



Save-to-transform as a catalyst for embracing digital disruption

Deloitte's second biennial global cost survey: Cost management practices and trends in the Nordics

Webinar 14 November 2019

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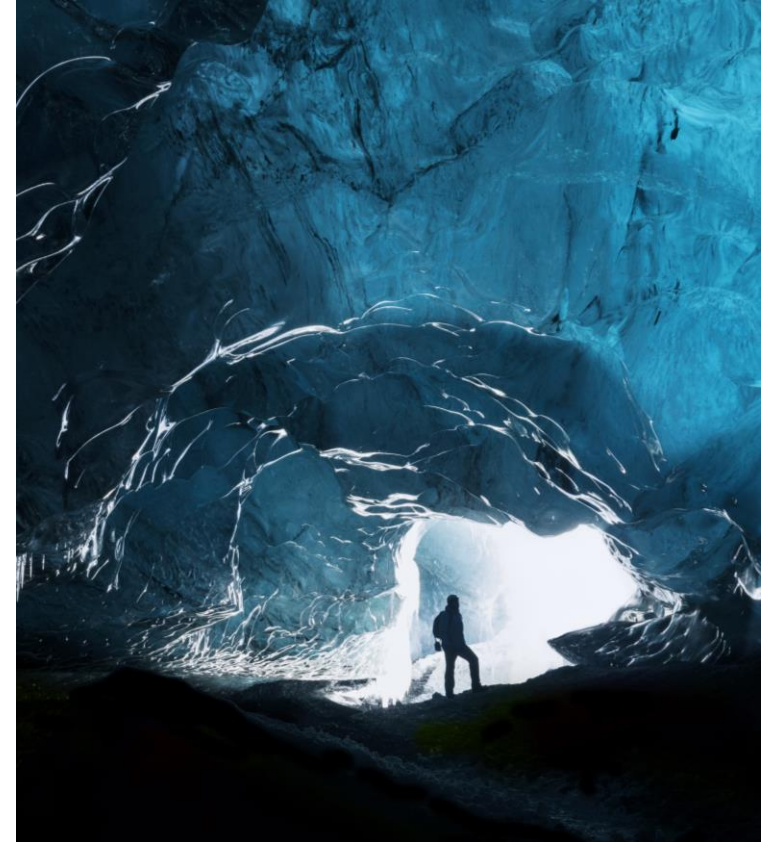
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Agenda

- 1. Key findings**
- 2. How to get started**
- 3. Disruption from Digital**



Key Findings

"Not long ago, companies thought cost management was about reducing expenses. The notion then evolved and was viewed as a way to manage costs while also driving growth. Now, cost management is advancing further. Business leaders see it as a strategic initiative that is part of a larger transformation process"

The survey helps to understand business leaders' perspectives on current and future cost reduction initiatives and indicates the need for transformation



USA

April 2016



Latin America

June 2016



Pan-Europe

October 2016



Global

December 2017

**Publication
Timing**

- Deloitte's cost-management survey was released for the first time outside USA in 2016 and has since then been released several times in order to highlight different regions
- The objectives of the study are to:
 - Understand factors, approaches, actions, and targets related to cost initiatives
 - Assess the effectiveness of the cost actions, including lesson learned from previous efforts
 - Understand the drivers and scope of past and future cost initiatives
 - Provide context on how digital disruption and advanced digital technologies are affecting cost-management
 - Evaluate industry results, and provide insights on different behaviours related to cost reduction



Global

April 2019



Europe

September 2019



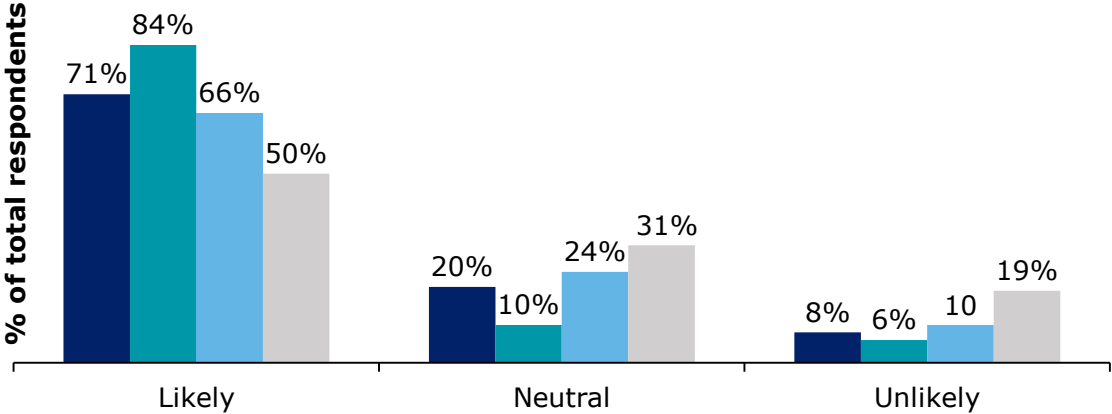
Nordics

October 2019

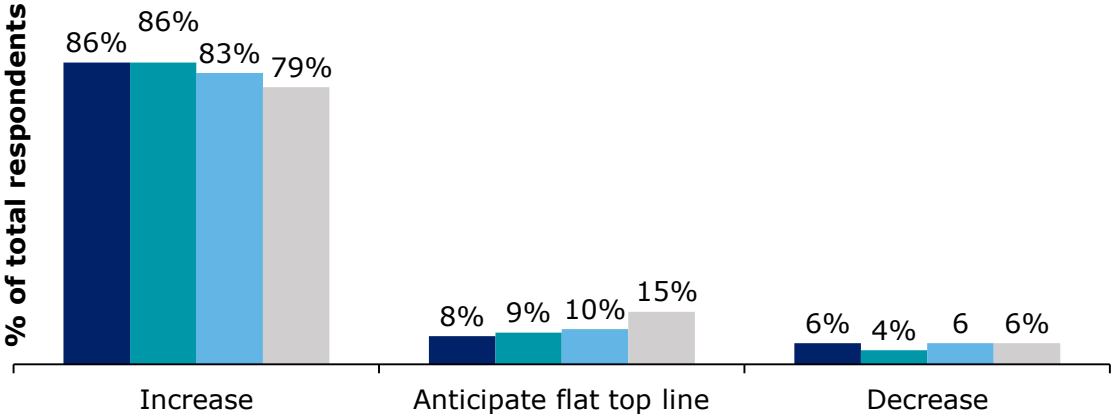
- New data was collected in November and December 2018 from more than 1,200 senior executives across all major global regions and industries
- With this report a Nordic cut of the data is shared, highlighting where and how the Nordic cost-management initiatives differ from other areas
- The survey includes 48 Nordic responses from relevant executives involved in cost-management decisions, including CEOs, CFOs, COOs or executive management, from six major industries. The prevailing industries were Consumer and Industrial Products, Energy and Resources and Financial Services

We experience an increasing number of discussions around cost-management, while at the same time revenue outlook remains strong...

