

Strategic Cost Transformation

Grab'n Go session

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From Save-to-Grow to Save-to-Transform

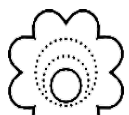
The 2019 Global Cost survey demonstrated a significant shift from a save-to-grow to a save-to-transform mindset, which will be a key driver for avoiding save-to-turnaround



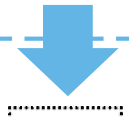
Turnaround
Save to turnaround. Focus on immediate actions to reduce costs, maximize liquidity, bring stability, and capture savings to avoid further deterioration of the organization.



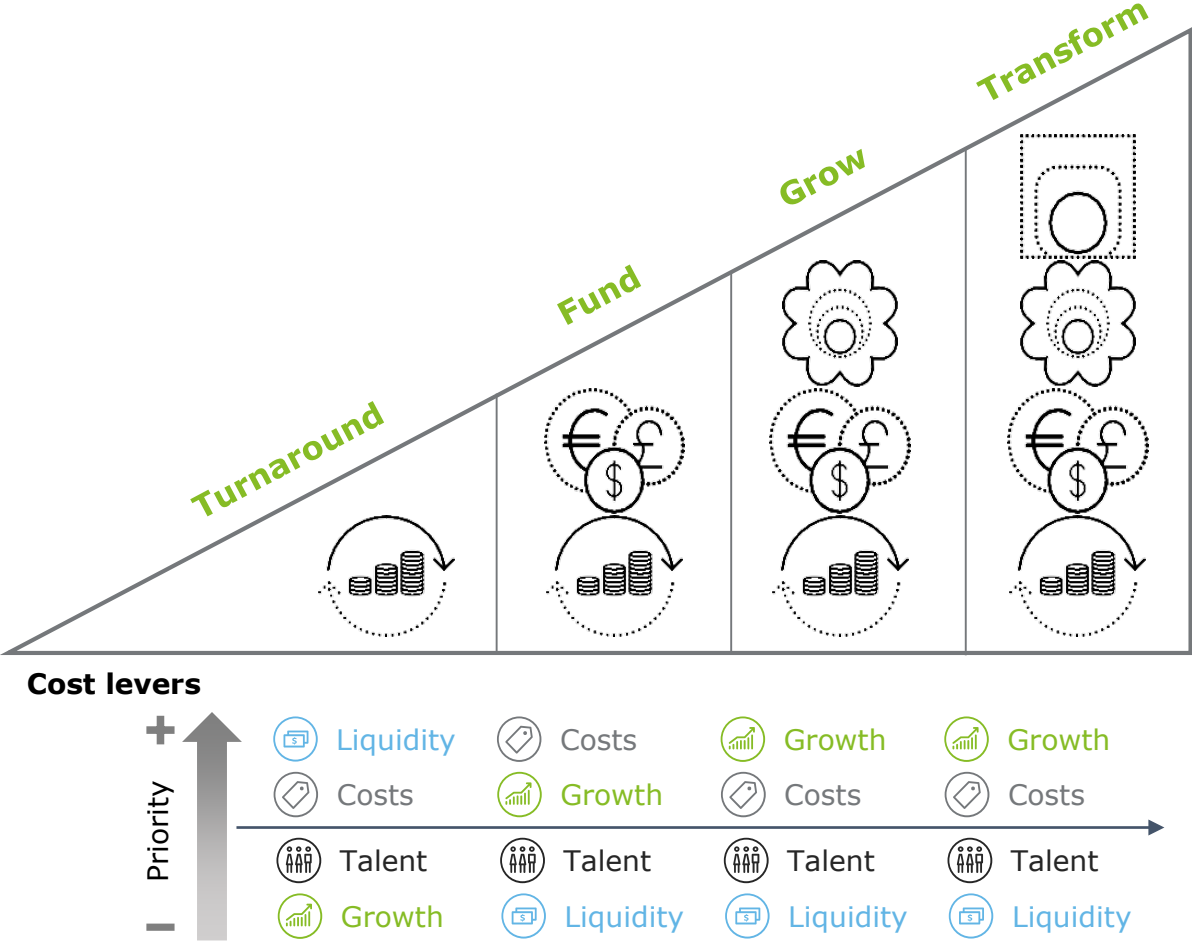
Fund
Save to fund. Focus on actions that help improve cost and competitive position, avert cuts that might inhibit future growth, and rebalance costs to fund investments in business strategy enablers.



Grow
Save to grow. Enable or develop a scalable cost or business platform to fuel growth and investment in core capabilities while supporting a differentiated business strategy.



Transform
Save to transform. Improve business operations through application of disruptive cost approaches such as automation and cognitive solutions to enable agile strategies in the business and set the stage to thrive in a fast changing market environment.



