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

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

September 2019

Europe

Contents

Foreword

Digital technology and digital disruption have burst onto the European marketplace as key levers for cost management and business transformation. In Deloitte's 2017 Biennial Global Cost Survey,[1] digital disruption was identified as an emerging risk by respondents in the United States but was barely visible elsewhere. Now, however, based on our latest results from Deloitte's 2019 Biennial Global Cost Survey,[2] digital risks—including digital disruption and cybersecurity—rank among the top external risks in Europe and around the world.

While cost management remains a strong imperative globally, the prevailing mind-set seems to be expanding from save-to-grow to save-to-transform. Companies in Europe continue to have very positive expectations for revenue growth, and many are using cost reduction as a tool to help fund their required growth investments. However, in today's increasingly digital world, more and more businesses also recognize the need to transform their operations and capabilities with infrastructure investments in key digital innovations such as robotic process automation, cognitive technologies, business intelligence, and cloud-based ERP systems.

These digital technologies and innovations can deliver dramatic improvements in competitiveness, performance, operating efficiency, and increasingly, cost savings. Equally important, they can also strengthen a company's positioning for adverse future events, including economic downturns and digital disruption.

In this highly dynamic environment where digital innovation is a critical enabler for both cost reduction and business transformation, we are delighted to present our latest European cost survey report. The study includes responses from 414 executives and senior business leaders across 11 European countries, with strong representation from every major industry.

This regional report provides an up-to-date view of the cost management practices and trends shaping the future of business in Europe and globally. It also takes a detailed look at how the latest digital technologies and cost management strategies are acting as a catalyst for transformation in a world being actively redefined by digital disruption.

We hope you find these insights useful and look forward to hearing your thoughts and feedback.

Omar Aguilar
Strategic Cost Transformation
Global Market Offering Leader

Sam Balaji
Global Consulting Leader

[1] *Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017.*
[2] *Save-to-transform as a catalyst for embracing digital disruption: Deloitte's second biennial global cost survey report, April 2019.*

Executive summary

Key differences between European results and other regions

Cost reduction efforts are less common in Europe than in the United States and globally; however, European cost targets tend to be more aggressive.

The failure rate for European cost programs is slightly higher (83%) than in the United States (82%) and globally (81%).

Save-to-transform has surpassed save-to-grow as the predominant Cost reduction mindset in Europe; however, the shift is less pronounced than in the United States and globally.

Cost management tends to be less mature in Europe, with less than a third of European companies (29%) reporting a high level of maturity in cost management—six percentage points lower than the global average (35%) and 21 percentage points lower than US companies (50%).

Technology implementation levels in Europe are **higher** than in the **United States** but **lower** than the **global averages.**

European survey results: Detailed insights

Cost reduction is prevalent in Europe, but less than elsewhere.

66%

of European companies surveyed plan to undertake cost reduction initiatives over the next 24 months; however, that number is significantly lower than the averages of

71%

for companies globally and

84%

in the United States.

Cost reduction targets in Europe are up significantly.

On average,

2/3

(67%) of European companies surveyed have overall cost reduction targets

above 10%

1/3

(34%) have targets

above 20%,

more than double the number from 2016[3] (13%).

Cost program failure rates are up significantly.

The average failure rate for European cost programs is

83%,

up 26 percentage points from 2016.

[3] *Thriving in uncertainty. Deloitte's first biennial cost survey: cost improvement practices and trends in Europe, October 2016.*

European survey results: Detailed insights

Growth expectations are high.

European companies have a very positive growth outlook, with

84%

of respondents reporting revenue growth over the past 24 months and

83%

expecting revenue growth over the next 24 months.

Digital disruption is now the top external risk.

Other top external risks among respondents are commodity price fluctuations and cybersecurity.

Reliability and functionality of information systems is the top internal risk.

Other top internal risks are recruitment, development, and retention of talent and lack of controls for business continuity.

Europe's strategic priorities align with save-to-transform.

The top four strategic priorities over the next 24 months are:

70% technology implementation

69% product profitability

67% sales growth

67% digital enablement

These priorities indicate a save-to-transform mindset.

Growth and competition remain the top drivers of cost reduction.

In Europe, past and future drivers of cost reduction center around growth initiatives and competition.

Tactical cost actions have been slightly favored in Europe.

The most frequently implemented cost reduction actions were tactical in nature:

33% tactical **vs.** **31%** strategic

The two most common actions reported are:

36%

streamlined business processes and

36%

improved policy compliance.

Strategic cost actions are catching up.

Over the next 24 months, European companies surveyed expect to implement tactical and strategic cost actions in equal measure (61% in-process or planned).

Top barriers to effective cost management.

In Europe, the top barriers to successful cost reduction are:

61%

management challenges in implementing initiatives

60%

erosion of savings due to infeasible target setting

59%

lack of an effective ERP system

European survey results: Detailed insights

Lessons learned in Europe.

The top lessons for effective cost management are:

68%

invest in technology improvements to enable data availability, reliability, and decision-making processes

67%

design a solid tracking and reporting process

65%

assess, validate, and adjust targets reasonably to reflect reality throughout the implementation phase and

65%

deploy change-management activities to raise awareness, acceptance, and benefits of initiatives

Cost management maturity varies widely across the continent.

Countries with the largest proportion of companies reporting a high maturity level are:

56% Italy

and

42% France

Companies in Denmark and Sweden reported the lowest maturity levels.

Digital technologies and solutions applied to cost management in Europe

Cloud soars above the rest.

Among the breakthrough technologies covered in our survey, the most widely implemented by European companies were

50%

cloud

32%

business intelligence

Top reasons for applying digital technologies.

In Europe, the top reasons for respondents using cloud are tightening data security and improving business control. The top reasons for using automation and cognitive technologies are reducing costs and increasing productivity.

Most technology implementations meet or exceed expectations.

At least

70%

of European respondents say their expectations were met or exceeded when implementing the various technologies covered in the survey.

Technology implementation is lower in Europe than globally.

Over the next 24 months, implementation levels (in-process or planned) for all the surveyed technologies are expected to be lower in Europe than globally, but it is higher than in the United States.

Digital leaders make a difference.

On average, the level of technology implementation is

187% higher

when European companies designate a digital leader.

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

Digital rises to the top of the agenda.

In 2016, digital disruption was seen as a significant external risk in the United States but was barely on the radar in Europe. Now,

62%

of European companies surveyed cite digital disruption as a key external risk, which represents a

933% increase in awareness.

Save-to-grow evolves into save-to-transform.

Save-to-grow used to be the primary cost management mindset for respondents in Europe, with cost and growth as the main levers, and talent (including capabilities) as another key component. Now, that mindset is expanding into save-to-transform, which includes an additional focus on technologies and digital enablement. Save-to-transform can help a company capitalize on digital opportunities, while at the same time positioning itself for potential adversity by using digital innovations to unlock new levels of cost savings.

About the survey

Deloitte Consulting LLP (Deloitte or Deloitte Consulting) engaged Dynata to conduct a cost management survey in Europe and around the world to better understand business leaders' perspectives on current and future cost reduction initiatives within large companies, multinationals, and companies representative of regions surveyed.

Study objectives

Understand factors, approaches, actions, and targets related to cost initiatives

Assess the effectiveness of the cost actions, including lessons 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

Assess industry results, and provide insights on different behaviors related to cost reduction

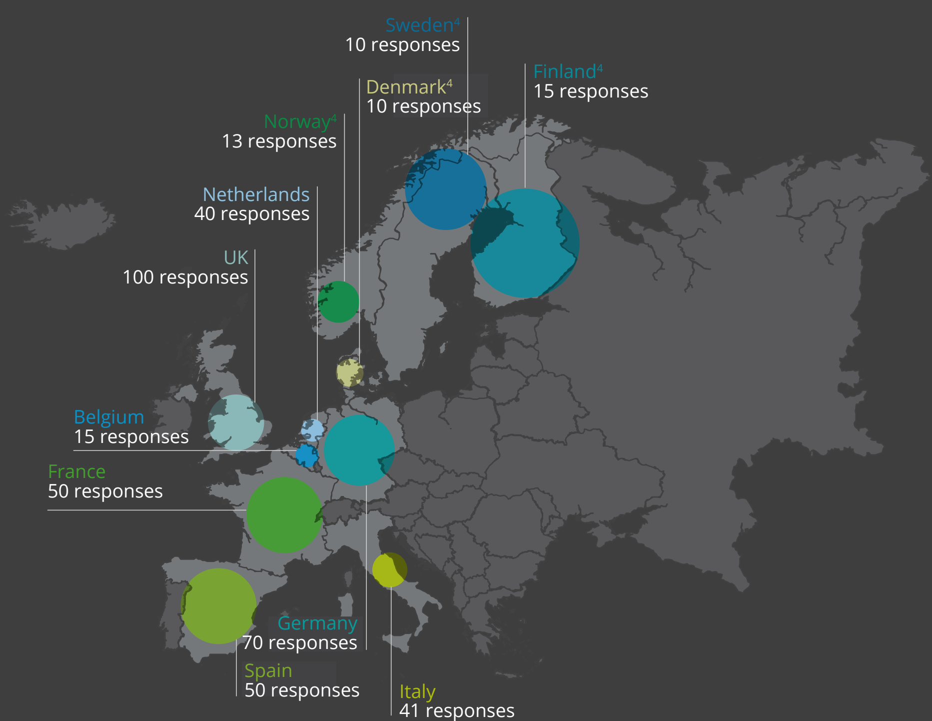
Methodology

Data was collected through detailed online surveys conducted between **November and December 2018**.

January | February | March | April | May | June | July | August | September | October | **November** | **December**

Firmographics

The survey included responses from **414 executives** directly involved in cost management in their organizations. Respondents were from **11 European countries.**



[4] These countries were grouped under Nordics.

Key differences between Europe and other regions

In most cases, the results from this year's global survey are generally consistent across all major regions. However, there are a number of key differences between the survey findings for Europe compared to the US and global findings:

1. A lower proportion of European companies plan to undertake cost reduction initiatives (–5 percentage points versus the global average); however, a higher proportion (+3 percentage points) set cost targets above 20%.

2. The percentage of European cost programs that fail to fully meet their targets is slightly higher (83%) than the average for companies in the United States (82%) and globally (81%).

3. Many companies surveyed in Europe are adopting a save-to-transform mindset, but the trend lags behind the United States and global average.

4. A smaller proportion of European companies report high levels of cost management maturity (17% below the global average and 42% below US companies).

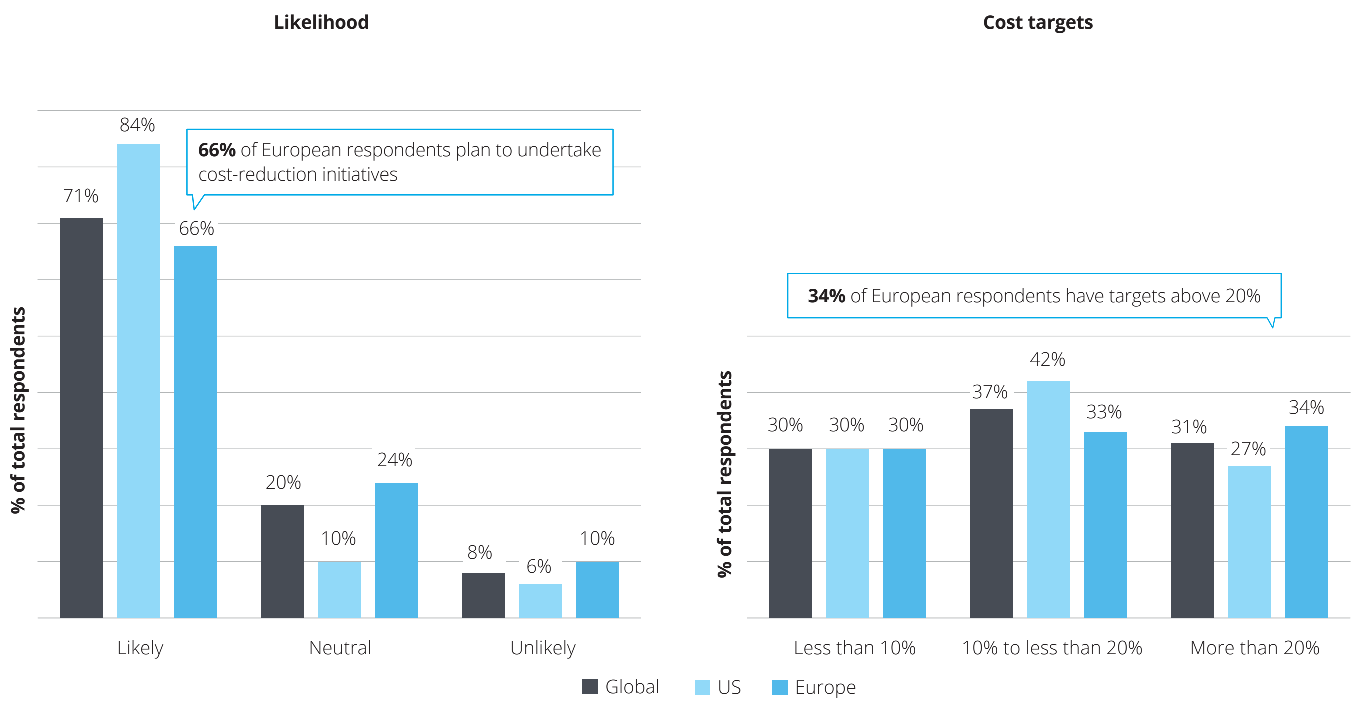
5. In Europe, expected levels of digital technology implementation over the next 24 months are slightly lower than the global average for cognitive, RPA (Robotic Process Automation), and business intelligence (–3, –2, and –1 percentage points, respectively), but the expected level of cloud implementation is the same.