Likelihood of cost program



Change in revenue – next 24 months



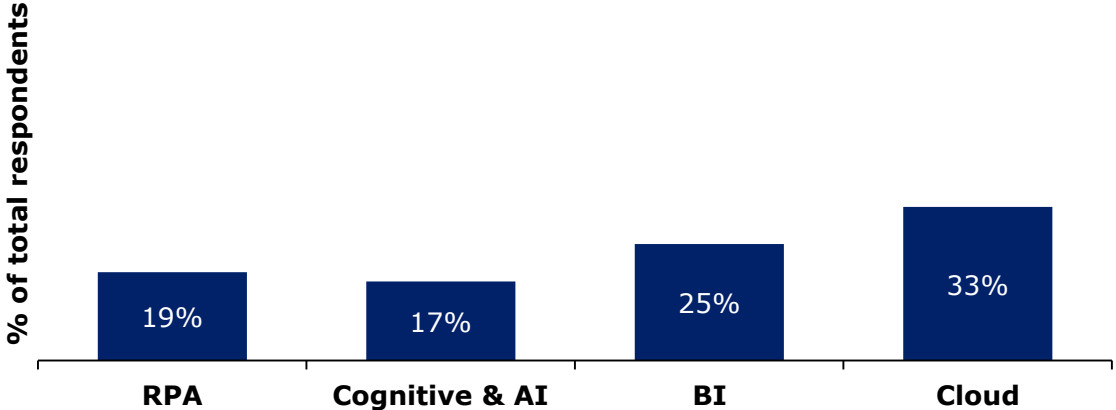
Global USA EMEA Nordics

Survey analysis

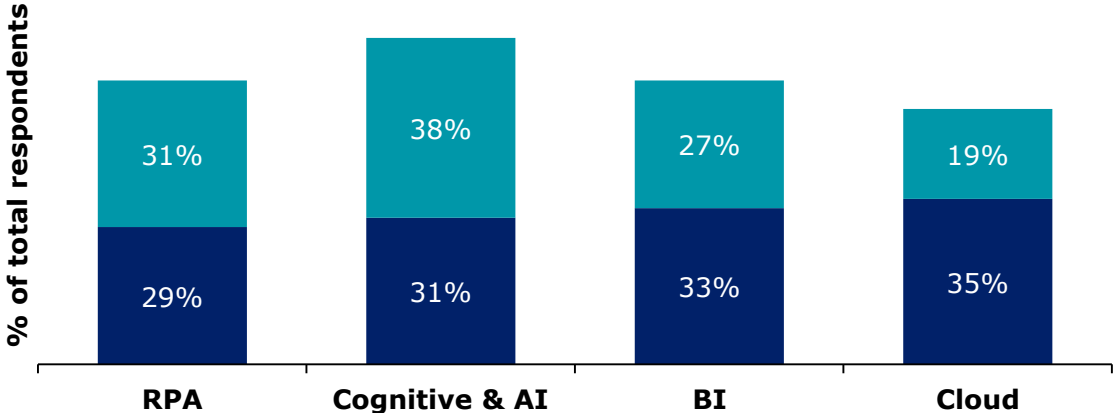
- **Cost-reduction efforts are less common in the Nordics** than in Europe, USA and globally, but the Nordics seems to be catching up over the next 24 months
- **Positive expectations for revenue growth** with many companies reducing costs to allow for necessary growth
- **The identity of cost programs is changing.** An emerging theme from the study is that today it is not only about savings. It is about managing cost structures in conjunction with revenue growth and changing the product and service offering
- **By leveraging digital technologies, companies can achieve immediate growth objectives** while preparing for different cycles of the economy

...where Nordic companies are leveraging new technologies in the new era of cost-management and implementation levels are expected to increase rapidly

Nordic implementation levels (past 24 months)



Nordic implementation levels (next 24 months)



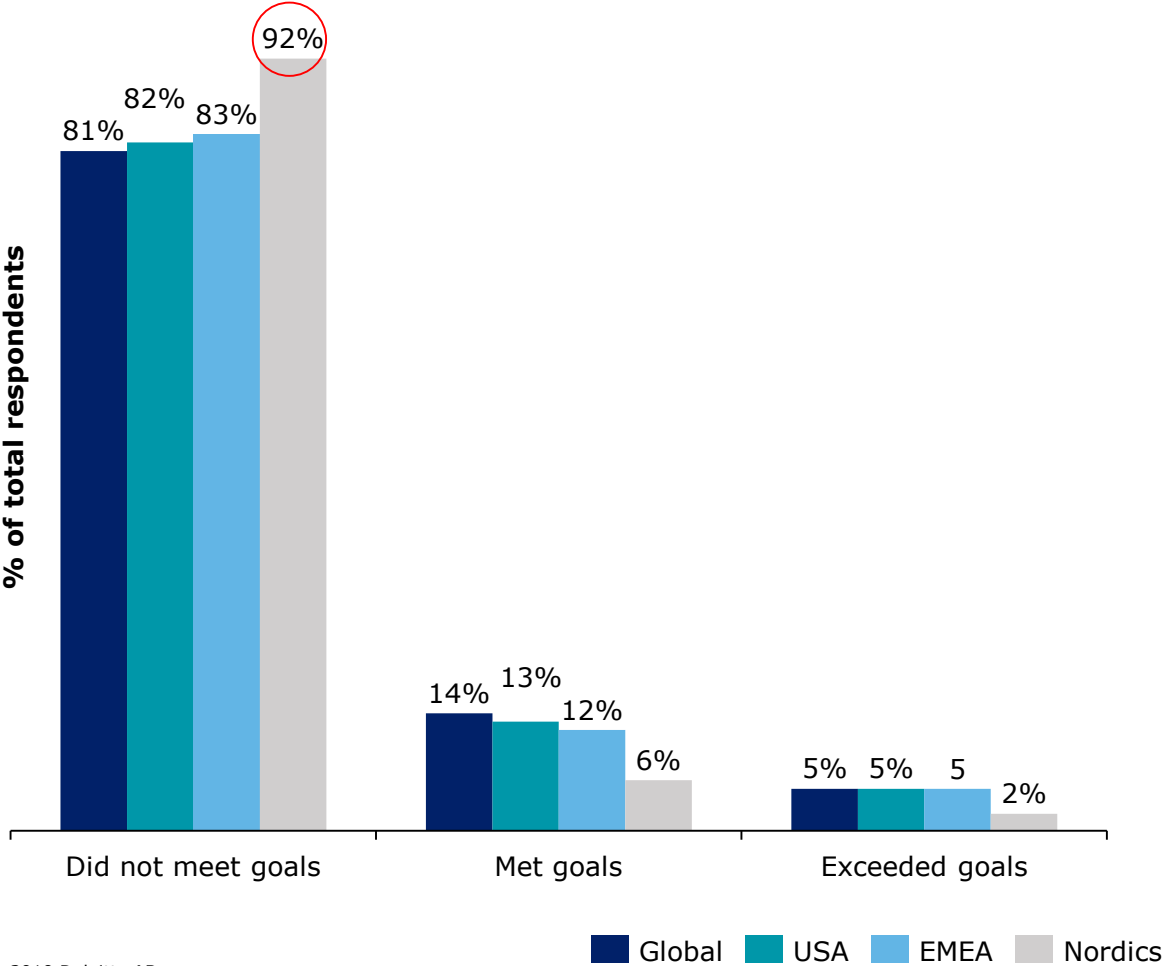
■ Not implemented but planned
■ In process of implementation

Survey analysis

- Technology implementation levels in the Nordics will increase over the next 24 months**
 The Nordics have been lagging behind in the past, but the implementation levels are higher than comparable regions for the future
- Despite the numerous advantages, new technologies are not being done at scale**
 One of the call-outs to the market is to use these technologies at scale as they will have a significant impact on the business on several areas
- Digital disruption enables transformation**
 Successful digitalization in companies, is not only about managing cost structures, but also changing product and service offerings, ways of working, etc. Leading companies use it to fundamentally transform their business, where the cost advantages come along with that

However, 9 out of 10 Nordic cost programs fail (higher than elsewhere), indicating the complexities that comes with larger transformations and ambitious targets...