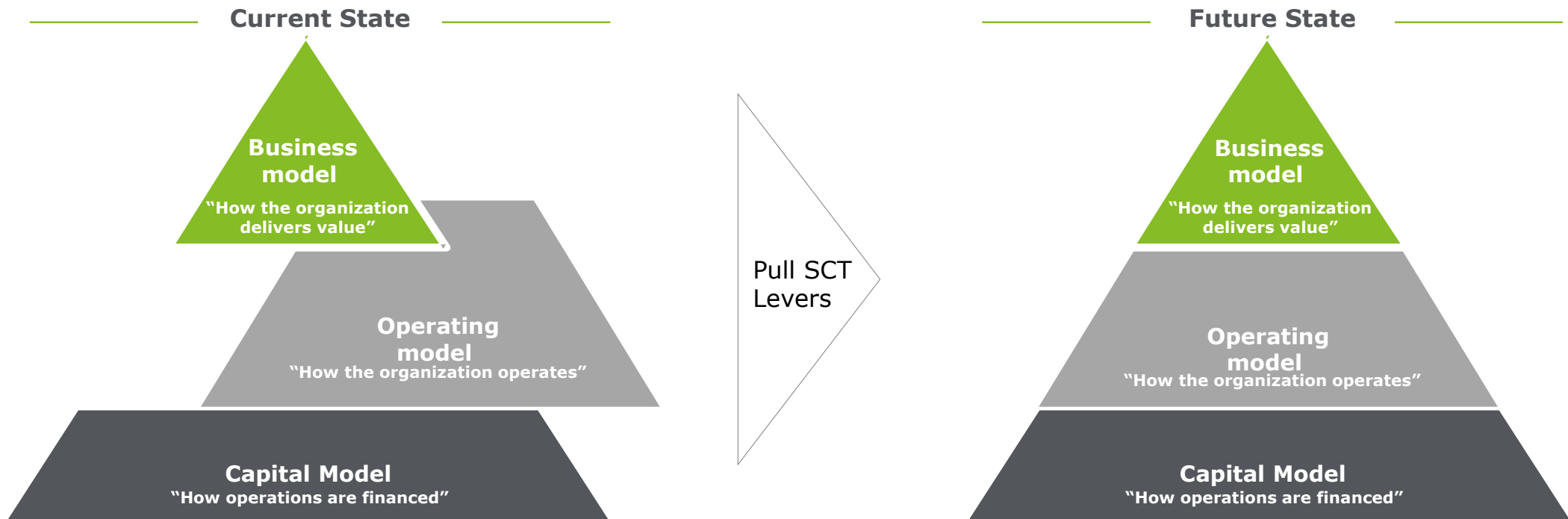
What Strategic Cost Transformation is and is not

SCT is focused on structural changes that position organizations for future growth, while improving cost performance and scalability

	SCT is...	SCT is not ...
Focus	Focused on leading with asset and organizational changes followed by process changes	Focused on continuous improvement which is lead by process (Lean Six Sigma, etc.)
Scope	Enterprise-wide programmatic scope for cross-functional transformation	Limited in scope to achieving quick cost reduction or incremental gains (e.g., shared services assessment, sourcing & procurement, organizational streamlining)
Nature of Solution	Structural solutions to enable growth and cost scalability in addition to overall competitiveness	A point-solutions approach for specific cost issues
Specificity to Business Challenge	Tailored for specific business challenges based on the type of organization and its competitive position	A generic one-size-fits-all offering developed to be applied to all organizations
Results	Results-oriented with the singular implication of providing tangible and measurable improvements	Restricted to identification of opportunities for cost reduction

The end goal of SCT

Following an SCT engagement the organization should be better aligned, better positioned, and ultimately higher performing



Typical Results from this 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

The development of cost reduction programmes

Successful Cost Programs now combine traditional levers with Next Generation operating models and digital technologies

Traditional Spend Reduction Levers (until 2008)



Maximizing Traditional Cost Levers

Continuous emphasis on operating model, business process and org efficiencies

Summary: Cost levers span four categories:

- Organization Simplification
- Business Process Optimization
- Infrastructure Rationalization
- Outsourcing/Managed Services



Traditional External Spend Reduction Levers

Identify opportunities to reduce overall non-labour spend and improve compliance

Summary: Continue to assess the following:

- Demand Mgmt – *Do we need the spend?*
- Compliance – *Is spend within policy?*
- Sourcing – *Negotiate better terms?*
- Cost Ownership – *Who should be responsible?*



Next Generation Operating Model (2008 – 2017)



Evolving Responsibility Models

Optimizing split of accountability between Corporate and Business Unit

Summary: Better and more efficiently align reporting, responsibility & accountability for key activities:

- Corporate/Regional/Local
- Differentiated Service Levels



Service Delivery Models 2.0

Continuing to drive operating model innovation

Summary: Increase operating model

- Commercial Market hubs
- Footprint rationalization (i.e., Regional operating models, HQ location changes)
- Virtual workforce



Digital Optimization (2017+)