Here is a closer look at each of these key differences.

Cost reduction efforts are less common in Europe, but cost targets are higher

Two-thirds of the European companies surveyed (66%) plan to undertake cost reduction initiatives over the next 24 months (see figure 1). That number is lower than the averages for companies globally (71%) and in the United States (84%). However, a larger percentage of European companies (34%) have set aggressive cost reduction targets of more than 20%, a proportion that is larger than the average globally (31%) and in the United States (27%). At the other end of the spectrum, the average percentage of companies with cost reduction targets of less than 10% is identical in Europe (30%), the United States (30%), and globally (30%).

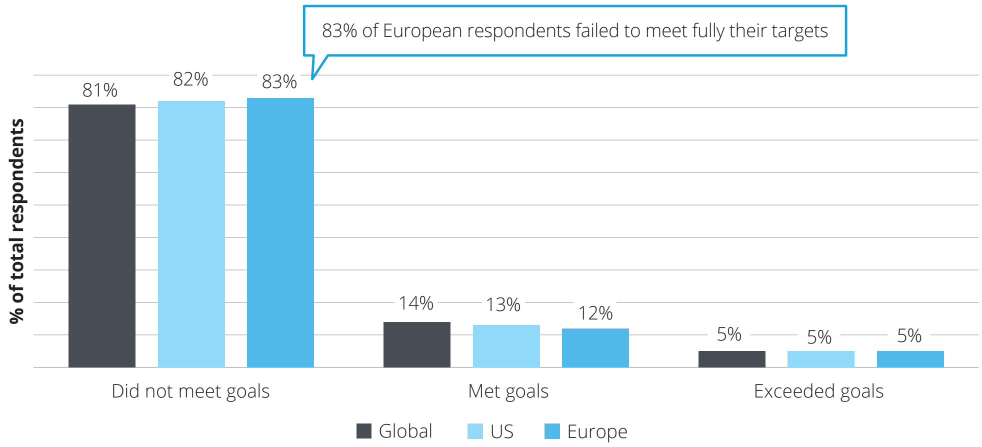
Figure 1. Cost reduction trends



Cost program failure rates in Europe are slightly higher than elsewhere

The percentage of cost programs in Europe that fail to fully meet their targets is slightly higher (83%) than the average for companies in the United States (82%) and globally (81%) (see figure 2).

Figure 2. Cost program success and failure



Comparison to 2016 cost survey results in Europe[5]

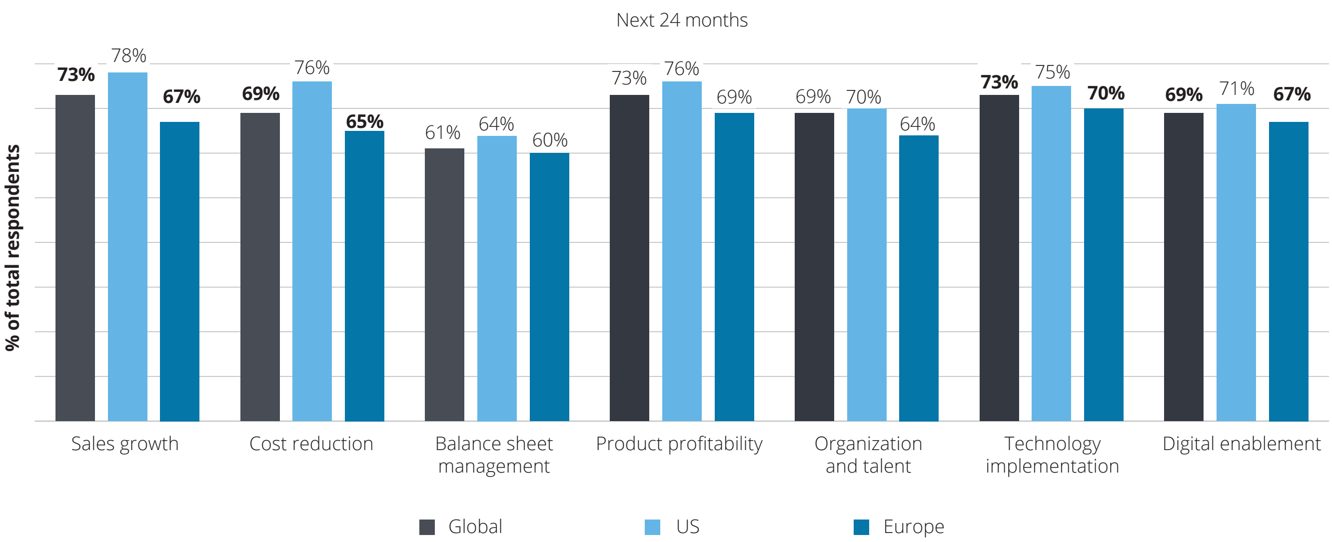
1. Failure rates increased 26 percentage points on average, due mainly to a decrease in meeting goals (down 20 percentage points)
2. Countries/regions with the most significant increases in failure rates:
   - Nordics (+50 percentage points)
   - Spain (+41 percentage points)

[5] Thriving in uncertainty. Deloitte's first biennial cost survey: Cost improvement practices and trends in Europe, October 2016.

Save-to-transform is the predominant cost reduction mindset

Save-to-transform uses cost reduction as a means to fund investments in growth and transformational digital technologies, while in turn applying many of those same technologies to boost the efficiency and effectiveness of cost reduction programs. Many companies in Europe are adopting a save-to-transform mindset, which is characterized by a simultaneous strategic focus on sales growth, cost reduction, technology implementation, and digital enablement (see figure 3). However, this mindset—while present in Europe—is currently less pronounced than in the United States and globally. Specifically, relative to the global averages, European companies seem less focused on the strategic priorities associated with save-to-transform: growth (–6 percentage points), cost (–4 percentage points), technology (–3 percentage points), and digital enablement (–2 percentage points).

Figure 3. Strategic priorities and save-to-transform

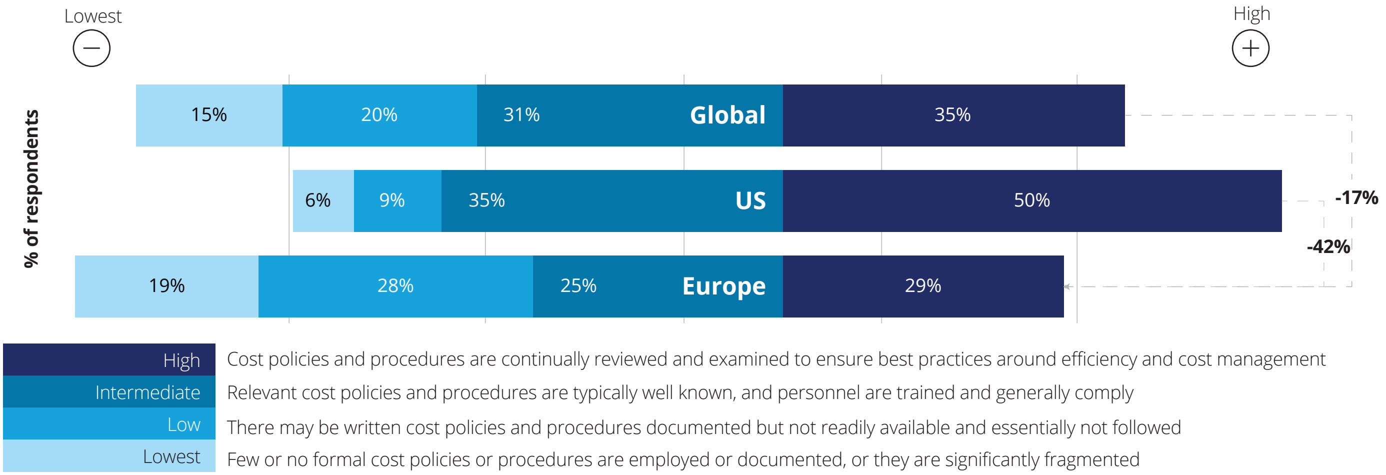


Cost management tends to be less mature in Europe

A smaller proportion of European companies (29%) report high levels of cost management maturity. That number is 17% lower than the global average, and 42% lower than the average for companies in the the United States (see figure 4).

A high level of cost management maturity is characterized by cost policies and procedures that are continually reviewed and examined to ensure best practices around efficiency and cost management.

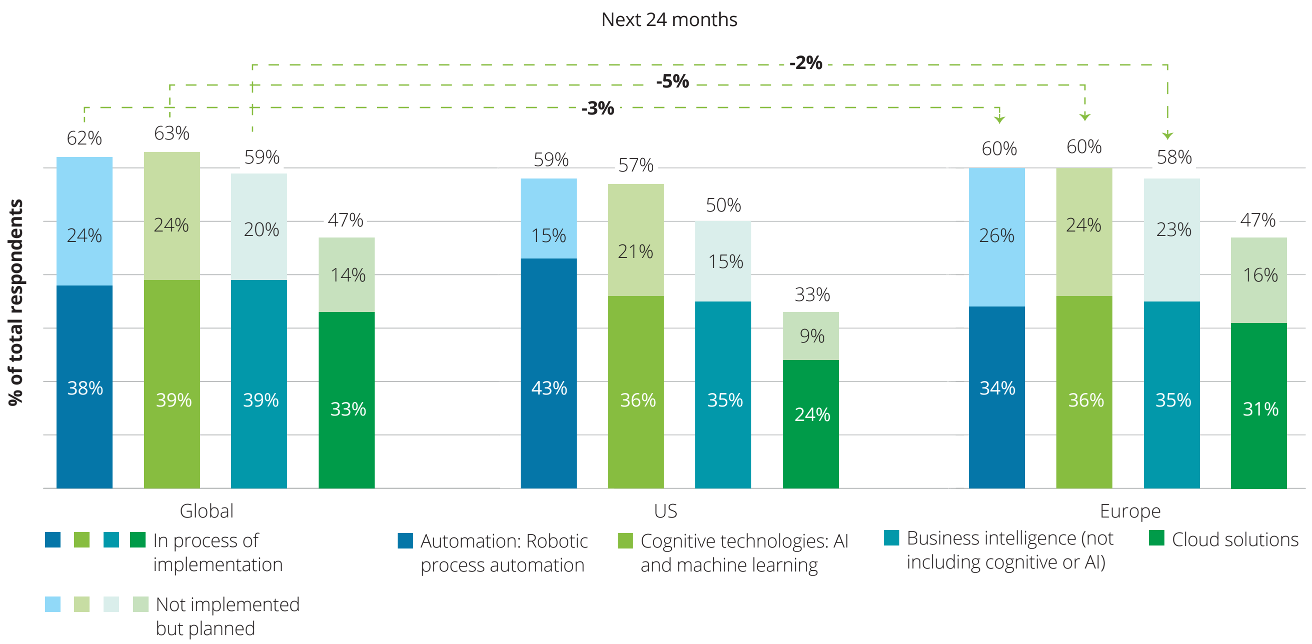
Figure 4. Cost management maturity



Technology implementation levels in Europe are higher than in the United States but lower than global results

Technology implementation levels in Europe over the next 24 months are expected to be relatively high: automation (60% implemented or in-process); cognitive (60% implemented or in-process); and business intelligence (58% implemented or in-process) (see figure 5). Those numbers are higher than for US companies, but lower than the global averages: automation (3% lower); cognitive (5% lower); and business intelligence (2% lower). The level of technology implementation for cloud is expected to be the same in Europe and globally (47% implemented or in-process).

Figure 5. Technology implementation levels

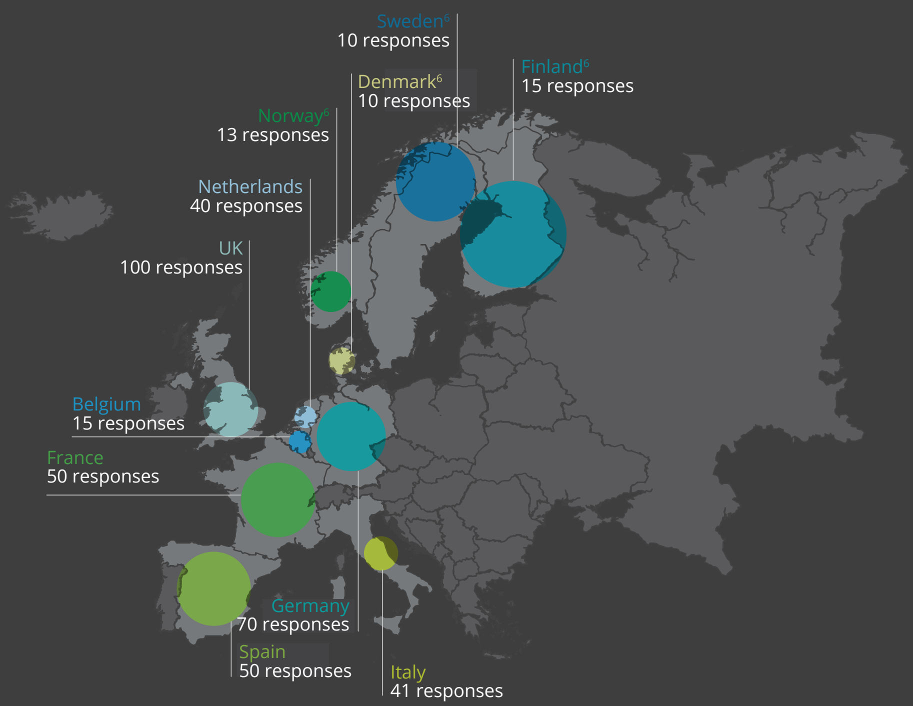


Firmographics

The European respondents in this year's survey accurately represent the overall European economy, in terms of both country distribution and their countries' combined impact on the European GDP (see figure 6).