Success analysis cost programs

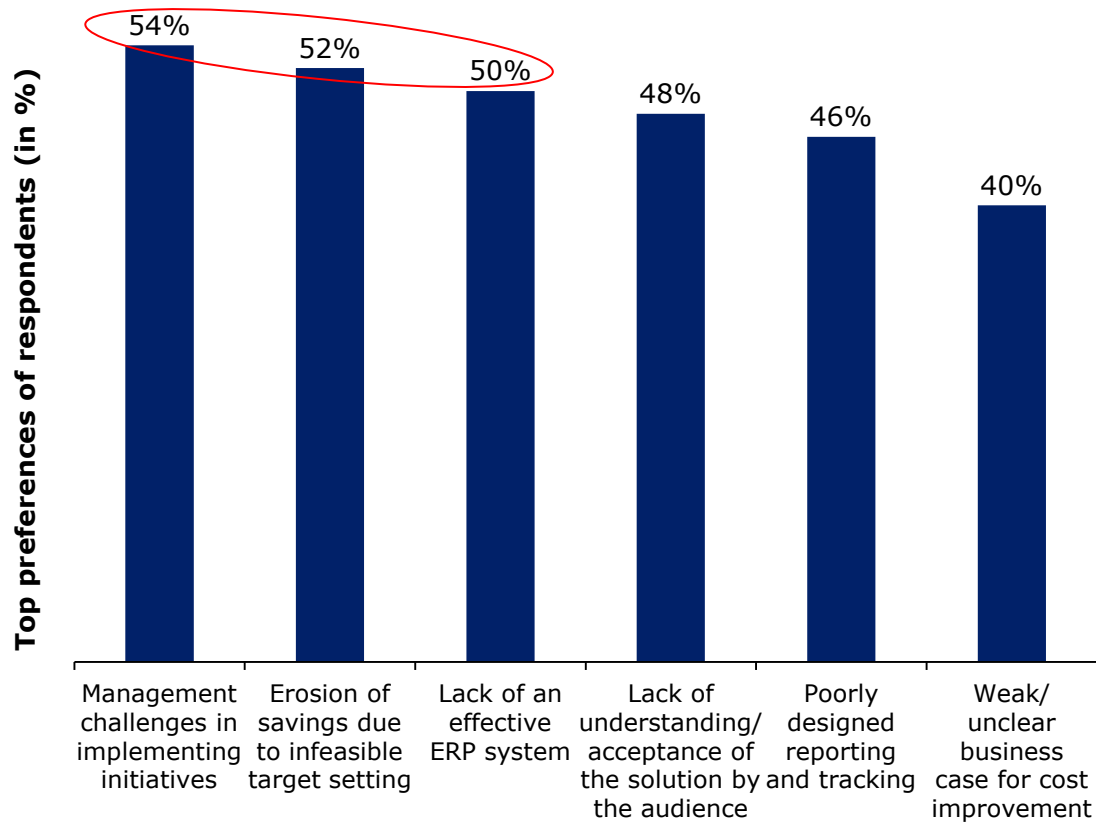


Survey analysis

- **The failure rates for cost programs are remarkably high**, especially in the Nordics (92%), compared to comparable regions such as Europe (83%), USA (82%) and global average (81%)
- **The failure rates have increased dramatically compared to the 2016 survey with 50 percentage points** while total European increase is 26 percentage points
- **The high failure rates can partially be explained by the need for larger transformations to meet the ambitious targets.** Quick wins are not enough or have been exhausted and traditional cost programs now need to be combined with new digital technologies
- **Two concrete problems are around architecting and implementing the transformation programs.** Companies architect aggressive programs but then implement them tactically. Rather, the programs should focus on strategic initiatives that enable companies to reach the ambitious targets

...where the main barriers for successful cost-reduction initiatives are; implementation challenges, target setting, and ineffective ERP systems

Top barriers in the Nordics

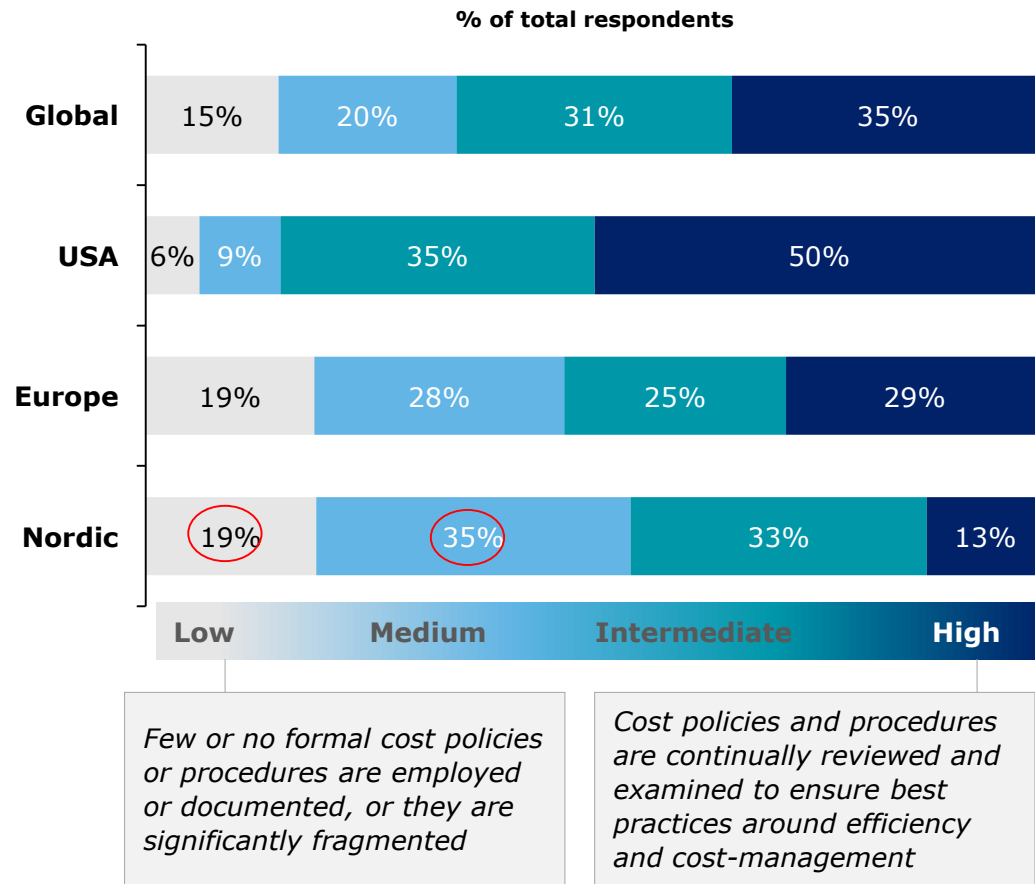


Survey analysis

- **The top barrier to effective cost-management in the Nordics is management challenges in implementation** (54%) while other immense barriers are erosion of savings due to infeasible target setting (52%) and lack of an effective ERP system (50%)
- **The relatively high targets combined with the experienced barriers** with target setting could be part of the reason with high failure rates. Other reasons may be relatively low use of technology for cost-cutting, lower levels of centralization initiatives or less focus on cost-cutting as a strategic priority
- **Change management and following up on the business case, with solid tracking and reporting** are not amongst the very top barriers, but are important to achieve a successful cost program

Improving Nordic cost-management maturity will be key to lower the high failure rates, where the Nordics can be inspired by cost-management practices employed in the U.S.