Analytics as an Efficiency Solution

Leveraging analytics for real-time insights, issue and exception management

Summary: Visualization tools coupled with operating model advancement provide robust analytics while reducing key turnaround times:

- Exception management, error prevention
- Trending and variance analysis
- Risk identification



Automation

Disrupting business processes utilizing Robotic Process Automation & Cognitive

Summary: RPA and Cognitive automation:

- RPA: *behave like a person*; rule-based, front-end, multi-systems, structured
- Cognitive: *think like a person*; self-learning ability, algorithm-base, SME



Typical problem statements

Several archetypical problem statements tend to cover the essential objectives of the majority of SCT programs

Save-to-Fund

General

Rebalance costs **to fund investments** in business strategy enablers or avert cuts that might inhibit future growth

Save-to-Grow

Establish a **scalable cost platform to fuel growth** and enhance investment in core capabilities

Save-to-Transform

Disruptive **automation / cognitive solutions** to enable **agile business strategies**

General project types: Digital transformation, service delivery transformation, capability redesign, growth strategy, scaled cognitive & automation (RPA, NLG) programs

(Pre)Distress Restructuring

M&A

Rapid cost take-out situations for companies generally facing liquidity, working capital and bankruptcy pressure

Transact-to-Transform: Day 1 and Day 2 Transformation

Business and operating model **transformation, synergy identification and capture** and other related cost **optimization** work

Transact-to-Transform: Stranded Cost Reduction

Business and operating model **transformation, dis-synergy mitigation, stranded cost elimination,** and other related cost **optimization** work

M&A project types: Working capital optimization, PE portfolio optimization, legal entity restructuring, synergy capture, stranded cost assessment








Holistic solutions to holistic problems

Narrow-focused cost out programmes have a tendency of generating whack-a-mole effect: in isolation, costs are reduced, but they tend to pop up in new places