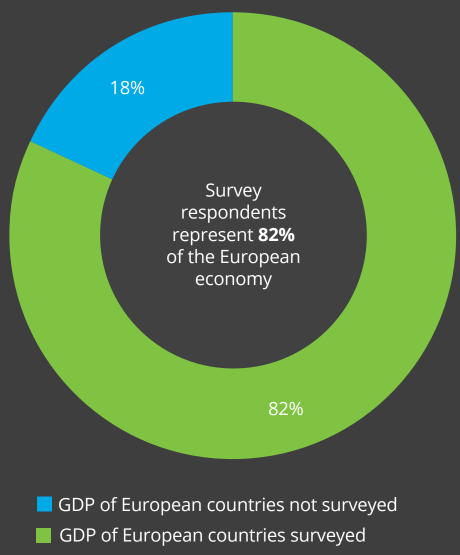
Figure 6. Geographic representation and GDP impact

Map of Europe—surveyed countries



Survey sample coverage[6]

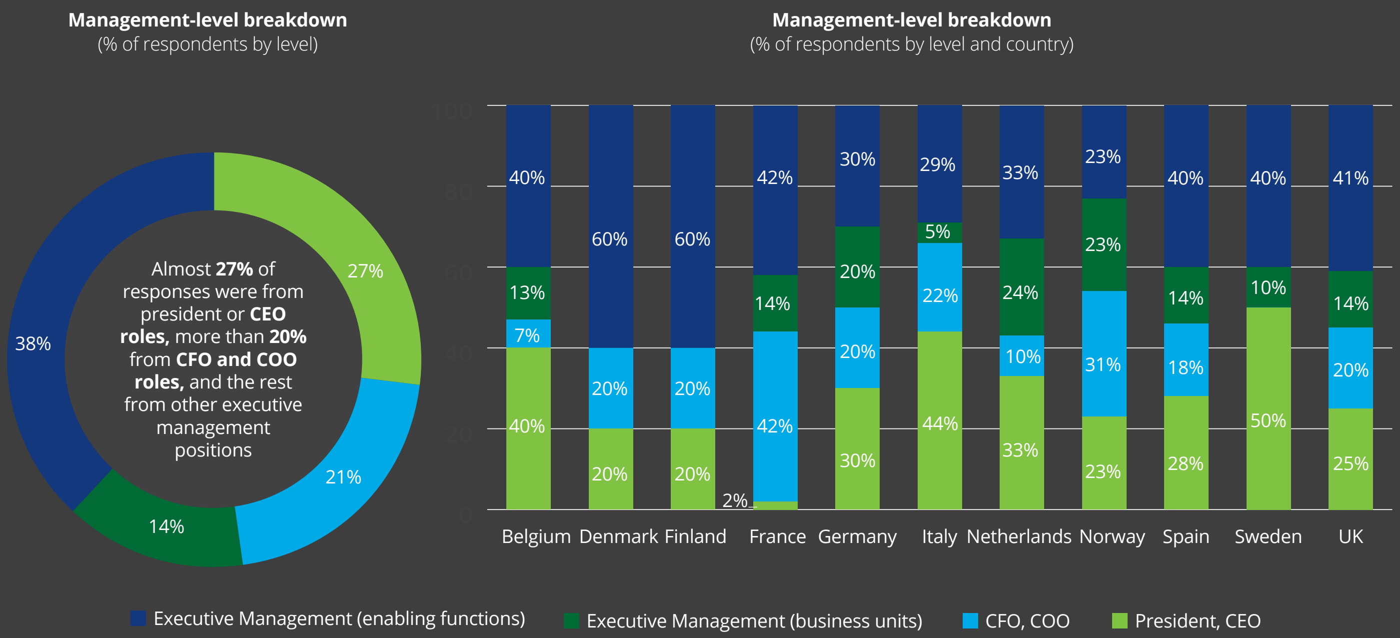
(% of respondents based on 2017 global GDP)



[6] These countries were grouped under Nordics.

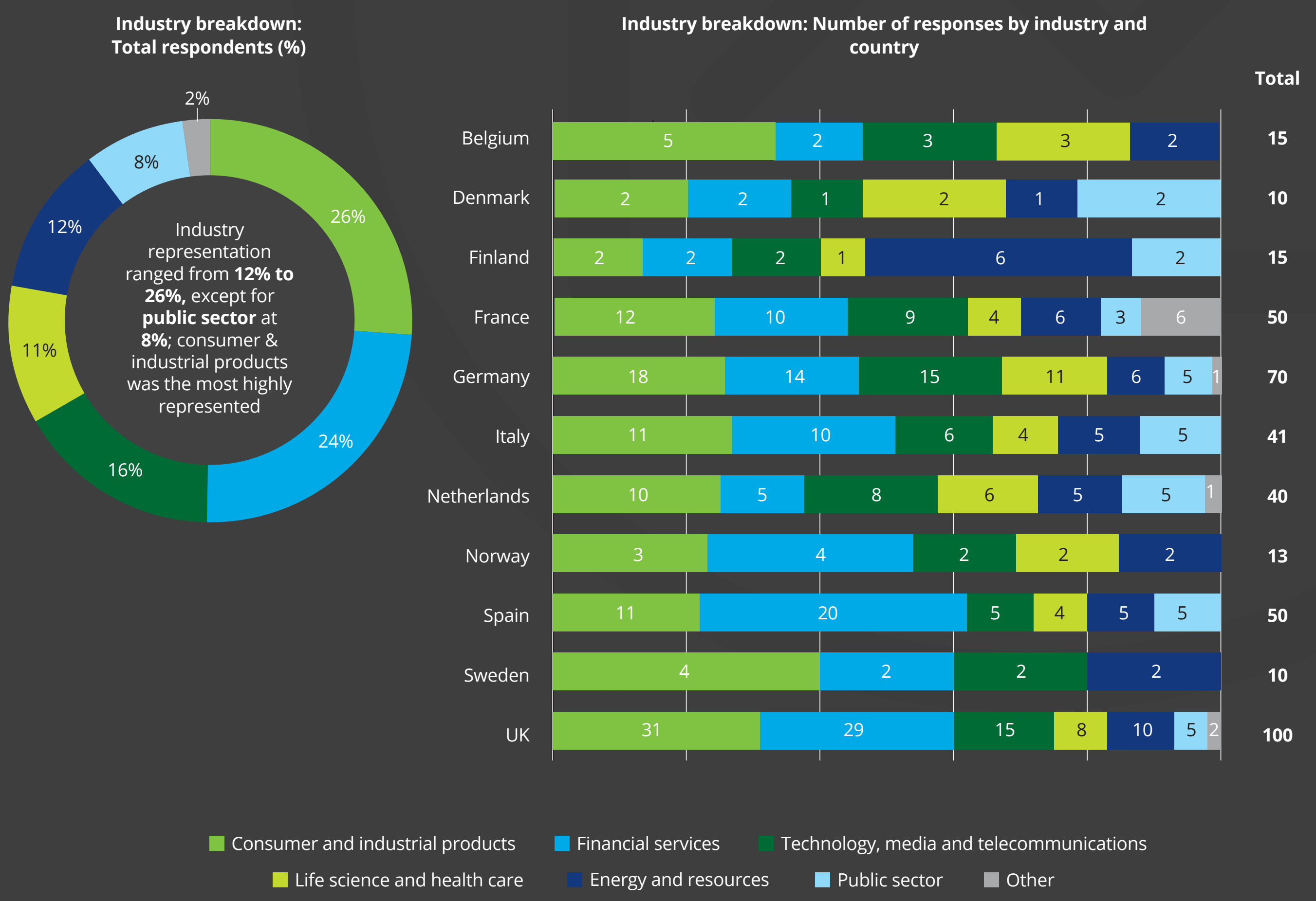
Only relevant executives with direct involvement in cost management decisions were included in the survey (see figure 7).

Figure 7. Respondent breakdown by management level and country



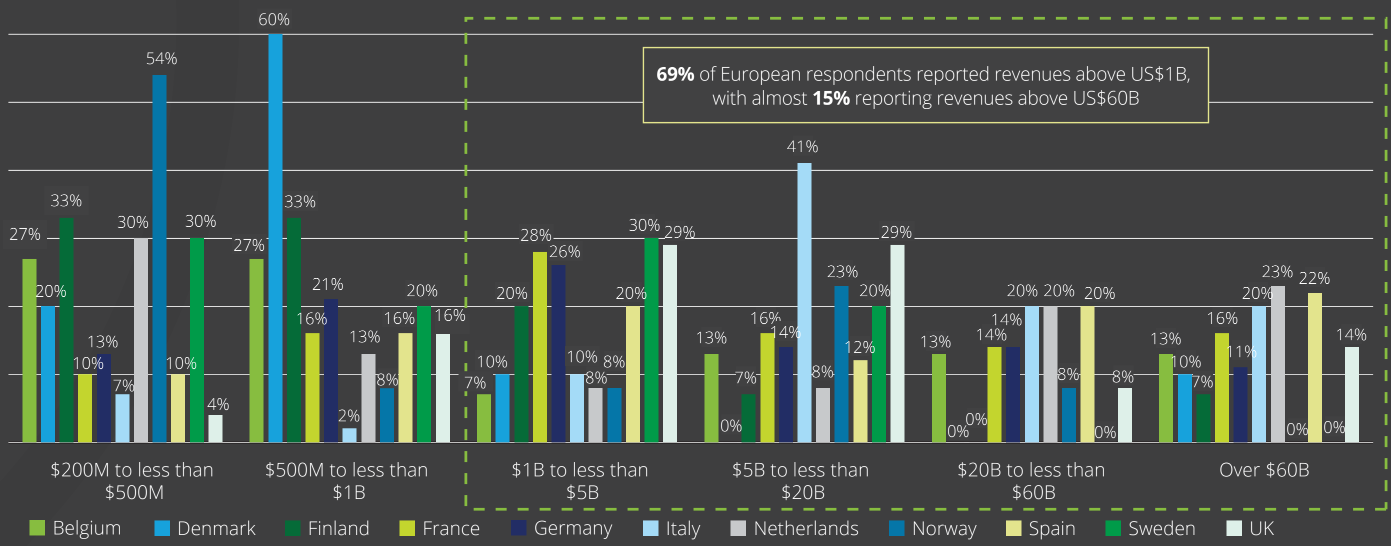
Industry-specific information was collected to provide meaningful insights around six major industries. Industry representation ranges from 12% to 26%, except for public sector (8%). Consumer & industrial products is the most highly represented industry (26%) (see figure 8).

Figure 8. Industry breakdown



Survey respondents are an accurate representation of major companies in Europe, based on revenue (see figure 9).

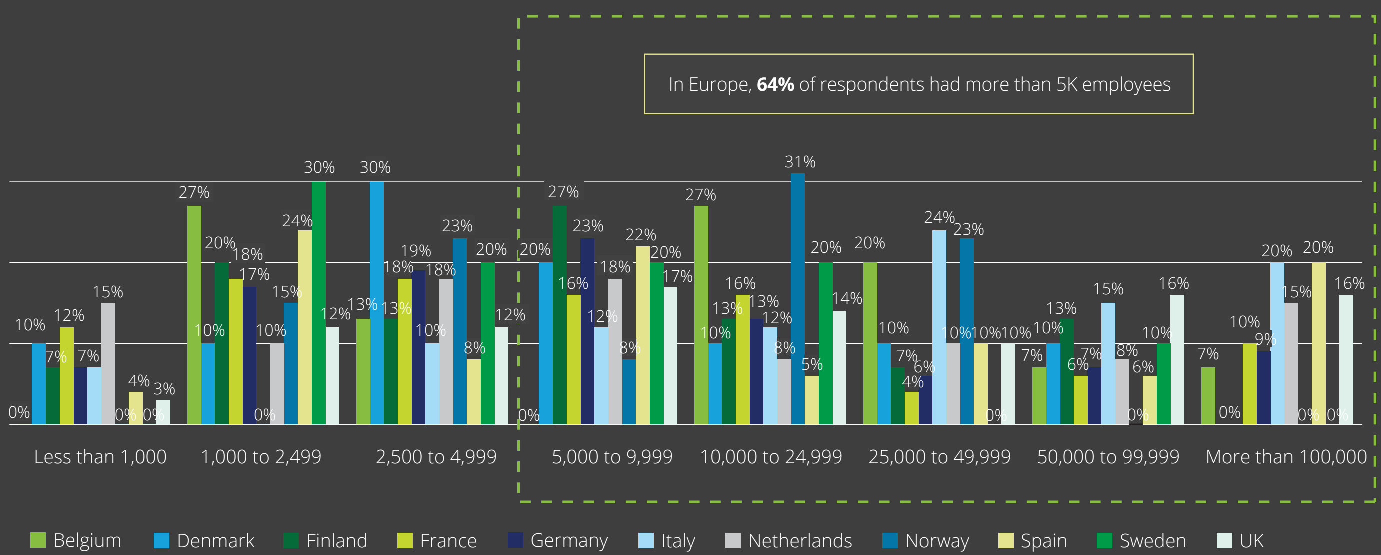
Figure 9. Revenue breakdown



Note: The survey was conducted in local currencies – for analysis purposes figures have been converted to US dollars

Survey respondents are an accurate representation of major companies in Europe, based on headcount (see figure 10).