Cost-management maturity level



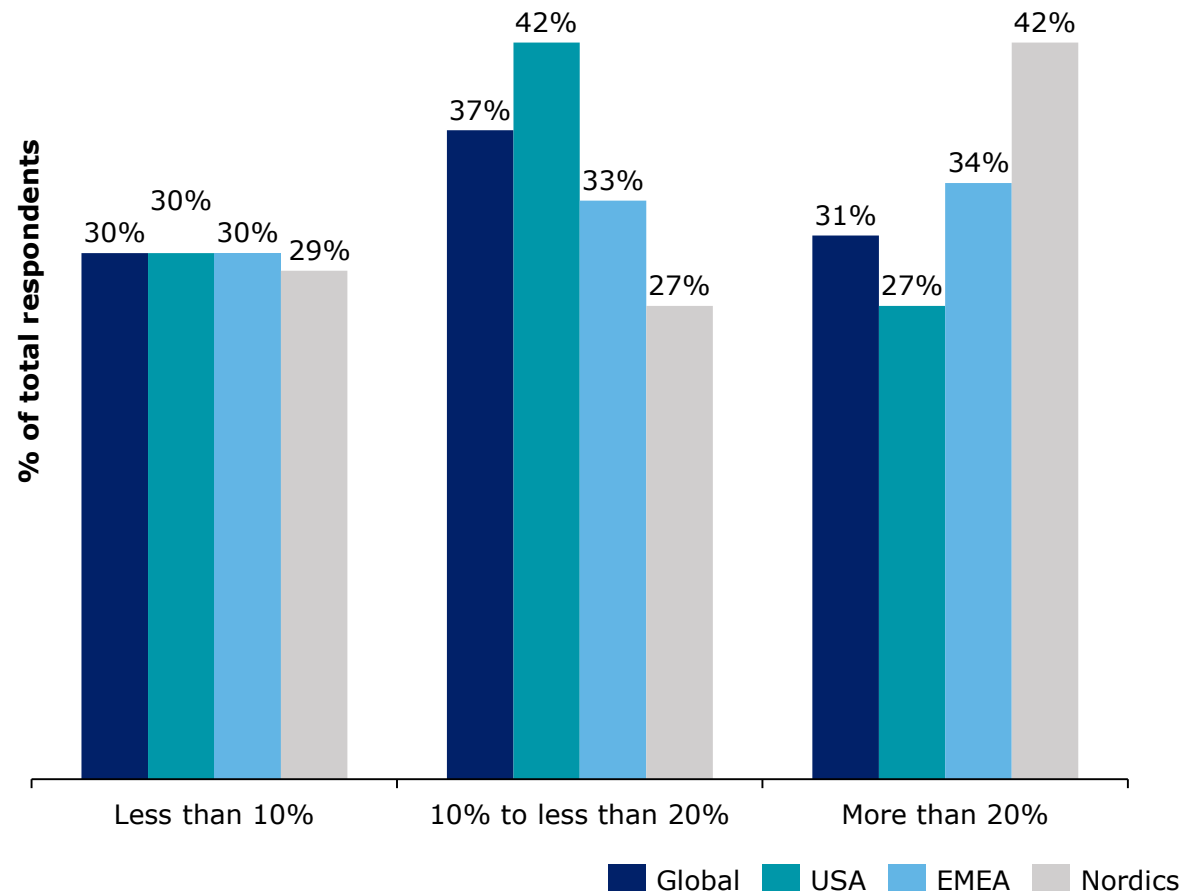
Survey analysis

- **According to survey responses, cost-management tends to be less mature in the Nordics**, which is under the European average
- **Nordic companies have a potential** for improvement in cost-management as they report 37 percentage points less than USA (50%) in cost-management maturity level among the ones who reported high level
- **Nordic management style is more non-hierarchical and inclined to decentralize governance** compared to global average, which provides a limited overview of the business to be able to drive cost-management, contrary to U.S. companies
- **To achieve sustainable cost savings and making it stick, it is key to blend the classic cost management program with the day to day practices**, avoiding that programs run in isolation from the daily business

How to
Get started

Nordic companies have increasingly ambitious targets, with 4 out of 10 cost programs having targets of more than 20%, higher than elsewhere

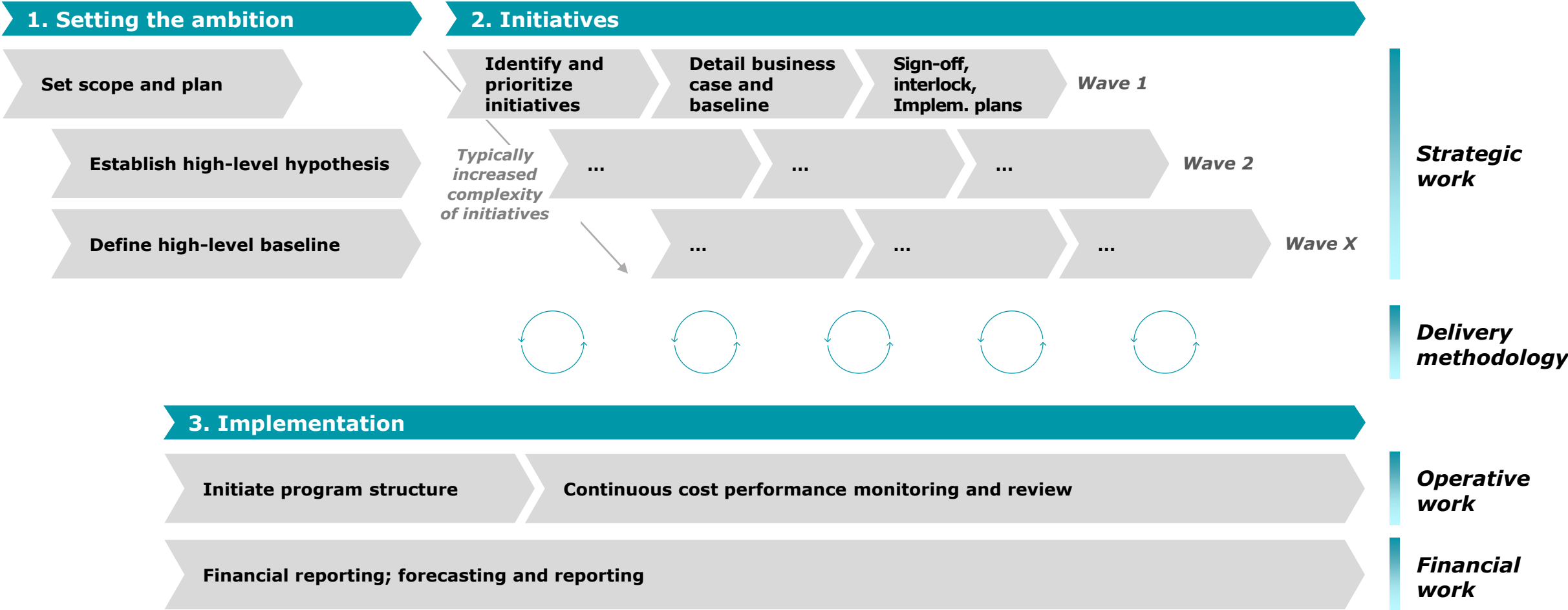
Cost targets



Survey analysis

- **The survey shows that cost-reduction targets have increased significantly since 2016 in all regions.** In 2016, 8% of Nordic respondents had ambitious targets above 20%, today that number is 42% of respondents
- **Strategic transformations are needed to meet these ambitious targets of more than 20%** Cost-management in isolation is only a tactical decision to meet a short-term target. The ambitious targets above 20% needs larger transformations. If handled isolated, and not strategically, cost reductions tend to return to historical levels once again
- **Align cost program vision with actions throughout the company.** Target setting and lack of understanding/acceptance of the solution by the audience are among the top barriers from the Nordic survey results

A typical cost program is comprised of three stages to develop a comprehensive enterprise-wide solution, and is usually run in several waves

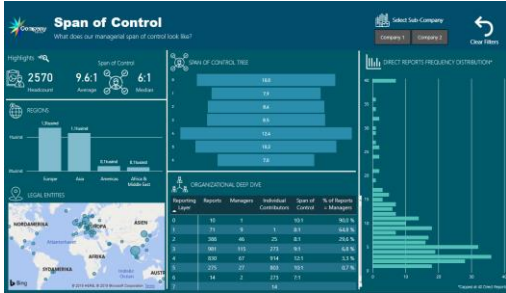


Stage 1 focus on the diagnostics, i.e. baselining, setting targets and developing high-level hypothesis where the largest potentials are

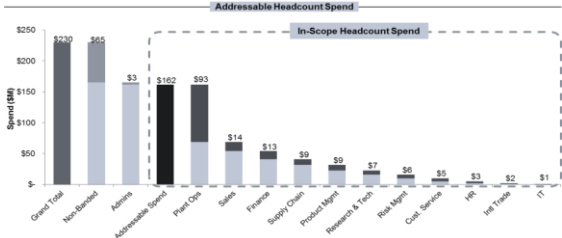


Example deliverables

Baseline (e.g. Cost, FTEs, etc.)