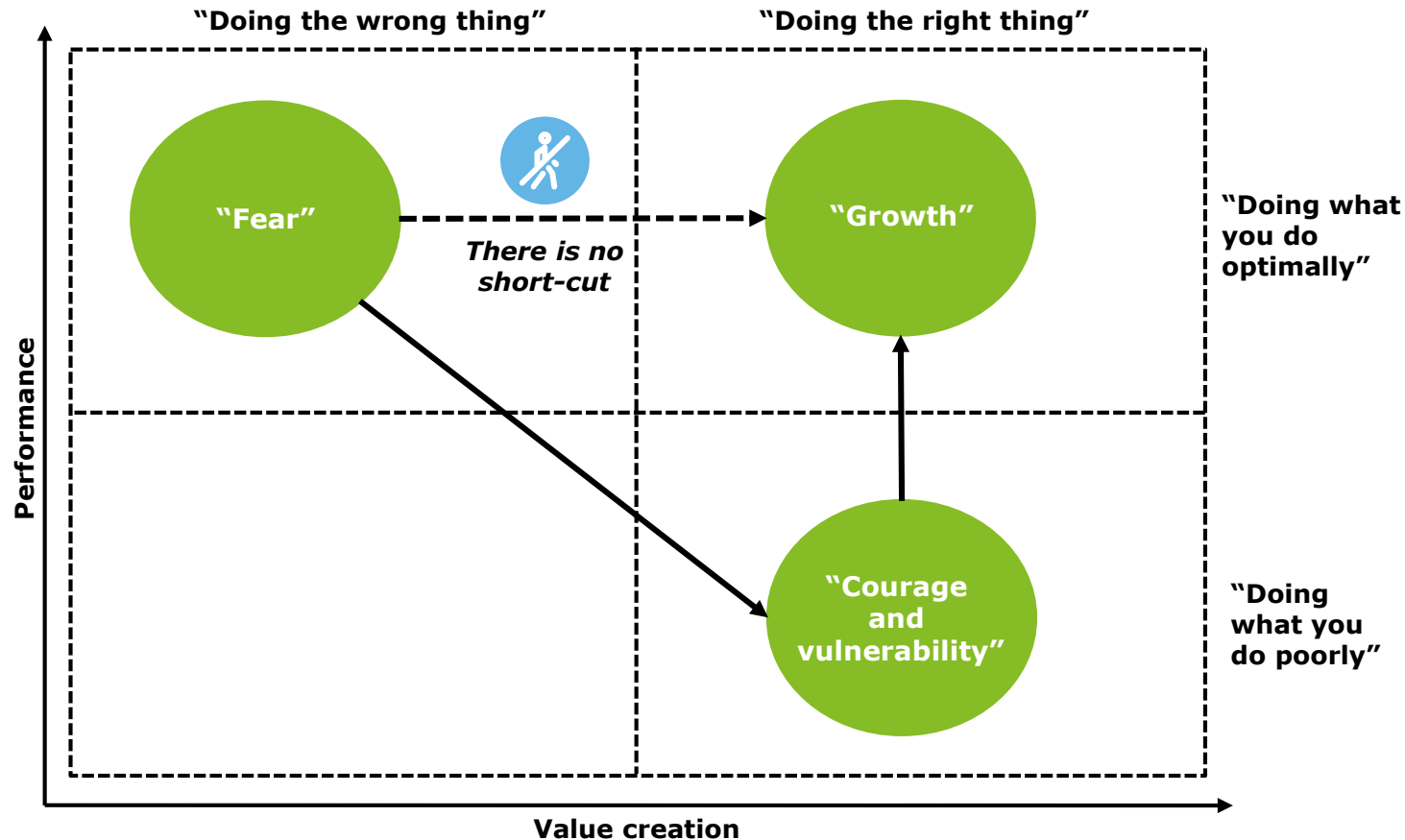
Six key levers

Our experience shows that six levers are central to addressing the cost base in a holistic manner. Their relevance, timing of change etc. vary, but must all be considered

Strategic, structural transformation	Lever	Description
	 <p>Operating Governance</p>	<p>Transitioning to the optimal governance model that aligns with the organization's overall business model and achieves maximum resource efficiency across all functions</p>
	 <p>Service Delivery Model</p>	<p>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</p>
	 <p>Business Process Optimisation</p>	<p>Simplifying, standardising, re-engineering and automating end-to-end processes (e.g., order-to-cash, procure-to-pay) across business units and geographies (including enabling technologies)</p>
	 <p>Organization Design</p>	<p>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</p>
	 <p>External Spend Management</p>	<p>Aggressively sourcing and managing indirect external spend; applying deep category-specific insights to develop the right program to manage each major spend category</p>
	 <p>Demand Management</p>	<p>Reducing level of effort through elimination of work (i.e., rationalizing management reports, standardising master data, harmonizing policies)</p>
Tactical improvement		

SCT requires courage

Holistic strategic cost reduction programmes requires the courage to pull structural levers and look declining performance in the eyes during implementation



- Many businesses fall prey to a spiral of sub-optimization to sustain margins.
- This is particularly evident in growth businesses, as structural changes, such as service delivery model redesigns, are seen as diluting the (growth) focus.
- Over time, this complicates the journey of establishing a scalable platform even further.
- A key driver behind such sub-optimization spirals is that true optimization often requires accepting bumpy periods with investments and poorer performance.
- Eventually, such a spiral culminates either when the well of sub-optimization runs dry, or when a pivotal change, such as ownership changes, happens.



Deep dive:
Leading
practices

Bridging costs and value creation for holistic cost management

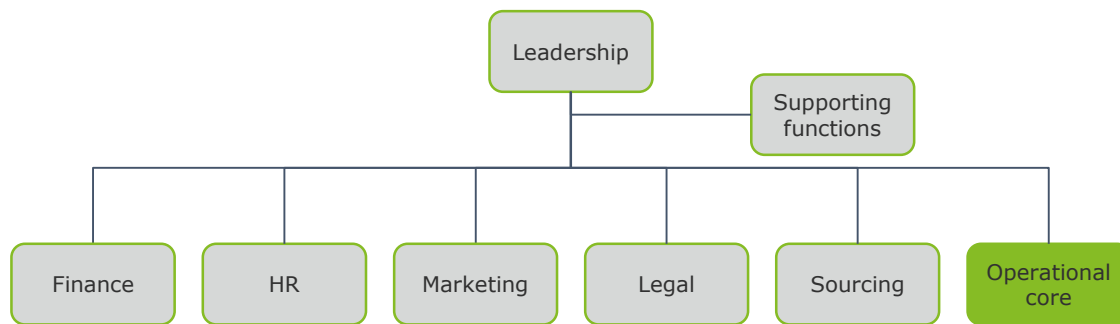
If the goal is sustainable cost reductions, it is key to create a strong link between costs and their value add in the same process as reduction targets are defined

	<i>Winning in a competitive marketplace</i>	<i>Mitigating risk across multiple fronts</i>	<i>Reducing cost and improving productivity</i>	<i>Transactions that keep the business running</i>
	Strategy enablers	Risk mitigators	Efficiency enhancers	Basic services
	<ul style="list-style-type: none"> Does the activity directly touch customers? Is the activity essential for helping us make critical decisions? Does directly serve the most senior executives in the organization / function? Does the activity contribute to giving us a distinct advantage over competitors? 	<ul style="list-style-type: none"> Does the activity help identify potential risks? Does the activity help prevent or minimize risks? Does the activity help manage disciplined preparation for risk? 	<ul style="list-style-type: none"> Does the activity deliver lower costs? Does the activity increase speed (of processes, of decision making, of transactions...)? Does the activity reduce working capital? Does the activity improve the utilization of human assets? 	<ul style="list-style-type: none"> Are there widely-accepted best practices and standards for the activity? Would standardizing the activity negatively impact the company? Is there a convincing rationale for why the company follows a unique approach to this activity?
Finance	<ul style="list-style-type: none"> Strategic Planning Budgeting Ad Hoc Analysis Capital Planning 	<ul style="list-style-type: none"> Enterprise Risk Management Currency Hedging 	<ul style="list-style-type: none"> Finance Automation Reporting Portal 	<ul style="list-style-type: none"> Billing and Invoicing Cash Applications Accounts Receivable Payroll
IT	<ul style="list-style-type: none"> IT Strategy IT architecture design 	<ul style="list-style-type: none"> IT Security Backups / Storage Quality Assurance 	<ul style="list-style-type: none"> Vendor Management Continuous Improvement Project Management 	<ul style="list-style-type: none"> Application Maintenance Network Services User Support Services