Figure 10. Headcount breakdown



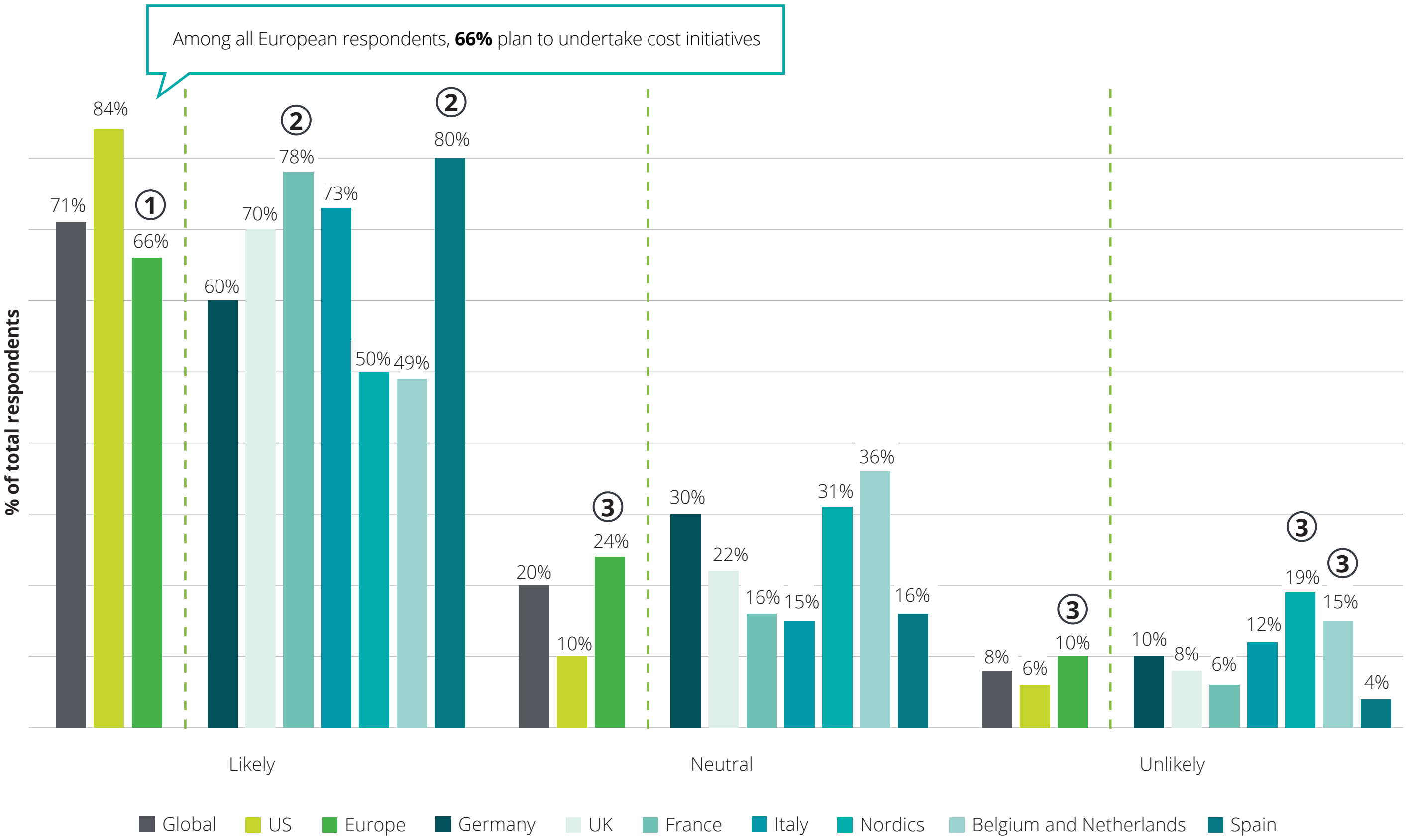
European survey results: Detailed insights

Cost reduction is prevalent in Europe, but less than elsewhere

A large number of European companies surveyed (66%) plan to undertake cost reduction initiatives over the next 24 months (see figure 11). However, that number is significantly lower than the averages for companies globally (71%) and in the United States (84%).

Among the European countries included in this year's survey, the likelihood of cost reduction is highest in Spain (80%) and France (78%), and lowest in the Nordics (50%), Belgium, and Netherlands (49%).

Figure 11. Likelihood of cost reduction over the next 24 months



Survey findings

1. On average, 66% of European respondents plan to undertake cost reduction initiatives over the next 24 months, a relatively low number compared to the United States (84%) and the global average (71%).
2. Regarding the likelihood of cost initiatives, Spain (80%) and France (78%) are closest to the United States (84%); those two countries, along with Italy (73%) and the United Kingdom (70%) are closest to the global average (71%).
3. In Europe, neutral and unlikely expectations for cost initiatives are higher than the global average and the United States; the countries where cost initiatives are most unlikely are the Nordics (19%) and Belgium & Netherlands (15%).

Comparison to 2016 cost survey results in Europe[7]

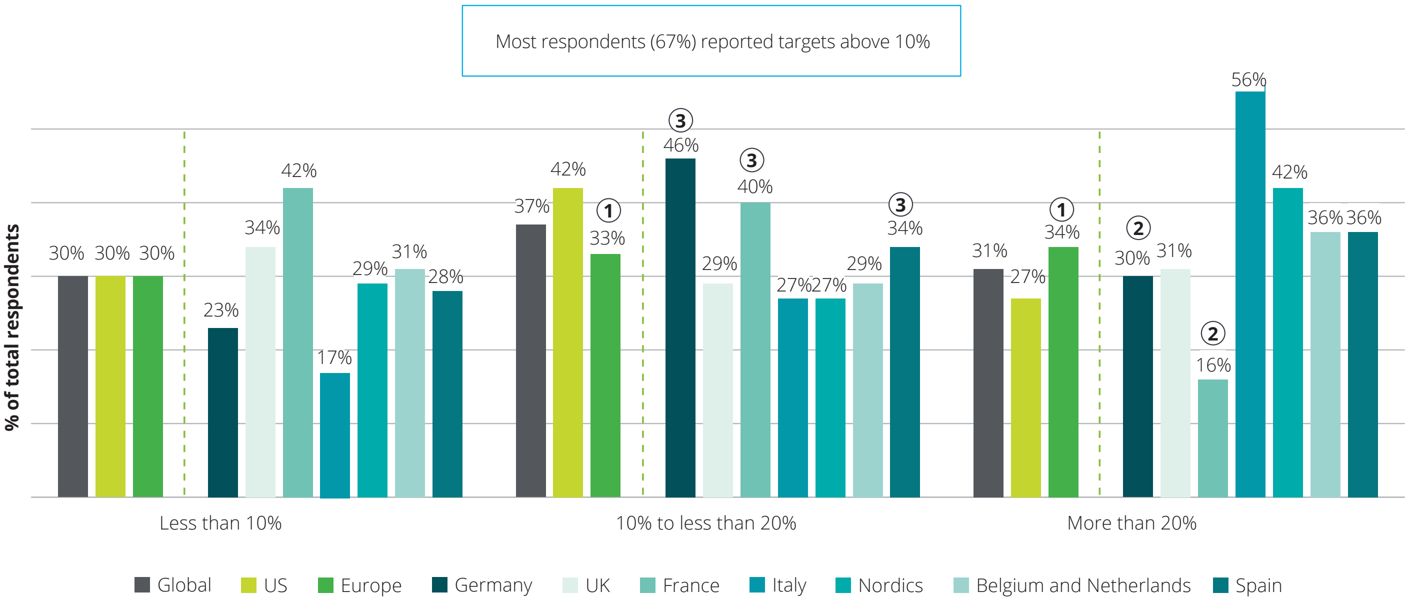
- Likelihood of cost reduction initiatives in Europe decreased from 83% in 2016 to 66% this year, with significant decreases in:
  - The Nordics (–42 percentage points)
  - Belgium and Netherlands (–39 percentage points)
  - Germany (–27 percentage points)

[7] Thriving in uncertainty, Deloitte's first biennial cost survey: Cost improvement practices and trends in Europe, October 2016.

Cost reduction targets in Europe are up significantly

On average, 67% of European companies have overall cost reduction targets above 10%, which is similar to the survey results for companies globally (68%) and in the United States (69%) (see figure 12). Among the European companies with cost targets above 10%, roughly a third (34%) has more aggressive targets of more than 20%. The latter percentage (34%) has more than doubled from just 13% in our 2016 survey. European countries that saw the greatest percentage increases in the number of companies with cost targets above 20% are Italy (+40 percentage points); the Nordics (+34 percentage points); and Belgium & Netherlands (+30 percentage points).

Figure 12. Cost targets across Europe[8]



Survey findings

1. On average, 67% of European respondents hope to achieve cost reduction targets above 10%, a similar number to the United States (69%) and global average (68%).
2. All European countries except France and Germany have a higher proportion of respondents with targets above 20% (compared to the global average of 31%).
3. Compared to the European average (33%), a higher proportion of companies in Germany (46%), France (40%), and Spain (34%) have set cost targets between 10% and 20%.

Comparison to 2016 cost survey results in Europe[9]

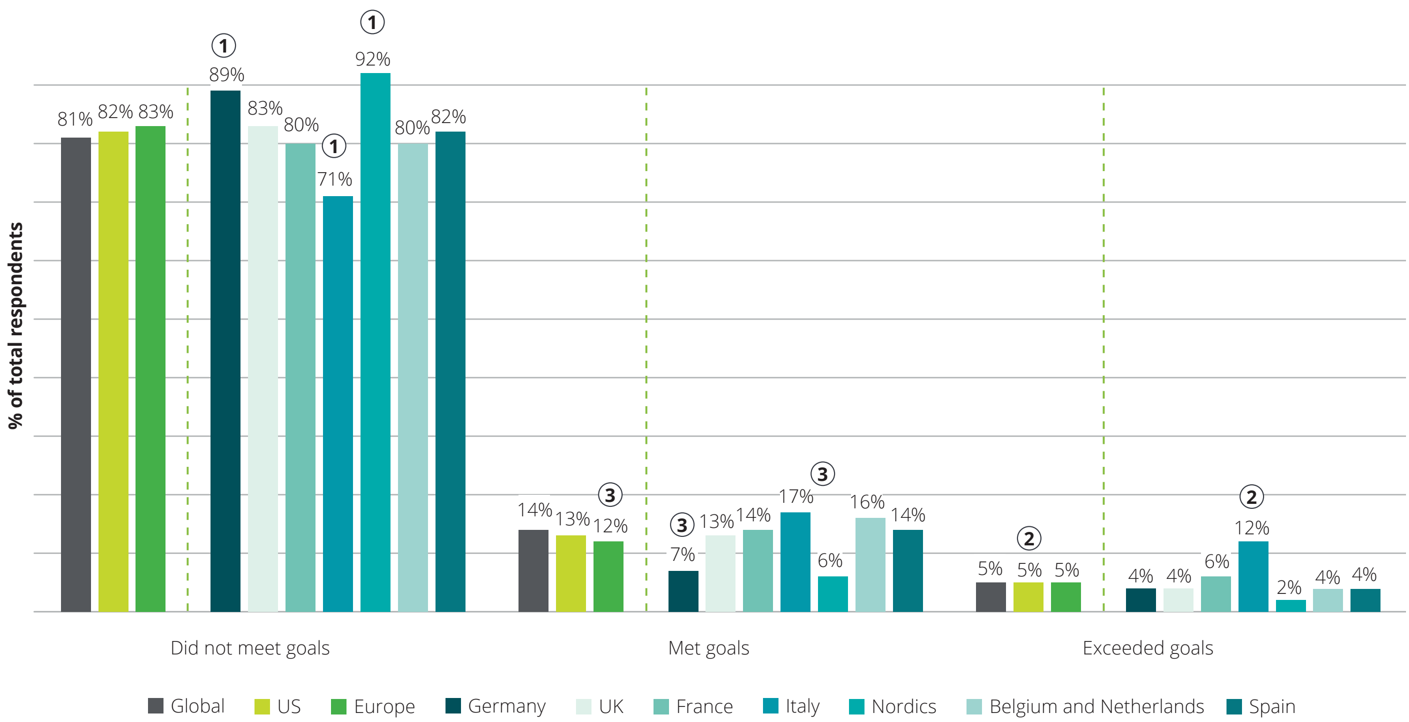
- Cost targets above 20% have increased from 13% in 2016 to 34% this year, with significant increases in:
  - Italy (+40 percentage points)
  - Nordics (+34 percentage points)
  - Belgium and Netherlands (+30 percentage points)

[8] Respondents that selected "no specific targets were established" were not included in results.
[9] Thriving in uncertainty, Deloitte's first biennial cost survey: Cost improvement practices and trends in Europe, October 2016.