As-Is Service Delivery Model



Best practice

- **Moving away from diagnostic analysis to rather focus on facilitating a transparent discussion around cost structure and management and how to make it stick**
- **Involve management heavily** in setting the ambition, targets, baseline, and establishing a top-down view of the largest cost components. In order to establish ownership and a clear answer to why are we doing this. Conduct selected quality checks in terms of costs and FTEs to ensure a solid baseline
- Support the target definition by analysing selected deep dive areas such as span of controls, industry efficiency or high-level benchmarking to identify potential target
- Align ambitions with the scope, complexity & depth of initiatives in order to ensure relevant business cases are established
- **Ensure that effective tools are in place to view the cost structure and monitor the cost development, all linked to the baseline prompting long-term effects**

Opportunities are identified, quantified, prioritized and signed-off in stage 2, while considering any interlock effects to ensure enterprise-wide sustainable improvements



Example deliverables

Quantified Opportunities

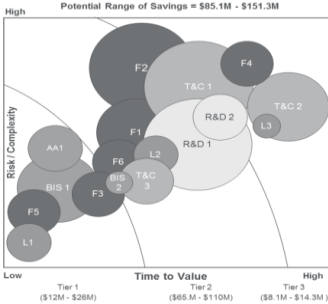
Preliminary improvement themes have a savings range of \$10M to \$16M

Theme	Description	Focus Areas	Preliminary Savings Estimate (\$M)	Complexity	Time to Benefit (Months)
Sales Force Effectiveness	Improve selling cost in select regions	① Optimize customer accounts between RAs and CRAs	1.8 - 2.3	Medium / High	6-18
		② Improve RA / CRAs effectiveness	2.2 - 4.6		
		③ Better aligned CRAs incentives to market performance	0.1 - 0.3		
Service Delivery Model / Cost Improvement	Drive efficiency by realigning the service delivery model of key functions	④ Consolidate transactional Finance activities	0.9 - 1.5	High	>12
		⑤ Optimize / Consolidate CRK and Sales Support functions	1.6 - 2.1		
Fixed to Variable Expenses	Optimize hourly employee staffing model and reduce manufacturing floor costs	⑥ Shift mix of fulltime and temporary employees to meet demand variability	Pending Data	High	6-12
Organization Simplification	Optimize management spans of control (SOC) and governance across the organization	⑦ Enhance SOC for local plant management	1.3 - 1.8	Medium	6-18
		⑧ Conduct Tap Steering	0.4 - 0.6		
		⑨ Improve SOC in one functional work groups	1.5 - 2.9		
			Total: 9.8 - 15.8*		

Best practice

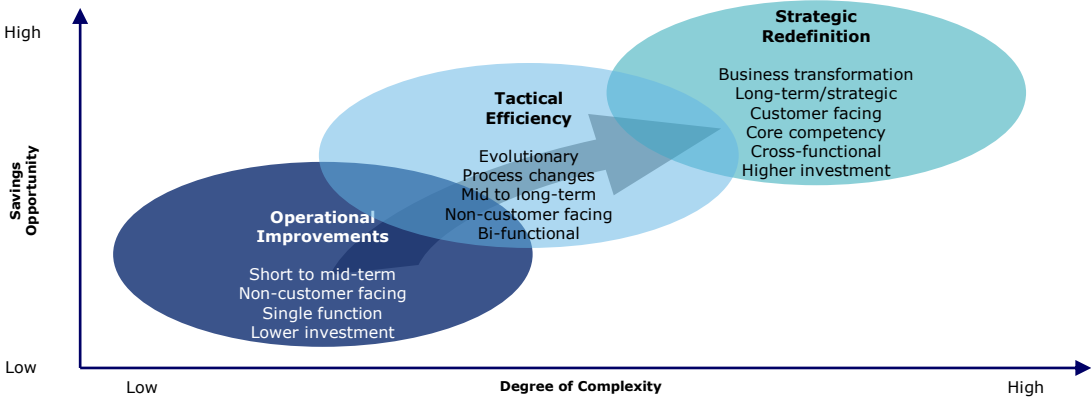
- Make use of external- and internal category benchmarks, sourcing levers and industry insights in order to identify opportunities for improvement
- Detail business cases by addressing and elaborating on all implications and consequences of the initiatives
- Clarify the purpose of each initiative to foster engagement and transparency
- **Start out with less complex initiatives to create momentum and quick-wins and move forward in iterations to tackle the more complex and large potential initiatives in coming waves**
- **Establish a clear tollgate process for sign-off of initiatives in a general and standard reporting template (for all initiatives) to keep track of progress and adjust initiatives if needed**

Opportunity Prioritization



The cost reduction program should focus on all levels of improvement initiatives, where Nordics could benefit to focus more on strategic actions to match the ambitious targets

Value generation curve



Survey analysis

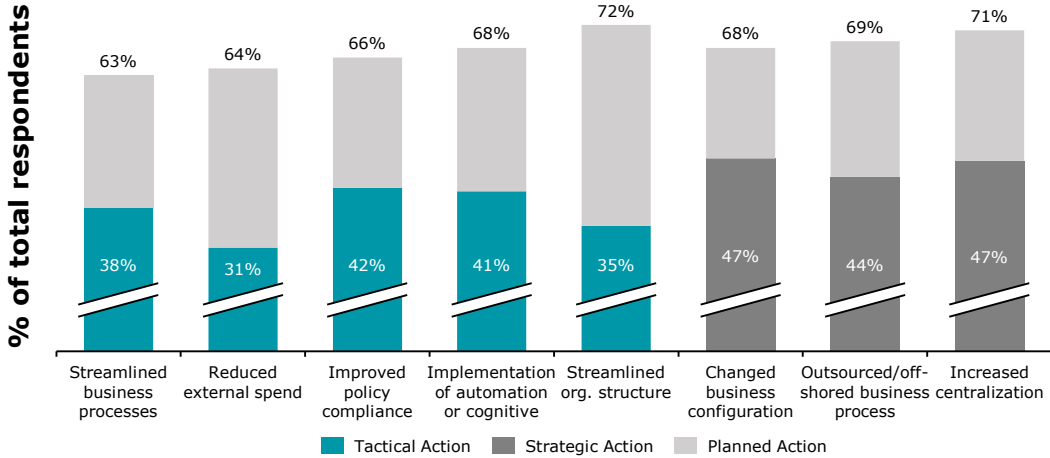
- The ambitious targets from Nordic companies need strategic actions**

However, according to the survey respondents, the most frequently implemented cost-reduction actions in the Nordics were tactical in nature. Looking ahead for the next 24 months, strategic actions have a small advantage over tactical actions in the Nordics
- The Nordic companies are leaning more towards strategic cost actions than other regions over the next 24 months**

This indicates that actions and ambitions may align to a larger extent in the future, potentially even reducing the failure rates
- Nordic focus around centralization**

Traditionally Nordic companies are less centralized than companies in other regions, e.g. USA (also indicated in the survey). However, centralization is the cost-reduction action where attention increased most in the Nordics and it will be a top priority over the next 24 months

Expected cost-reduction actions (Next 24 months)



In Stage 3 a program structure is established, including project charters, implementation plans and linking the cost initiative results to the financial reporting