Bridging outside-in with inside-out

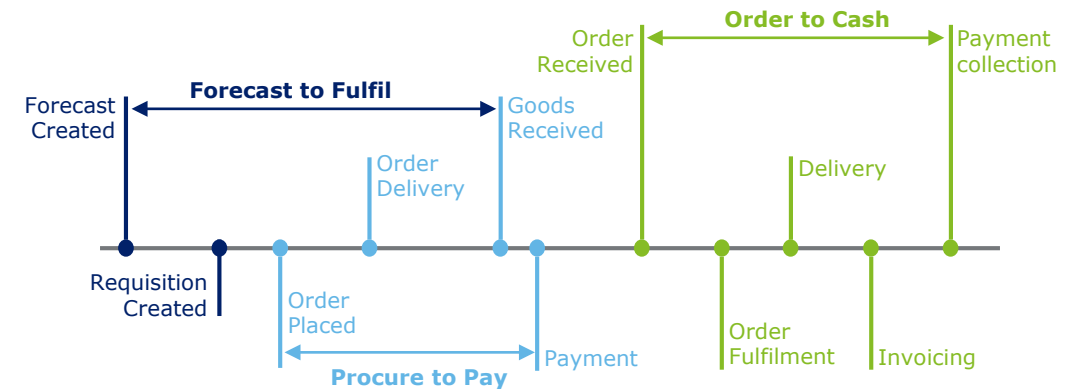
As businesses get more complex and attempt to become truly customer centric, the traditional function-oriented cost programs increasingly drive sub-optimization

How businesses and cost-out programs are designed



- Most strategic efforts to address the cost base depart in a functional view, i.e. focuses on functional benchmarking, that drives functional cost reduction targets.
- The functional view has for a long time been preferred, both from a practical perspective (it addresses cost at the level where the P&L responsibilities generally sit) and a political perspective (it details initiatives where the functional owner will also be accountable for implementing the initiatives)

How business create value and use money doing it



... Record to Report, Marketing to Lead, Opportunity to Order, Hire to Retire, Issue to Complete, and so on.

- More and more businesses are adopting end-to-end process perspectives on their cost base.
- Taking a process view enables a more insightful way to identify cost opportunities, both due to task-oriented benchmarking and better root cause analyses.
- A typical pitfall of process-oriented cost programs is that they fail to create a data driven approach, both from a cost and value creation perspective.

