorities should guide company while streamlining their balance sheets and cost structures in order to engage virtuous circles:

- **Turnaround** to become resilient to hard times (e.g., be ready to face a sudden drop in demand, or remain competitive if prices are going down)
- **Fund** technical improvements, footprint optimization, opportunistic M&A, acquiring competition or adjacencies at attractive conditions
- **Grow into new business and services** while preparing for ups and downs of economic cycles
- **Transform** and capitalize on digital disruption—becoming the disrupter, rather than the disrupted

Cost-reduction program with no clear vision on the company challenges and priorities can further expand company financial troubles
### The 6 levers for efficient cost management and reduction

<table>
<thead>
<tr>
<th>Lever</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Governance</strong></td>
<td>Transitioning to the optimal governance model that aligns with the organization’s overall business model and achieves maximum resource efficiency across all functions</td>
</tr>
<tr>
<td><strong>Service Delivery Model</strong></td>
<td>Clearly defining and optimizing what work is performed, where, with how many resources and at what cost, resulting in optimal re-alignment of functional staff</td>
</tr>
<tr>
<td><strong>Business Process Optimisation</strong></td>
<td>Simplifying, standardising, re-engineering and automating end-to-end processes (e.g., order-to-cash, procure-to-pay, hire-to-retire) across business units and geographies (including enabling technologies)</td>
</tr>
<tr>
<td><strong>Organization Design</strong></td>
<td>Aligning the organizational structure with overall business and operating models; defining required functional capabilities and roles / responsibilities and reducing layers and broadening spans of control</td>
</tr>
<tr>
<td><strong>External Spend Management</strong></td>
<td>Aggressively sourcing and managing indirect external spend; applying deep category-specific insights to develop the right program to manage each major spend category</td>
</tr>
<tr>
<td><strong>Demand Management</strong></td>
<td>Reducing level of effort through elimination of work (i.e., rationalizing management reports, standardising master data, harmonizing policies)</td>
</tr>
</tbody>
</table>

Reduce and manage costs: Structured offset in 6 levers for efficient cost focus
Optimize assets, liabilities, and liquidity: ‘Cash is king’, and especially in shifting economic environments with tightening capital markets

Operational, Tactical and Strategic actions for improving cash balances

<table>
<thead>
<tr>
<th>Procure to pay (Accounts payable)</th>
<th>Operational</th>
<th>Tactical</th>
<th>Strategic</th>
<th>Improvement range</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Year-end collections push</td>
<td>• Efficient payments and automation</td>
<td>• Reevaluate supplier base</td>
<td>20% to 40%</td>
<td></td>
</tr>
<tr>
<td>• Early payment discounts</td>
<td>• Utility maximization of payment terms &amp; condition</td>
<td>• Renegotiate terms and conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Expedite billing</td>
<td>• Change payment frequency, payment methods, triggers and approval process</td>
<td>• Sourcing strategy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Forecast to fulfillment (Inventory management)</th>
<th>Operational</th>
<th>Tactical</th>
<th>Strategic</th>
<th>Improvement range</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Stop/ delay supplier payments</td>
<td>• Reduce safety stock levels</td>
<td>• Make-to-order/ make-to-stock</td>
<td>15% to 30%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Focus on S&amp;OP</td>
<td>• Rationalise SKU &amp; Product line</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Review minimum order quantities/Lead Times</td>
<td>• Storage facilities and locations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Order to cash (Accounts receivables)</th>
<th>Operational</th>
<th>Tactical</th>
<th>Strategic</th>
<th>Improvement range</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sell SLOBs at discount</td>
<td>• Efficient billing and automation</td>
<td>• Align sales compensation structure</td>
<td>10% to 30%</td>
<td></td>
</tr>
<tr>
<td>• Stop/ accelerate production</td>
<td>• Proactive collections strategy</td>
<td>• Renegotiate terms and conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Terms &amp; condition adjustments</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Accelerate digital: Our recent cost survey revealed poor adoption/implementation rates of core digital enablers

Deloitte’s 2019 cost survey

Effect of multiple digital enables in process optimisation

Global reported implementation of technologies (past 24 months)

RPA Cloud Cognitive & AI BI

Global

USA

EMEA

Nordics

Nordic implementation levels (next 24 months)

RPA Cognitive & AI BI Cloud

Nordic success of outcomes

RPA Cognitive & AI Cloud

Level 3
Savings: 10 – 40 FTE per process automated.

Level 2
Savings: 1 – 3 FTE per use case automated.

Level 1
Savings: <0.5 FTE per task automated.