Cost program failure rates in Europe are up significantly

The percentage of European cost programs that failed to fully meet their targets is high (83%), which is 26 percentage points higher than in 2016. Failure rates are highest in the Nordics (92%) and Germany (89%), and lowest in Italy (71%). The countries with the largest jumps in cost program failure rates are the Nordics (+50 percentage points) and Spain (+41 percentage points) (see figure 13).

Figure 13. Cost program success and failure analysis



Survey findings

1. Failure rates in the Nordics (92%) and Germany (89%) are higher than the European average (83%), global average (81%), and United States (82%); Italy has the lowest failure rate at 71%.
2. In the United States, Europe, and globally, the same percentage of companies exceeded their goals (5%); Italy had the highest percentage of companies that exceeded their goals (12%).
3. On average, European companies at 12% have lower rates of meeting their cost goals than the global average (14%) and the United States (13%)—largely due to low rates in Germany (7%) and the Nordics (6%).

Comparison to 2016 cost survey results in Europe[10]

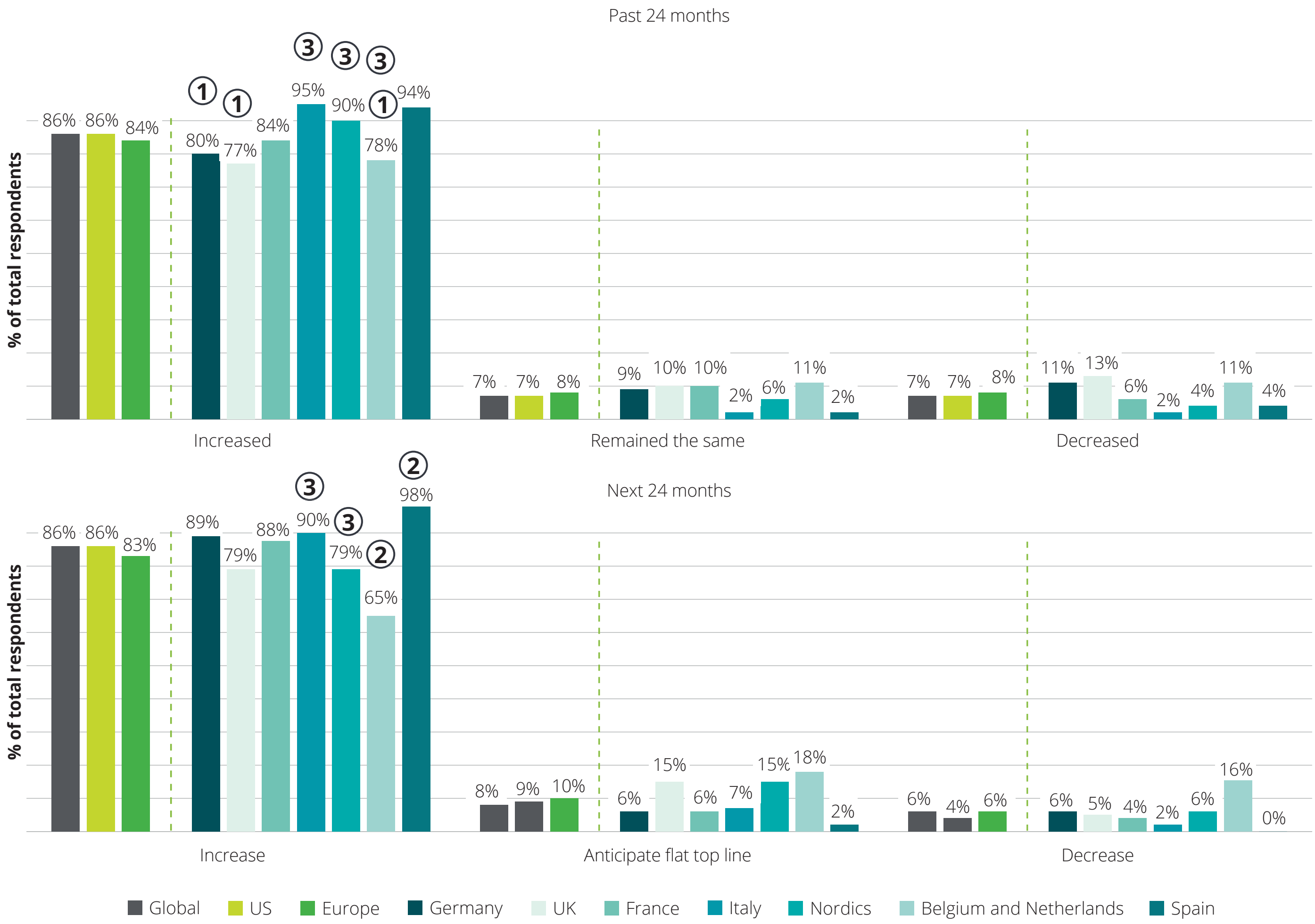
- Failure rates increased an average of 26 percentage points, with significant increases in:
  - Nordics (+50 percentage points)
  - Spain (+41 percentage points)

[10] Thriving in uncertainty, Deloitte's first biennial cost survey: Cost improvement practices and trends in Europe, October 2016.

Growth expectations are high

European companies surveyed have a very positive growth outlook, with 84% reporting revenue growth over the past 24 months and 83% expecting revenue growth over the next 24 months. Those numbers are just slightly lower than the averages for companies in the United States and globally (see figure 14). Looking back at the past 24 months, the surveyed countries with the lowest growth results were the United Kingdom (77%), Belgium & Netherlands (78%), and Germany (80%)—well below the global average (86%). Looking ahead, Spain has the most positive growth outlook, with 98% of its companies expecting revenue growth over the next 24 months. Belgium and Netherlands is at the other end of the spectrum, with only 65% of companies in that region expecting positive revenue growth.

Figure 14. Revenue performance and expectations for growth



Survey findings

① Over the past 24 months, Germany, the United Kingdom, and Belgium and Netherlands had a lower percentage of respondents with positive revenue growth than the European average (84%), the global average (86%), and the United States (86%).

② Over the next 24 months, Spain has the most positive revenue outlook, with 98% of respondents expecting growth; Belgium and Netherlands are at the opposite end of the spectrum, with only 65% of respondents expecting growth.

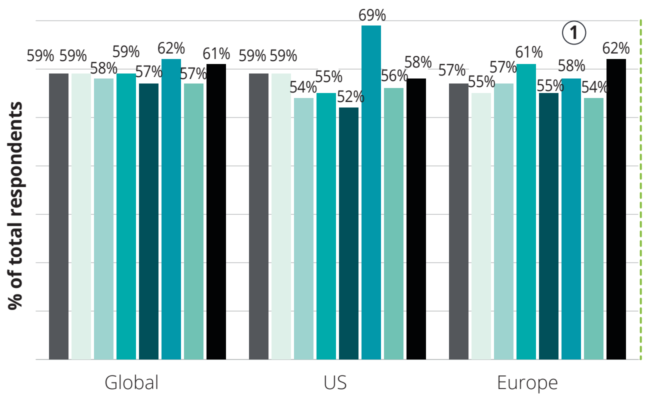
③ Compared to the past 24 months, Italy, the Nordics, and Belgium and Netherlands show a decline in the percentage of respondents with a positive revenue outlook for the next 24 months. Belgium and Netherlands show the largest decline (13 percentage points).

Digital disruption is now the top external risk

The top external risks among respondents in Europe are digital disruption (62%), commodity price fluctuations (61%), and cybersecurity (58%) (see figure 15). The ascendance of digital disruption is particularly noteworthy, since "macroeconomic concerns" was the top-rated external risk in our 2016 survey and digital disruption was barely on the radar.

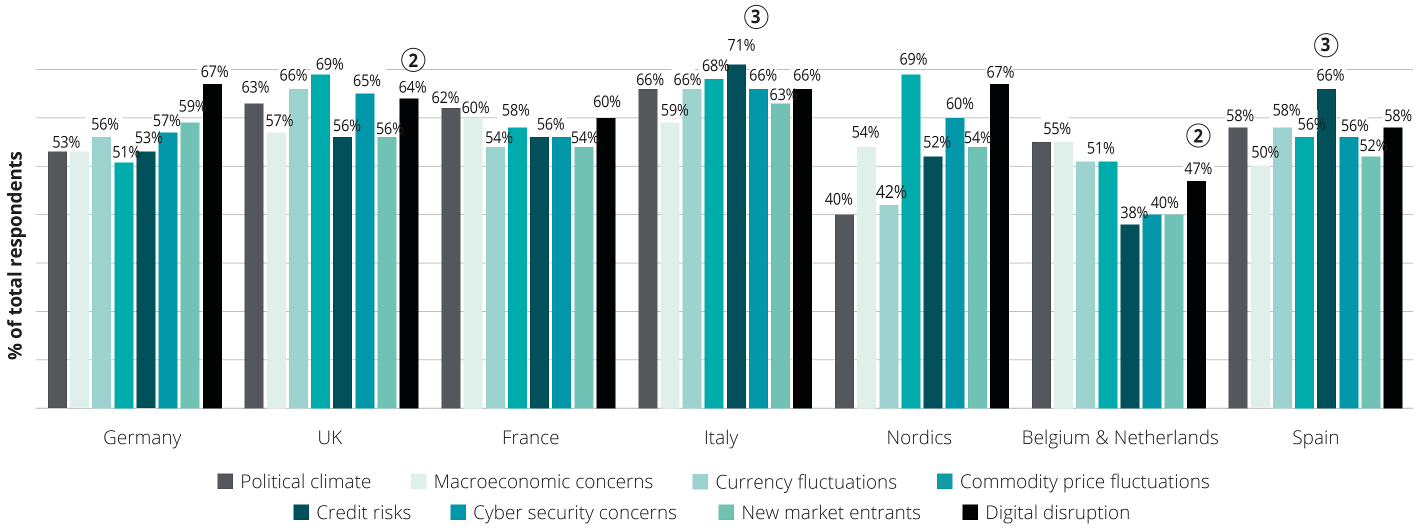
Cybersecurity is a much bigger concern for US respondents, who rated it far higher than any other external risk (69% vs. 59% for political climate, which was second).

Figure 15. Top external risks



Comparison to 2016 cost survey results in Europe[11]

- "Macroeconomic concerns" was the highest rated external risk in the previous survey
- Digital disruption was not recognized as a major risk at the time, but is now the top risk



Survey findings

① Cybersecurity is the top-rated risk in the global and US results, but is No. 3 in Europe, behind digital disruption and commodity price fluctuations.

② Digital disruption ranks lower in some countries, especially the United Kingdom and Belgium and Netherlands, which are more worried about commodity price fluctuations, the political climate, and macroeconomic factors.