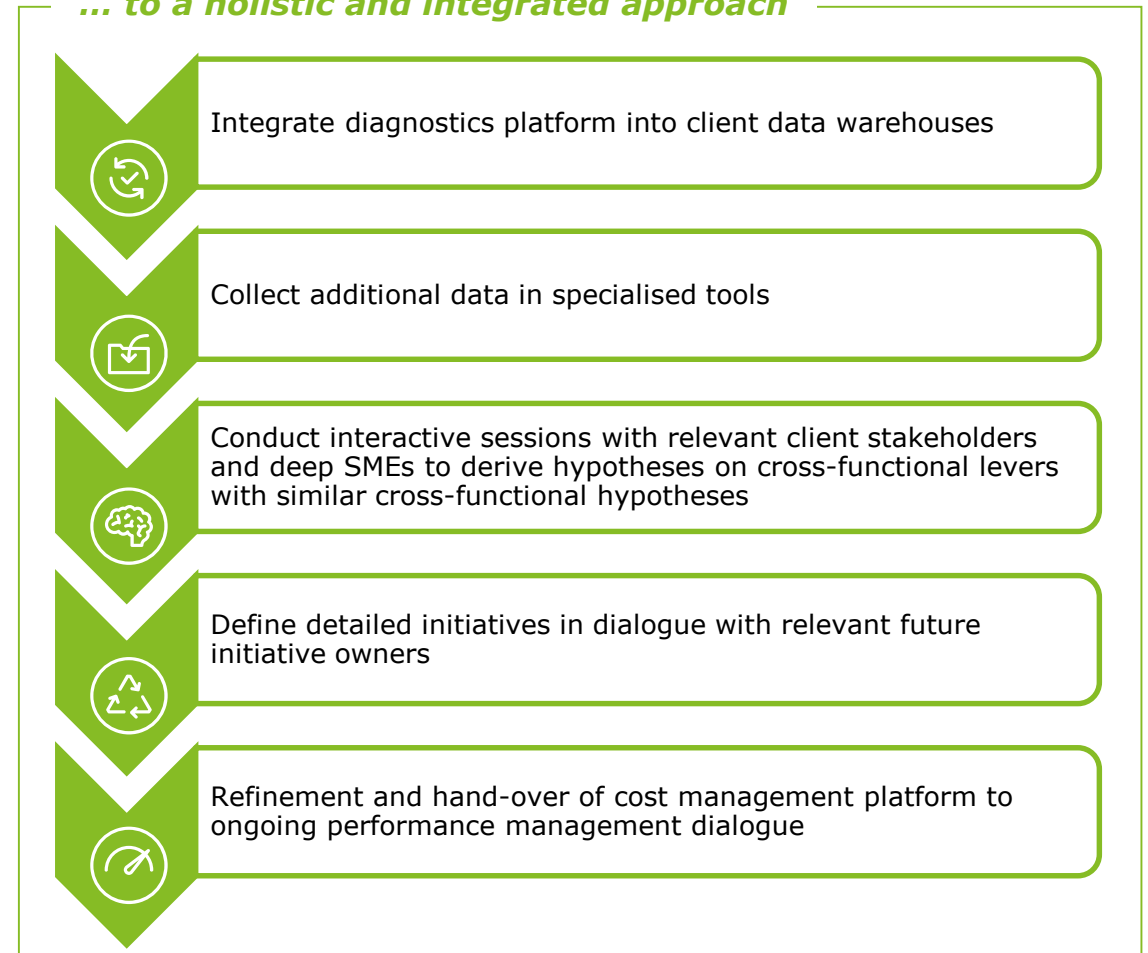
Bridging cost reduction programs and cost management


It is time to move beyond cost programmes with grandiose names, driven out of excel and powerpoint, and into tools that facilitate decision making and development

From a narrow and separated approach...



... to a holistic and integrated approach

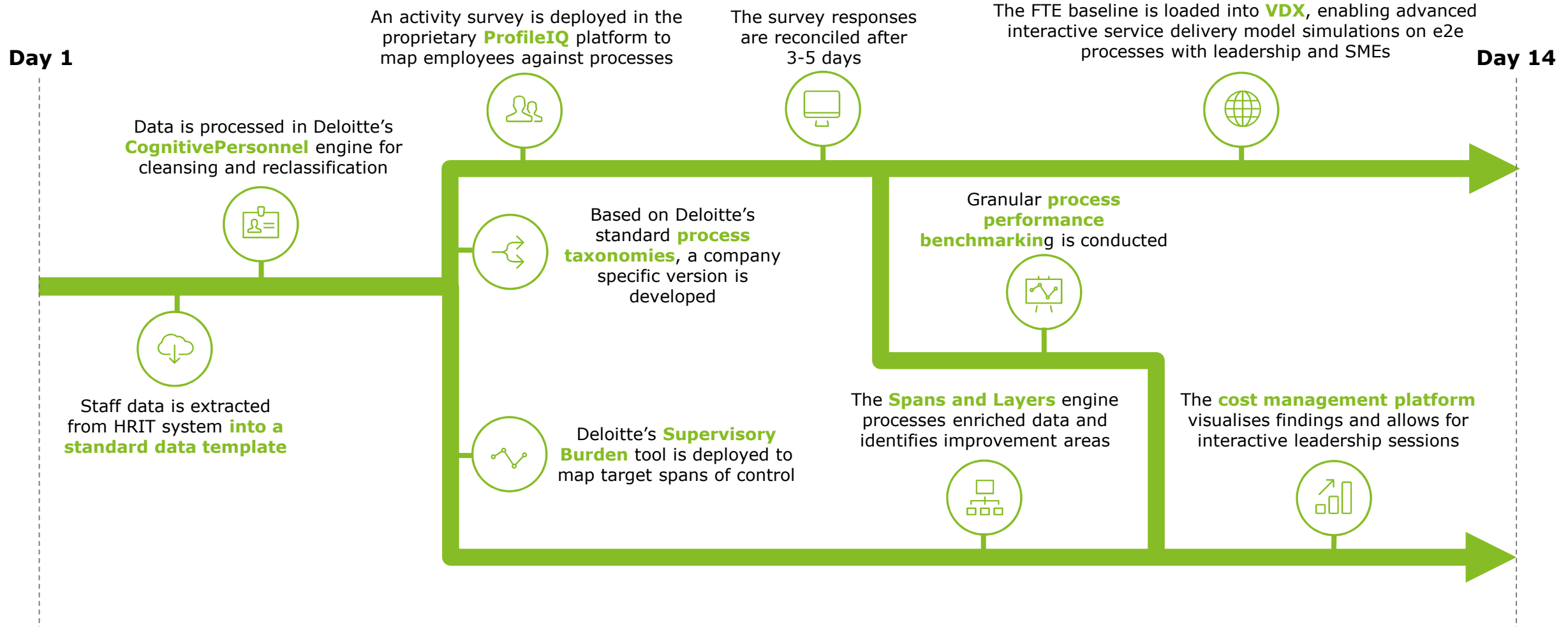




Deep dive:
Analyses
examples

Example 1: Addressing SG&A opportunities

Specialised tools enable identification of enterprise-wide salary improvement opportunities in as little as 14 days from initiation