1. Setting the ambition

2. Initiatives

3. Implementation

Example deliverables

Project Charters

Opportunity Charter		Organization Redesign																
Baseline Spend:	\$10.50	Executive Sponsor:	Cargill DSO Opportunity Lead															
Run Rate Savings Target:	\$3.0 - \$4.00	Target Run Rate Savings Begins:	Q3 2014															
<p>Opportunity Overview</p> <p>The overall organization currently exhibits low management spans of control and potentially excessive layers. There is an abundant number of middle and lower level managers due to a culture of working upwards. State of control savings will be achieved through both Cost-to-Serve Functions, by the achievement of target spans of control.</p> <p>Opportunity Objectives</p> <p>Functionality: Footprint reduction, Footprint Training, Ops and SC, RES, QA, HR, Training</p> <p>People: Focus on layers 1-3 with low spans of control; managers with 11 and 12 reporting relationships</p>																		
<p>Key Milestones Required</p> <table border="1"> <thead> <tr> <th>Activity</th> <th>Target Date</th> <th>Dependencies</th> </tr> </thead> <tbody> <tr> <td>Baseline Alignment</td> <td>July 2013</td> <td>20%</td> </tr> <tr> <td>Functional Review</td> <td>August 2013</td> <td>30%</td> </tr> <tr> <td>Human Resources Support</td> <td>September 2013</td> <td>10%</td> </tr> <tr> <td>Executive Management Support</td> <td>October 2013</td> <td>10%</td> </tr> </tbody> </table>				Activity	Target Date	Dependencies	Baseline Alignment	July 2013	20%	Functional Review	August 2013	30%	Human Resources Support	September 2013	10%	Executive Management Support	October 2013	10%
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Baseline Alignment	July 2013	20%																
Functional Review	August 2013	30%																
Human Resources Support	September 2013	10%																
Executive Management Support	October 2013	10%																
<p>Opportunity Benefits</p> <ul style="list-style-type: none"> Establish leadership development capability and groom professional managers Establish clear and quantifiable targets and performance metrics Redesign operating model prior to implementation redesign Develop integrated job profiles and clarify decision rights in new structure Conduct transition and workforce planning Train and develop new and existing employees to support changes in responsibilities Identify implications of change across all cost breaks Communicate strategy, objectives, and progress to all levels within the organization 																		

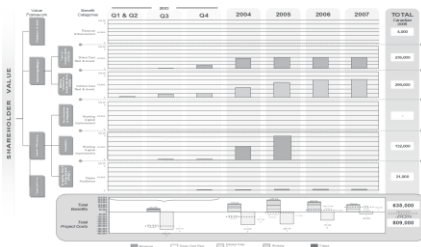
Implementation Roadmap

Opportunity	Key Initiatives	Q1-2013	Q2-2013	Q3-2013	Q4-2013	Q1-2014
Cost & Collection	Standardize Credit Policies & shift to Shared Service Center					
Accounts Receivable	Consolidate external processes (e.g. Collection Agencies, etc.)					
Accounts Payable	Standardize AP Process & shift to Shared Service Center					
Accounts Payable	Consolidate external processes (e.g. Creditors, etc.)					
Accounts Payable	Eliminate duplicate work (e.g. vendor overleaf)					
Accounts Payable	Standardize processes (e.g. 2-3 week payment process, etc.)					
Accounting	Standardize accounting methodologies, shift to SS Center					
Accounting	Eliminate subsidiaries (e.g. National GL Entries)					
Data Center	Consolidate from 3 to 2 Data centers					
Enterprise Applications	Reduce JDE/EDS & maintain enhancements					
Enterprise Applications	More aggressive use of offshoring development					
Enterprise Applications	More aggressive use of offshoring development					
Help Desk	Consolidate to a single help desk for all brands					
Help Desk	Consolidate desktop equipment and support procurement					
Human Resources	Consolidate HR functions (e.g. Benefits Admin, Payroll, Compensation, Recruiting, HR Data Admin)					
Transaction Processing	Consolidate desktop equipment and support procurement					
Facility Organization	Increase span of control to 10-12 generalists					
Facility Organization	Decrease pay frequency					
Technical Design	Transfer all CAD work to FSI Area					
Technology	Consolidate contracts originating in single facility					
Technology	Transfer import commodity managers to FSI Area					
Materials Sourcing	Transfer import commodity managers to single facility					
Materials Sourcing	Consolidate contracts originating in single facility					
Short Term Planning	Consolidate planning into regional service centers					
Short Term Planning	Shift direct materials transaction processing to FSI Area					
Trade Procurement						

Best practice

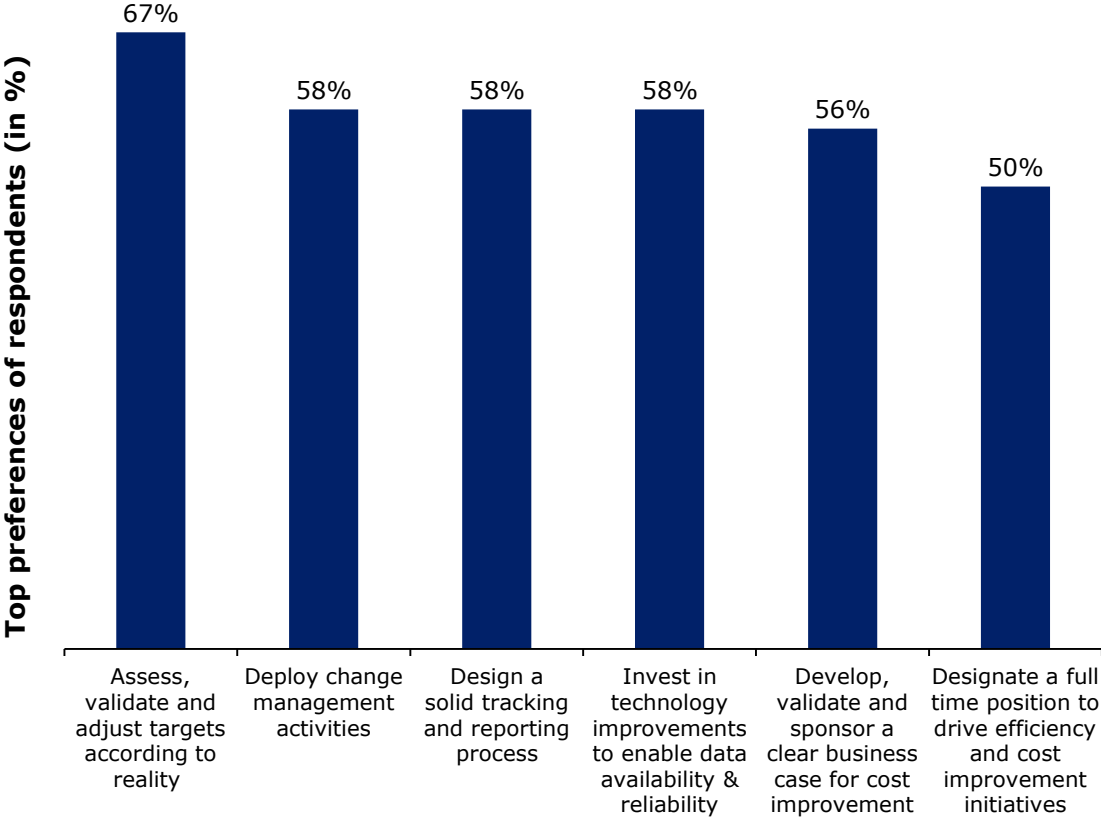
- **Establishing a central PMO that as a minimum level provides a holistic oversight** and consolidation of total progress against targets and ambition levels
- However, ensure that plans and commitment are integrated into departments and **minimise any gap between a cost program and the day-to-day cost-management**
- Implementation plans should be developed jointly by the project team and the executives / managers responsible for the areas affected
- **Linking results from cost initiatives back to the financial reporting and P&L structure**, to ensure accountability and ownership in the daily business to the cost program and improvements to cost-management
- Ensuring that there are financial-, operational- and activity follow ups

Benefits Tracking Model



Despite most cost-reduction initiatives fail to reach their targets, respondents still rank "assess, validate and adjust targets" as a top lesson learned from implementation