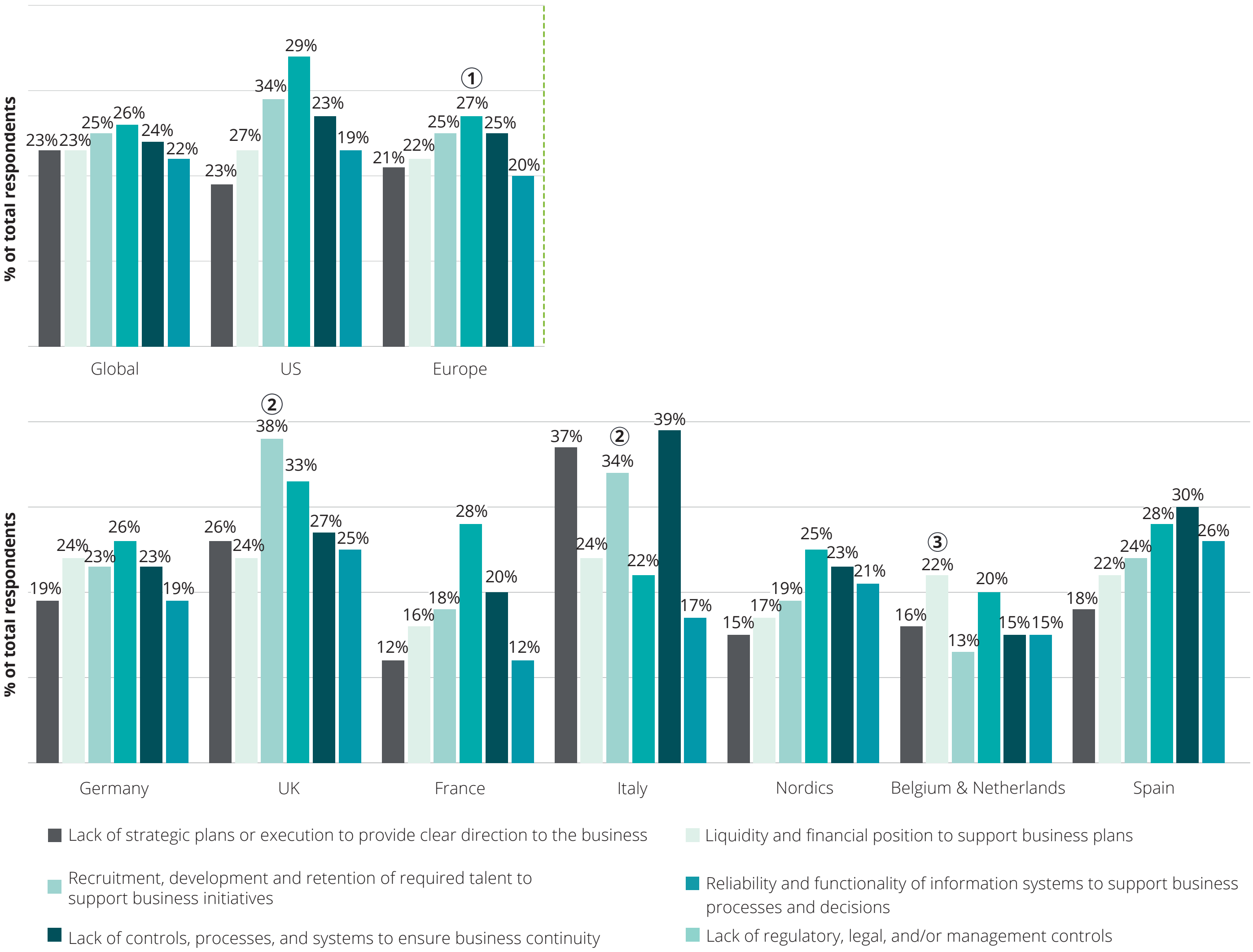
③ The top concern in Italy and Spain is credit risks.

[11] Thriving in uncertainty, Deloitte's first biennial cost survey: Cost improvement practices and trends in Europe, October 2016.

Reliability and functionality of information systems is the top internal risk

The top internal risks among respondents in Europe are reliability and functionality of information systems (27%); recruitment, development, and retention of talent (25%); and lack of controls for business continuity (25%) (see figure 16). Those rankings are generally consistent with the 2016 survey results and with this year's global and US results.

Figure 16. Top internal risks



Survey findings

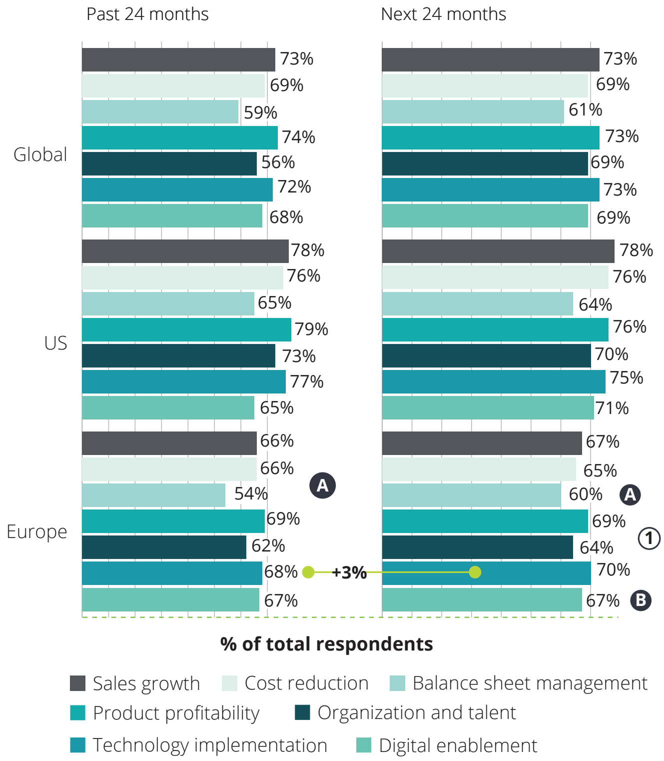
1. This year's top three internal risks are the same as in 2016 and are consistent in Europe, the United States, and globally.
2. On average, risk ratings tend to be higher in the United Kingdom and Italy than elsewhere.
3. Respondents in Belgium and Netherlands are worried about different risks than those in other European countries, with liquidity concerns at the top of the list.

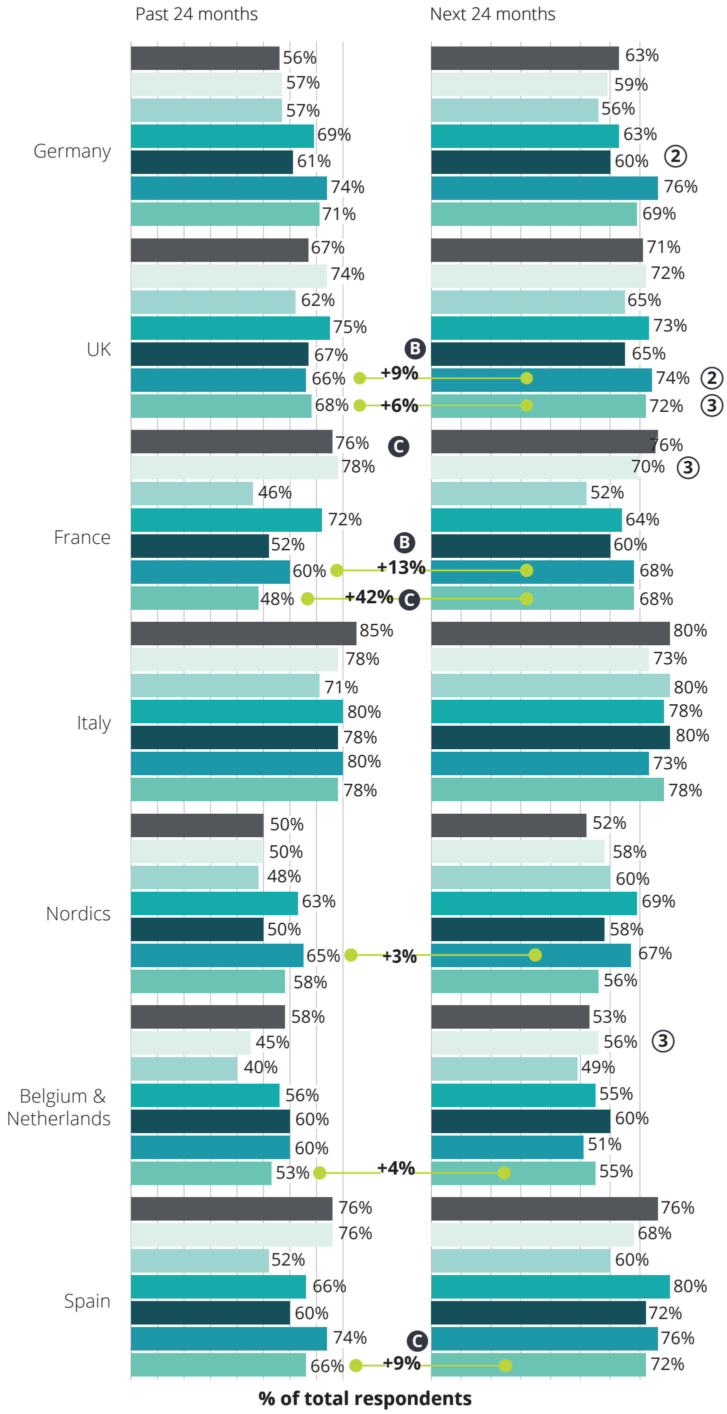
Europe's strategic priorities align with save-to-transform

In Europe, the top-four strategic priorities over the next 24 months are technology implementation (70%), product profitability (69%), sales growth (67%), and digital enablement (67%). Cost reduction is a top priority in the United Kingdom, France, and Belgium & Netherlands (see figure 17). These priorities are generally consistent with a save-to-transform mindset, which uses cost reduction to fund investments in growth and transformational digital technologies, while in turn applying many of those same technologies to boost the efficiency and effectiveness of cost reduction programs.

As evidence of this shift, technology implementation increased by 3% across the region, with the largest increases in France (+13%) and the United Kingdom (+9%). Digital enablement increased dramatically in France (+42%), with smaller but still significant increases in Spain (+9%) and the United Kingdom (+6%).

Figure 17. Strategic priorities





Survey findings

1. Technology implementation, product profitability, sales growth, and digital enablement are the top four priorities in Europe over the next 24 months.
2. Germany and the United Kingdom are the only regions that rank technology implementation as the top priority over the next 24 months.
3. Cost reduction is a top three priority in the United Kingdom, France, and Belgium and Netherlands.

Comparison to past 24 months

A. The top four priorities remain the same in Europe

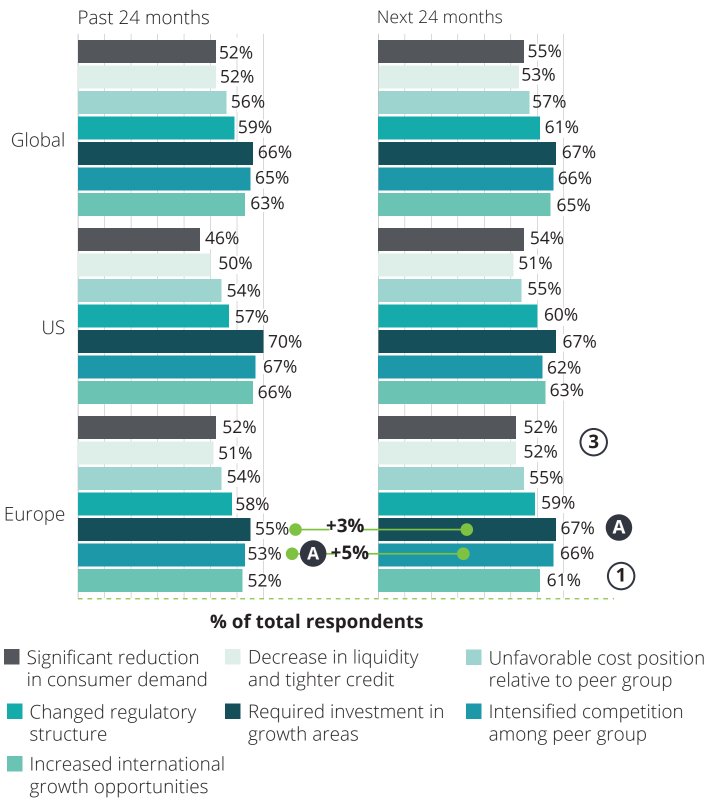
B. Technology implementation has increased by an average of 3% across Europe, with even larger increases in France (+13%) and the United Kingdom (+9%)

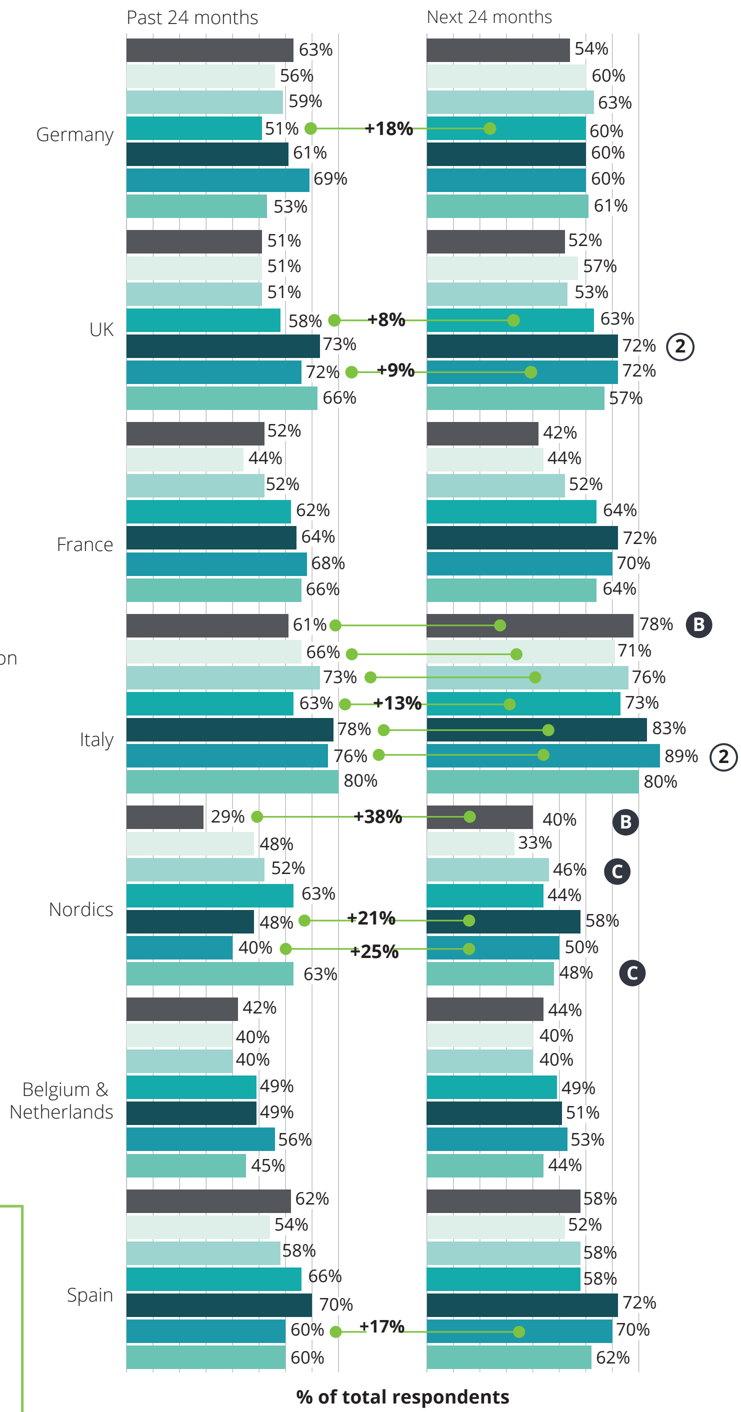
C. Digital enablement has increased in Spain (+9%), the United Kingdom (+6%), and especially France (+42%)

Growth and competition remain the top drivers of cost reduction

In Europe, past and future drivers of cost reduction center around growth initiatives and competition, with a slight increase expected over the next 24 months (see figure 18). The top-rated drivers in that period are expected to be investment in growth areas (67%), competition among peer group (66%), and international growth opportunities (61%). The least cited cost drivers in the survey continue to be liquidity (52%) and consumer demand (52%), although the latter has increased significantly since 2016 in the Nordics (+38%) and Italy (+28%).