Example 2: Driving sourcing opportunities with cognitive enablement

CognitiveSpend is a Google platform-based solution, that classifies spend data, identifies opportunities and drives realisation in as little as 2 weeks



Aggregate & Classify

Provide Spend Visibility

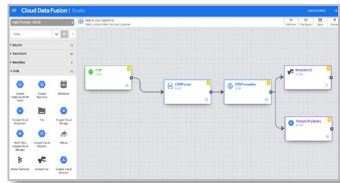
Deliver Actionable Insights

Illustrative Dashboards

Pre - Classification

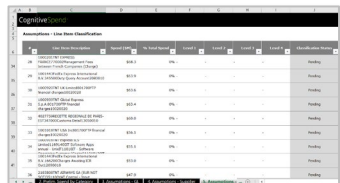


Upload to Microsite -
Upload spend data through a secured CognitiveSpend microsite portal direct to the delivery team

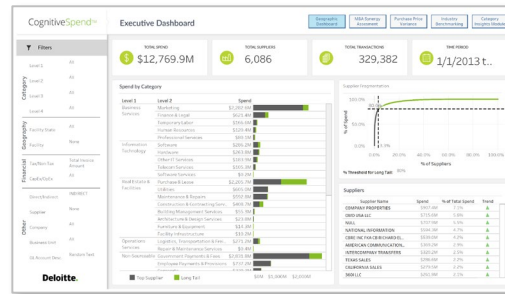


Combine Datasets-
Aggregate client files and map spend data to CognitiveSpend's classification engine

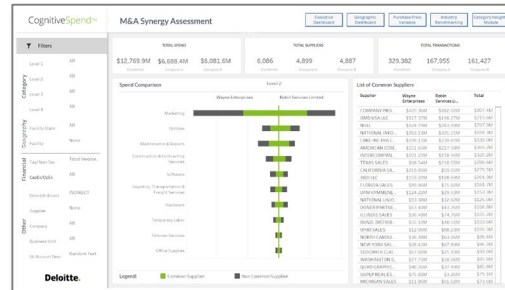
Post - Classification



Classification Assumptions Table -
Review areas where ML classification resulted in low confidence to automatically update spend cube



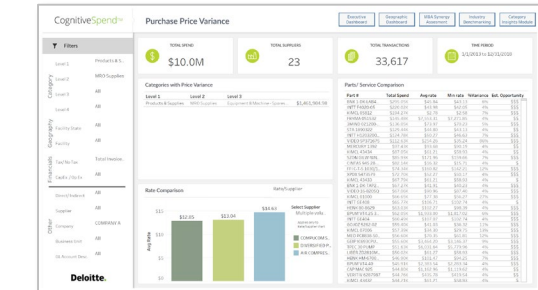
Executive Dashboard - Provides ability to view / filter spend by category, supplier, business unit, geography and type (direct / indirect)



M&A Synergy Assessment Dashboard - Enables rapid evaluation of common categories & common suppliers to identify synergy opportunities



Industry Benchmarking - compare spend volume & supplier fragmentation to peer companies