Lessons learned from Nordic cost programs



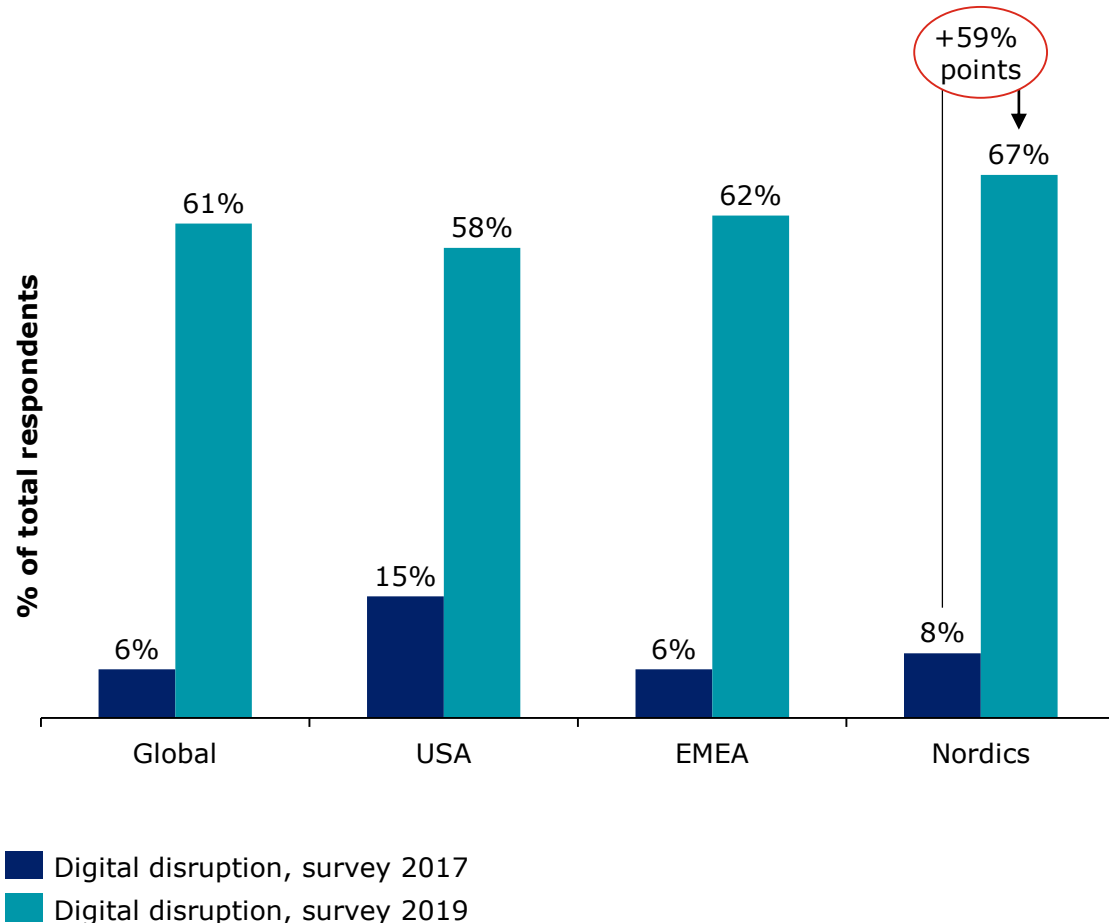
Survey analysis

- **Investing in technology improvements is relatively undervalued as a lesson learned in the Nordics.** Comparing to USA, Europe and Global, this is the top lesson learned
- **Understanding the barriers from the lessons learned is a good first step,** but to really overcome them means to set and implement actions and strategies according to the lessons learned. Many of these barriers are key considerations according to best practice
- **Detailed preparation and learn fast**
Although many of these lessons learned can be adapted from start, they also indicate the importance of the 'learn fast' mantra. To learn fast throughout the cost program requires the ability to track and understand changes

Disruption from
Digital

Digital disruption has significantly changed the management agenda, being recognized both as a risk, but also enabling a new cost-management approach to transformations

Digital disruption

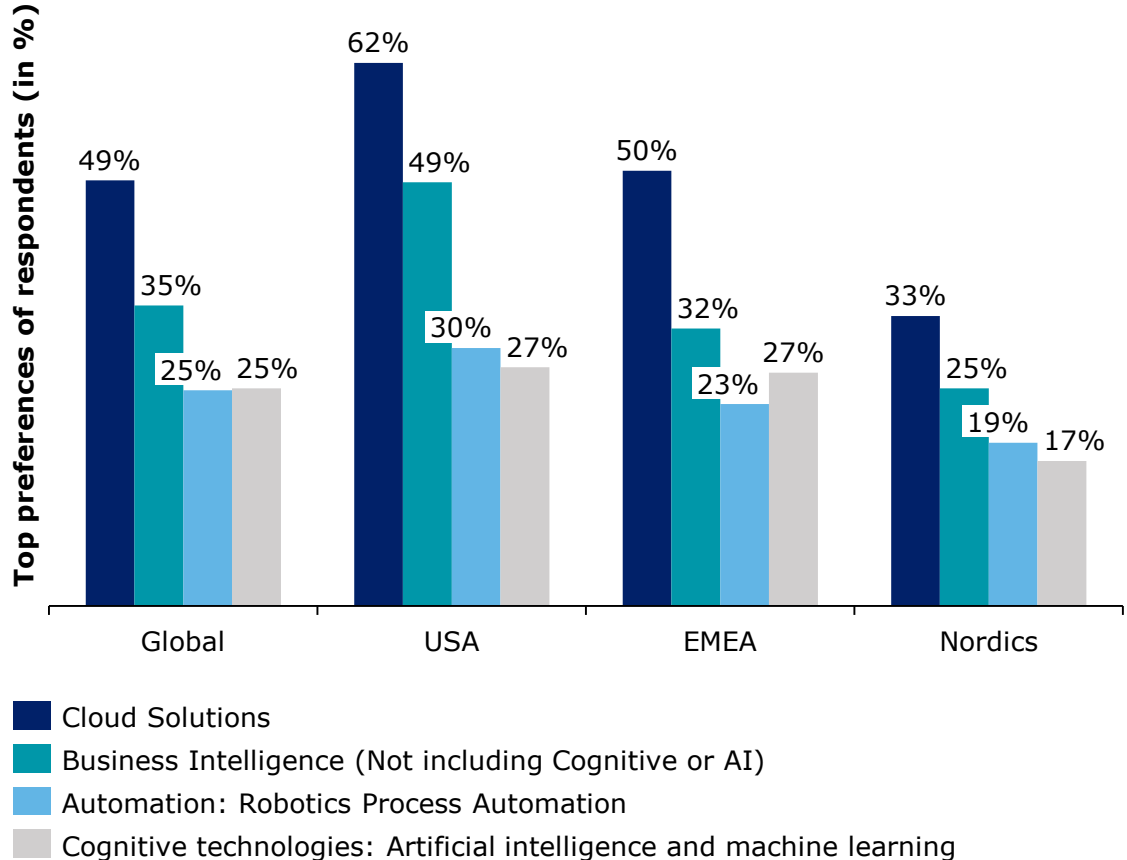


Survey analysis

- **Digital disruption was barely seen as an external risk in 2016.** However, This year, 67% of Nordic companies cite digital disruption as a key risk, which represents an increase in awareness of 59 percentage points. Another risk emerging from the 2019 survey is cybersecurity
- **Digital disruption is not only a risk, but also an enabler.** Any company can invest in digital technologies and technology infrastructure to make operations more efficient and effective and enable new and more agile business models to prosper in a digitally disrupted market
- **The rise of digital technologies and innovations contributes to a shift in how Nordic companies approach cost-management,** with the save-to-grow mindset from 2016 steadily evolving into a save-to-transform mindset where investments in digital enablement and transformational technologies play a prominent role
- **The increased focus on digital technologies implies increased complexity** when implementing cost transformation initiatives as digital technologies require a strategic focus and a larger transformation process, when done at scale

However, the technologies implemented to drive increased productivity, reduce costs and tighten data security are currently run at a sub-scale level...