Figure 18. Past and future cost reduction drivers





Survey findings

1. The top drivers over the next 24 months are investment in growth areas, competition among peer group, and international growth opportunities.
2. Cost-driver percentages in Italy and the UK for the next 24 months tend to be higher than in other European respondents' countries.
3. The surveyed cost drivers that continue to be cited least frequently are liquidity (52%) and reduction in consumer demand (52%).

Comparison to past 24 months

A. The top three drivers remain the same as before

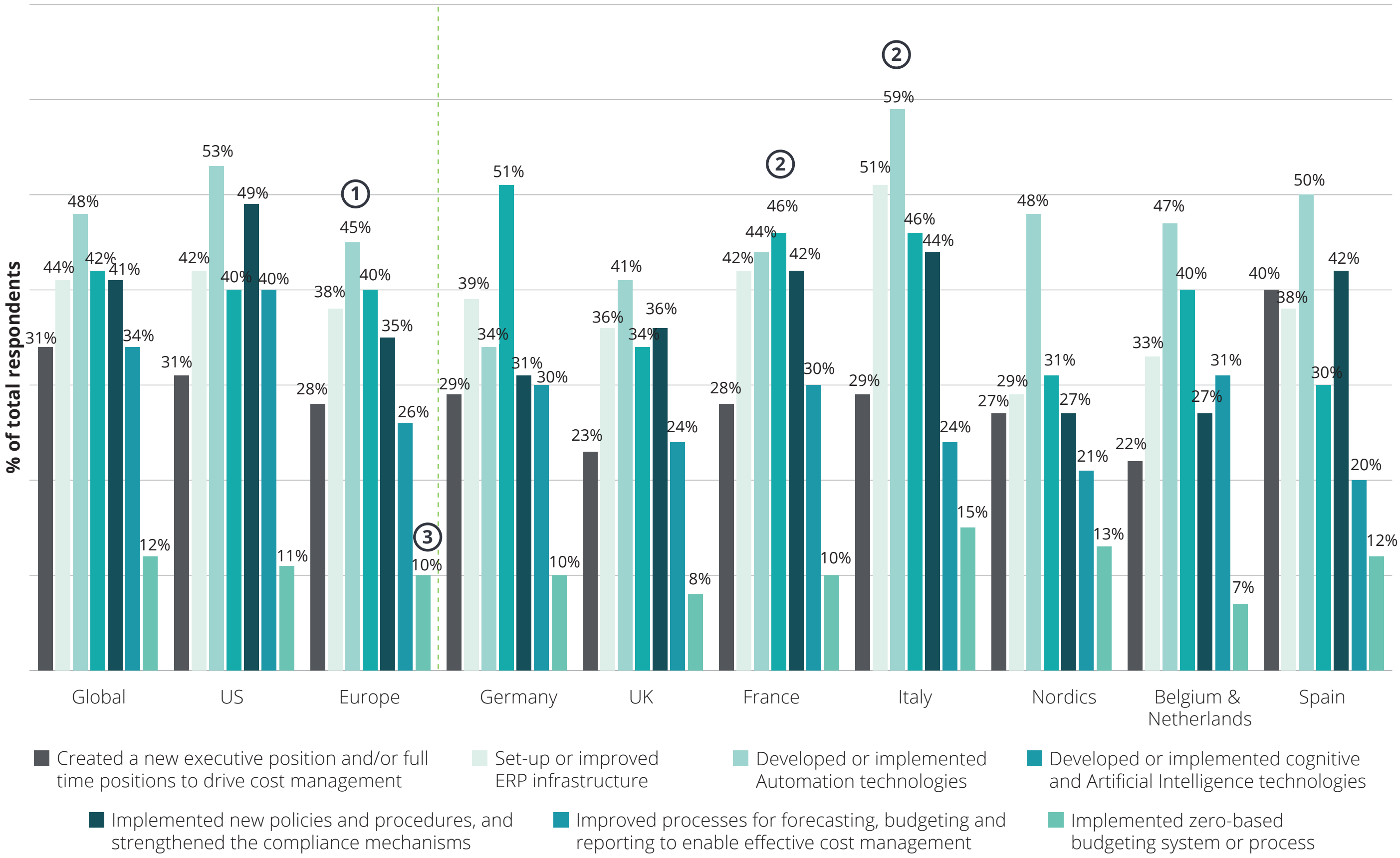
B. "Reduction in consumer demand" has increased significantly as a cost driver in the Nordics (+38%) and Italy (+28%)

C. Other drivers that increased in the Nordics include: competition among peer group (+25%), and investment in growth areas (+21%)

Technology-related capabilities are the primary focus

In Europe, the top cost management capabilities developed over the past 24 months are automation (45%), cognitive (40%), ERP (38%), and new policy implementation (35%) (see figure 19). Technology-related capabilities tend to rank highest, with automation being the most developed, especially in Italy (59%) and Spain (50%). ZBB continues to be the least developed of the cost management capabilities in the survey, only cited by 10% of European respondents.

Figure 19. Development of cost management capabilities



Survey findings

1. The top developed capabilities are automation/cognitive solutions, ERP, and new policy implementation.
2. France and Italy have, on average, higher levels of developed capabilities than other countries.
3. ZBB continues to be the least developed capability in Europe (only 10% of respondents, on average).

Comparison to 2016 cost survey results in Europe[12]

- Implementation of ZBB increased by 7 percentage points
- Set up or improved ERP infrastructure decreased by 4 percentage points

[12] Thriving in uncertainty, Deloitte's first biennial cost survey: Cost improvement practices and trends in Europe, October 2016.

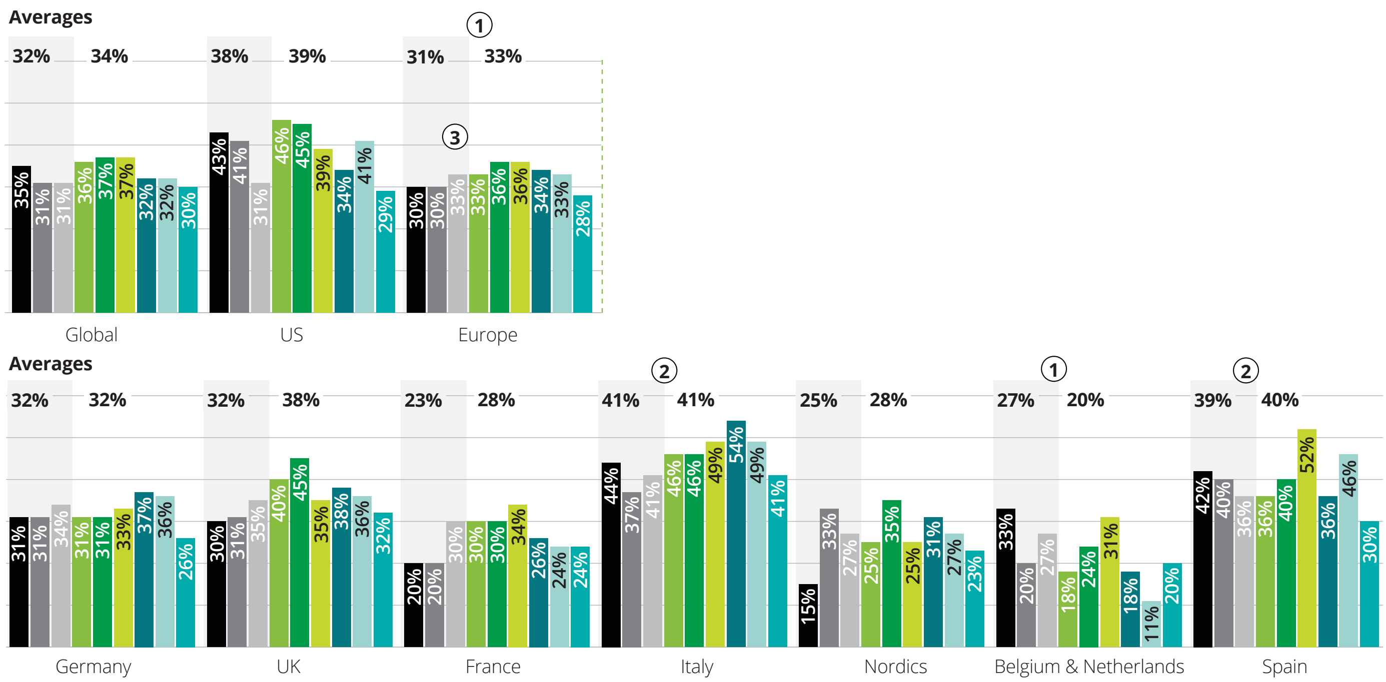
Tactical cost actions have been slightly favored

The most frequently implemented cost reduction actions throughout most of Europe were tactical in nature (33% tactical vs. 31% strategic)—including the two most common actions: streamlined business processes (36%) and improved policy compliance (36%) (see figure 20). The exception is Belgium and Netherlands, which was the rare subregion where strategic cost reduction predominated (27% strategic vs. 20% tactical).

Tactical actions tend to produce incremental improvements and relatively small cost savings, whereas strategic actions have a much broader and deeper impact. Examples of strategic actions include centralizing business activities (Act. 1 in the chart); structurally reconfiguring the business (Act. 2); and outsourcing/offshoring (Act. 3).

In Europe, the most common strategic action over the past 24 months was outsourcing/offshoring business processes to low-cost service providers (33%).

Figure 20. Cost reduction actions over the past 24 months[13]



[13] Responses based on implemented actions for respondents' companies.

Action 1	Increased centralization - Integrated business units and functions into the corporate center	Strategic
Action 2	Changed business configuration - Divested underperforming assets, adjusted number of products/services, geographies, customers, etc.	
Action 3	Outsourced/offshored business processes to low cost service providers	
Action 4	Streamlined organization structure - Increased spans of control, and modified reporting relationships	Tactical
Action 5	Streamlined business processes	
Action 6	Improved policy compliance	
Action 7	Reduced external spend by leveraging scale to source purchased materials/services and reduced demand for materials and services	
Action 8	Implementation of specific automation or cognitive technologies	
Action 9	Aligned incentives of executives or employees to cost reduction objectives	