Low value opportunities

Task-Based Automations

Use Case Targeted Automations

Single tool (RPA)

2-3 tools in use (RPA+ML)

Multiple tools (RxA+ML+BxM +CB)

End-to-End Process Opportunities

High value opportunities

# of opportunities

Savings:

Level 3

10 – 40 FTE

Level 2

1 – 3 FTE

Level 1

<0.5 FTE
Examples of drivers that can enable a more agile and scalable business

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<th>Revenue</th>
<th>Costs</th>
<th>Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Product and customer portfolio clean-up/simplification</td>
<td>• Outsource peak capacity to 3rd party</td>
<td>• Minimise inventory levels</td>
</tr>
<tr>
<td>• Implement dynamic pricing models</td>
<td>• Ensure flexible sourcing contract structure with material suppliers</td>
<td>• Tighten payment discipline (AP/AR)</td>
</tr>
<tr>
<td>• Ensure pricing realisation</td>
<td>• Strengthen integrated business planning to improve reaction time</td>
<td>• Delay CAPEX (especially in manufacturing)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Utilise business process outsourcing (especially on transactional processes)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Implement cloud based solutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Implement cognitive automation programme</td>
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...how do you make sure that you are prepared for this...

...and how can best-in-class cost management be particularly beneficial?
Those that manage costs consistently tend to win

Erratic managers with lacking focus on cost ratios are more likely to experience the roller coaster effect.

Managers with a consistent focus are better able to control and continuously decrease cost ratios.

Succeeding with consistent cost management delivers significantly higher increases in shareholder value.

Start your cost management journey with upgrading your understanding of costs

1) D&A: Depreciations and amortisations should be aligned through allocation to external and internal spend.

Further classification into specific cost categories for labor costs and dimensions (e.g. E2E processes or functional splits). Process oriented analysis drive significant opportunities.

Category specific classification and management of external spend. Data analytics and cognitive insights is key for step changes.
Transparency is key in order to drive efficient cost management within internal spend

Developing transparency in internal spend (labor costs)

Inputs to Activity Analysis Survey

- Survey Respondents & Population
- Process Taxonomy
- Survey Communications

Setup Activity Analysis Survey

Distribute Survey and Collect Responses

Analyze Survey Data

PBI: Analytics suite

Foundation for decision making on e.g.;
- Service delivery,
- Span of Control,
- Management Layers,
- Process Efficiencies,
- RPA Opportunities,
- Etc.

Analyze Survey Data

Communications

Transparency is key in order to drive efficient cost management within internal spend
Example: Activity analyses using Deloitte’s digital platform

Data gathering

Activity Analysis (ProfileIQ™)

- ProfileIQ’s activity analysis is the frontier of FTE-based activity analysis. It is a complete browser enabled tool making the process for collecting and reviewing data more agile.
- It allows for up-to-date tracking of respondent activities ensuring commitment and participation.

Data analytics and deep insights

Process based cost baseline

- Cost Baseline
- Which processes are most costly?
- Measure current vs a new activity
- Select level 1 Process

- FTEs by process
- Manufacturing
- Installation and拆迁
- Logistics and warehousing
- Sales
- Manage finance
- Management
- Manage U.I. and user data
- Project sales and management
- Sourcing and procurement
- Engineering
- Facilities, real estate and operation
- CPE
- Research and development
- Sweep and manage tax issues
- Manage global services
- Sales and customers planning
- Marketing, communication and PR
- General
- Yelling
- Manage legal, risk and compliance
- Manage indirect procurement

- FTEs by REGION
- Americas
- Africa
- Middle East
- APAC
- Europe

- FTEs by LEGAL ENTITY
- FTEs vs. Revenue by entity

Span of control

- Span of Control
- Which organizational unit has the largest span of control?

Process and site benchmarking

- Process and site benchmarking
Utilising global trained cognitive engines will deliver quick saving opportunities

**Aggregate & Classify**
- **Upload to Microsite** - Upload spend data through a secured CognitiveSpend microsite portal direct to the delivery team.
- **Combine Datasets** - Aggregate client files and map spend data to CognitiveSpend’s classification engine.
- **Classification Assumptions Table** - Review areas where ML classification resulted in low confidence to automatically update spend cube.

**Provide Spend Visibility**
- **Executive Dashboard** – Provides ability to view / filter spend by category, supplier, business unit, geography and type (direct / indirect).
- **M&A Synergy Assessment Dashboard** – Enables rapid evaluation of common categories & common suppliers to identify synergy opportunities.

**Deliver Actionable Insights**
- **Industry Benchmarking** – compare spend volume & supplier fragmentation to peer companies.
- **Purchase Price Variance** – pinpoint & evaluate pricing variance by item.

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Pre - Classification

Post - Classification
Example: Sourcing analyses using Deloitte’s digital platform

- Natural language processing and Machine Learning are used to classify complex transaction data.
- **Enhanced Spend Visibility** – gain faster, more accurate, and more detailed classification; more easily navigate spend by category, supplier, business unit and geography.
If a downturn is happening in the next few years... how do you make sure that you are prepared for this... and how can best-in-class cost management be particularly beneficial?
It is difficult to make accurate predictions, especially about the future.

- Niels Bohr
The downturn will happen, but it is hard to predict when, where, what and how significant.

Being prepared means having a scalable and agile business, that is ready to meet the sudden change in demand.

This can be supported, by best-in-class cost management approaches.