Implementation of technologies (past 24 months)



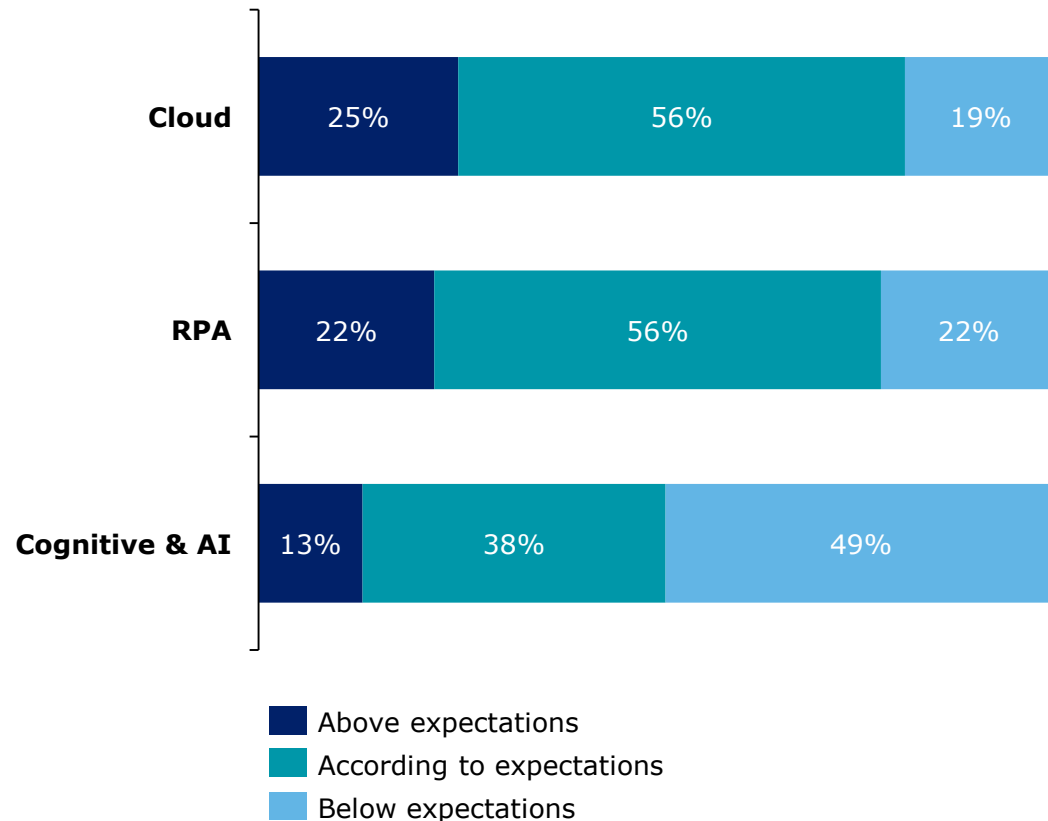
Survey analysis

- **The Nordics represent a low preference level amongst all technologies in scope** which might imply lower engagement and support behind driving technology implementation agendas
- **One reason for limited cost reduction success in the Nordics may be that Nordic companies have been lagging behind the average levels of technology implementation.** However, the survey indicates a trend shift where Nordic companies will be in the forefront of new technology implementations over the next 24 months
- **Digital technologies are changing the strategic rationale for companies**, contributing to modified operating models and services. The transformation will allow companies to become more efficient, when done at scale

...despite that the results from implementing Cloud and RPA are according to or above expectations, while Cognitive & AI demonstrate less satisfying results (so far)

Results of implementing technologies in the Nordics

Top preferences of respondents (in %)

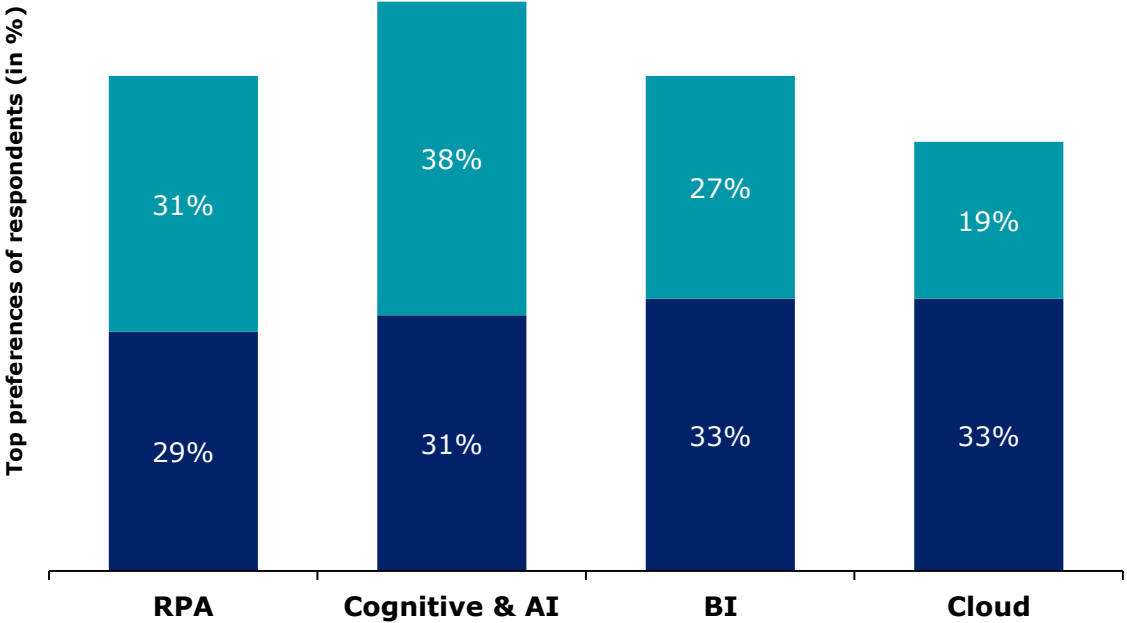


Survey analysis

- **Most technology implementations meet or exceed expectations.** According to the survey at least 50% of the Nordic companies claim their expectations were met or exceeded when implementing the various technologies. For Europe, at least 70% of companies had their expectations met or exceeded for all technologies.
- **Nordic companies in the survey have good experiences from implementation of Cloud and RPA**, whereas cognitive and AI often achieved results below expectations.
- **Dissatisfaction can be derived from an initial low degree of understanding of the technology which skews expectations** This also implies a lower degree of maturity in the Nordics compared to its American counterparts

However, the Nordics are expected to increase the pace for technology implementation, primarily with Cognitive and AI receiving more focus than previously

Implementation of technologies (next 24 months)




■ Not implemented but planned
■ In process of implementation

Survey analysis

- **Technology implementation levels in the Nordics are much higher for the next 24 months** than they have been in the past. According to the survey, Nordic companies have been lagging behind, but the implementation levels are higher than comparable regions for the future
- **Increased focus on Cognitive and AI.** The survey show that 69% of Nordic companies are planning or in the process of implementing Cognitive and AI. Our experience is that many companies are moving into the intelligent side of automation
- **The ambitious cost targets require digital solutions to succeed.** The increasingly high cost-reduction targets need large transformations including digital solutions
- **Digitalization has many reasons.** The cost advantages comes along with that, but are not necessarily the driver themselves. Digitalization is also about increasing revenue and improving data and business control

In Summary

Nordic companies stand out in aiming high and failing more often with cost reductions, but this may change as they now take the lead in implementing new technologies

-  Nordic companies aim higher when taking action on cost reductions. **Four out of ten companies have targets above 20%**, more than double the number from 2016
-  Although, **92% of Nordic respondents are unsuccessful to meet their cost cutting targets**, compared to 81% globally
-  **Implementation is the greatest barrier**
-  **Cost-management maturity levels are lower in the Nordics.** A high maturity level is typically when cost policies and procedures are continually reviewed and examined to ensure best practices around efficiency and cost-management
-  Many companies are adopting a **save-to-transform mindset**. A save-to-transform mindset leverages the power of digital technologies to streamline cost structures and generate strategic cost savings that are both significant and sustainable
-  **Automation and other digital technologies take a lead role in cost reduction.** RPA and cognitive technologies such as AI have emerged over the past 24 months as the most common digital capabilities developed to reduce costs
-  **Technology implementation is a key strategic priority** for the next 24 months

What happens next



1 >

Webinar follow up



2 >

Sector specific discussions



3 >

Business in Volatile Times

Thank you and feel free to take contact



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