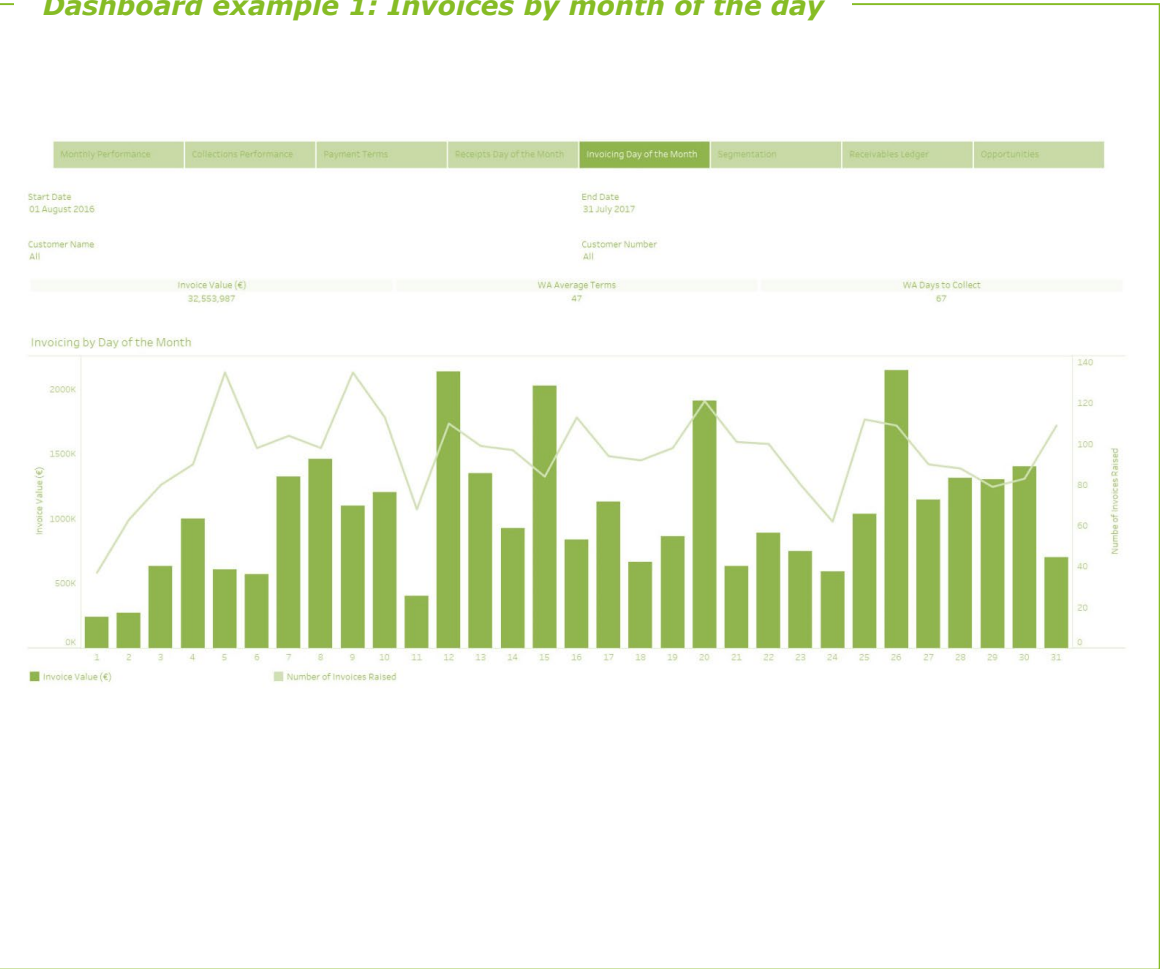


Purchase Price Variance - pinpoint & evaluate pricing variance by item

Example 3: Enabling working capital improvements through live transparency

Working capital improvements tend to be about simple behavioural changes rather than complex change programs, making improved transparency a key enabler

Dashboard example 1: Invoices by month of the day



Dashboard example 2: Receivables segmentation



Questions?

Appendix

THRIVE offers a versatile suite that drives sustainable change

At the core, THRIVE is a platform of digitally enabled cost management tools, tailored to identify, prioritise and deliver cost savings through improved cost management

Sample of Deloitte's proprietary tools for accelerated insights

CognitiveSpend™



- 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



CognitivePersonel™



- The Span of Control analyses **outlines the Spans across layers** and thereby it enables a comparison across functions in terms of the number of employees.
- CognitivePersonel is a suite of tools ranging from data cleansing, to analytical engines and visualization dash boards in Power BI



CapabilityEdge™



- CapabilityEdge is a Deloitte tool that brings an **interactive experience to discussions** around capability-led transformation.
- A capability-led approach allows the **prioritization of focus areas** that drive the greatest value.
- Used as offset for most cost reduction projects



GBS Maturity (ProfileIQ™)



- Assessment tool for the maturity of Global Business Services / Service Delivery Organizations
- The tool works with **self-defined process taxonomies** allowing full flexibility in the data collection phase
- Build on Deloitte's proven framework for maturity assessments of GBS.



Activity Analysis (ProfileIQ™)



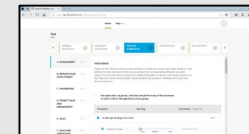
- ProfileIQ's activity analysis is the frontier of **FTE based activity analysis**. It is a complete browser enabled tool making the process for collecting and reviewing data more agile
- It allows for **up-to-date tracking of respondent activities** ensuring commitment and participation



Site Assessment (ProfileIQ™)



- Survey tool for structured **assessment of all physical sites** (primary designed for GBS locations).
- Tool is complete **browser based** and can be deployed and completed with great ease across borders and functions



Visual Decision Xccelerator (VDX)™



- **Real-time, visual representation** of the impacts of key decisions regarding the organization, operation and location of a Service Delivery Model (SDM)
- **Significant reduction in prep time** and costs due to reduced Excel modeling and PowerPoint workshop preparation