Survey findings

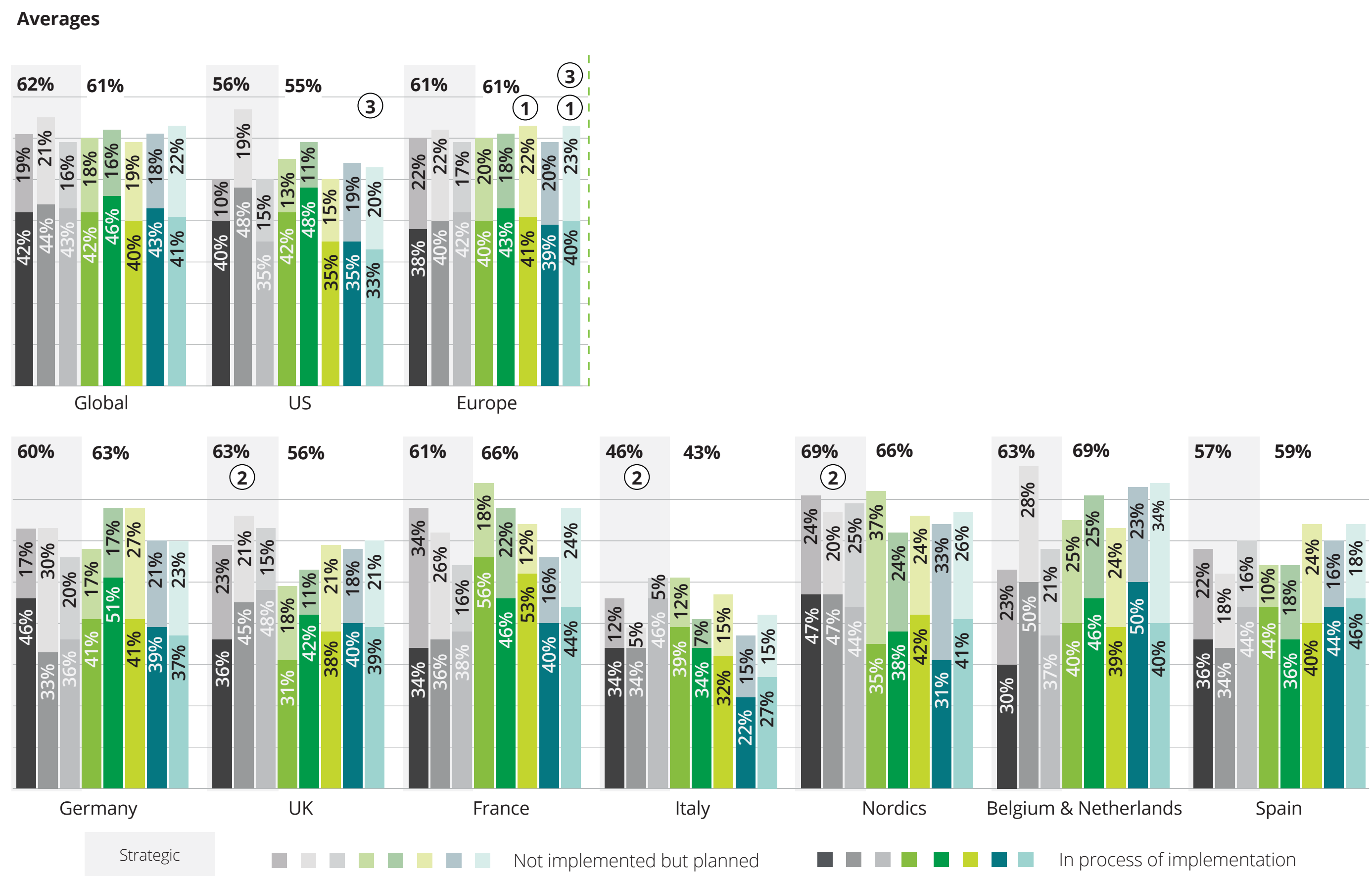
1. The top actions in most countries were tactical in nature (33%), except in Belgium and Netherlands, which focused more on strategic actions (27% strategic vs. 20% tactical).
2. On average, percentage ratings for Italy and Spain are higher than for other European countries.
3. The most commonly implemented strategic action over the past 24 months was outsourcing/offshoring business processes to low-cost service providers.

Strategic cost actions are catching up

Looking ahead, respondents in Europe expect to implement tactical and strategic cost actions in equal measure (61% in-process or planned) over the next 24 months (see figure 21). The most common expected cost actions are to improve policy compliance (63%), implement technologies (63%), and change business configuration (62%).

The countries leaning toward strategic cost actions over the next 24 months are the UK (63% strategic vs. 56% tactical), the Nordics (69% strategic vs. 66% tactical), and Italy (46% strategic vs. 43% tactical).

Figure 21. Expected cost reduction actions over the next 24 months[14]



[14] Respondents who had planned to implement those actions or were in process of implementation are represented in this tabulation.

Action 1	Increased centralization - Integrated business units and functions into the corporate center	Strategic
Action 2	Changed business configuration - Divested underperforming assets, adjusted number of products/services, geographies, customers, etc.	
Action 3	Outsourced/offshored business processes to low cost service providers	
Action 4	Streamlined organization structure - Increased spans of control, and modified reporting relationships	Tactical
Action 5	Streamlined business processes	
Action 6	Improved policy compliance	
Action 7	Reduced external spend by leveraging scale to source purchased materials/services and reduced demand for materials and services	
Action 8	Implementation of specific automation or cognitive technologies	

Survey findings

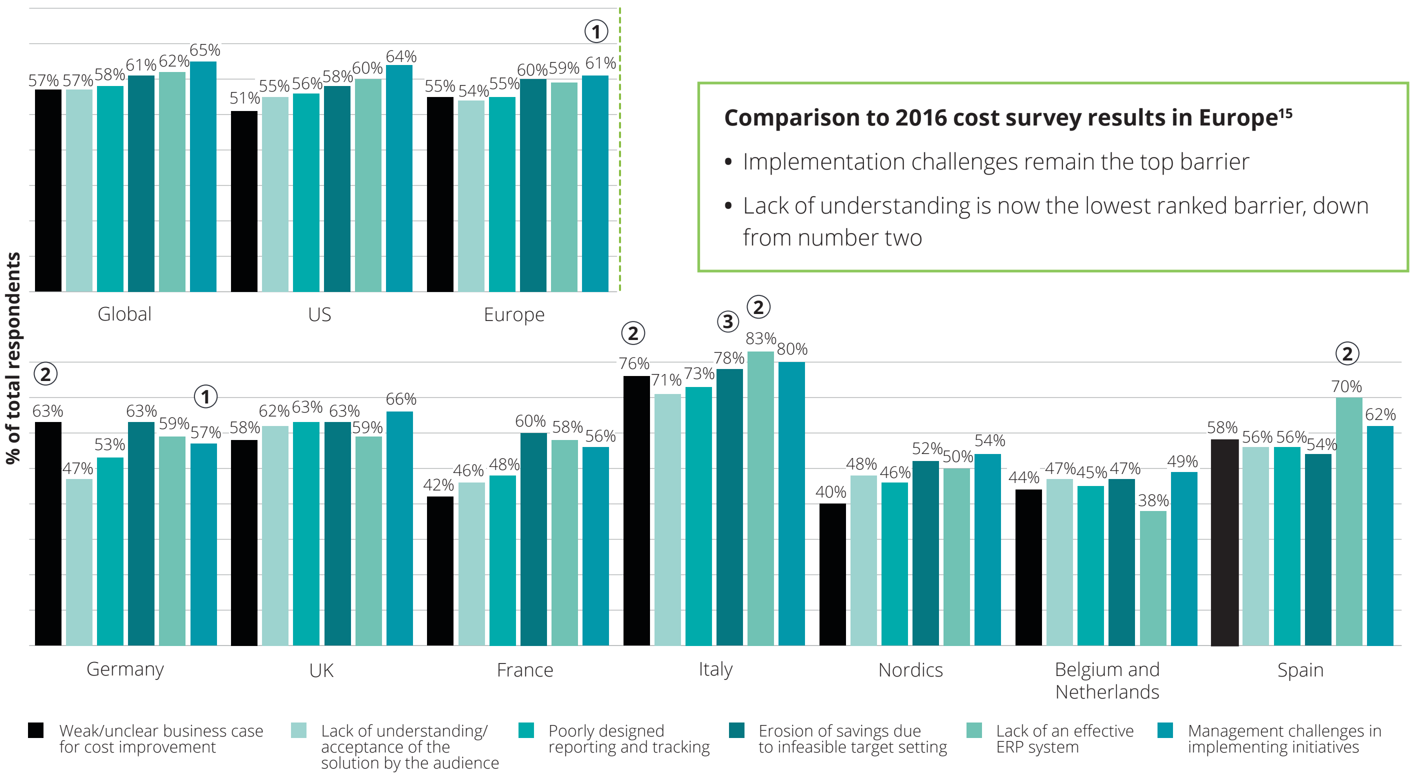
1. Top actions for Europe (in-process or planned) are "improve policy compliance" (63%) and "implementation of technologies" (63%).
2. Although tactical and strategic cost actions are expected to be implemented almost equally over the next 24 months for Europe as a whole, there is a greater focus on strategic actions in the United Kingdom, Italy, and the Nordics.
3. Expected implementation of automation/cognitive technologies is higher in Europe (63%) than in the United States (53%), and on par with the global average (53%).

Top barriers to effective cost management

In Europe, the top barriers to successful cost reduction for respondents are management challenges in implementing initiatives (61%); erosion of savings due to infeasible target setting (60%); and lack of an effective ERP system (59%) (see figure 22). Implementation challenges were also the top barrier in 2016.

Lack of understanding/acceptance of the solution by the audience was the second-highest barrier in 2016, but in this year's survey it is the lowest-ranked barrier, suggesting that significant progress has been made in this area.

Figure 22. Barriers to successful cost reduction



Comparison to 2016 cost survey results in Europe[15]

- Implementation challenges remain the top barrier
- Lack of understanding is now the lowest ranked barrier, down from number two

Survey findings

① Implementation challenges are the top barrier in all countries except Germany, where unclear business case and infeasible targets top the list.

② Weak/unclear business case is ranked especially high in Italy (76%) and Germany (63%); similarly, data availability is ranked above average in Italy (83%) and Spain (70%).

③ Barrier ratings are higher in Italy than in other countries.

[15] Thriving in uncertainty, Deloitte's first biennial cost survey: Cost improvement practices and trends in Europe, October 2016.

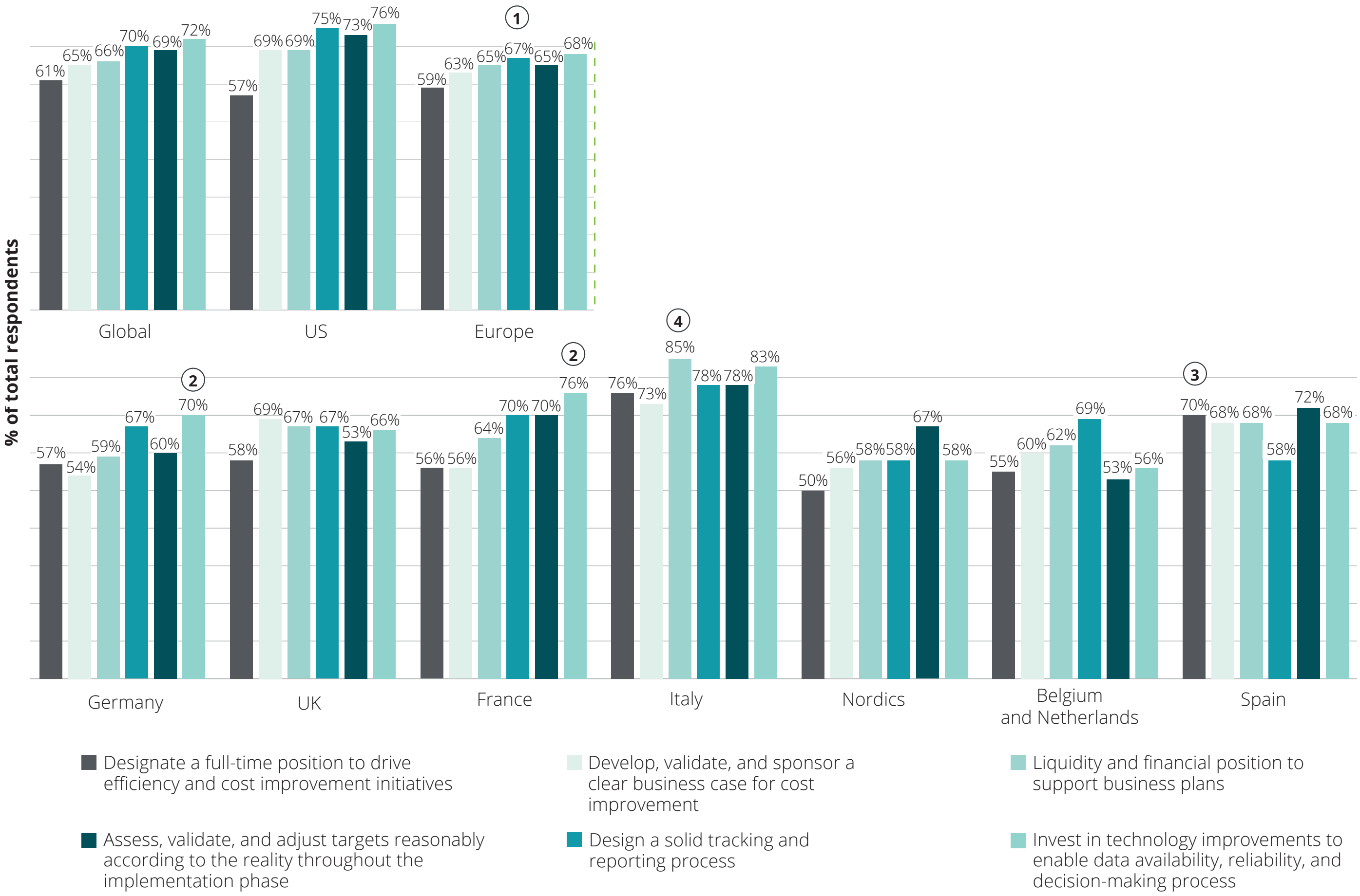
Lessons learned

According to the survey, the top lessons learned for effective cost management are:

- Invest in technology improvements to enable data availability, reliability, and decision-making processes (68%)
- Design a solid tracking and reporting process (67%)
- Assess, validate, and adjust targets reasonably to reflect reality throughout the implementation phase (65%)
- Deploy change-management activities to raise awareness, acceptance, and benefits of initiatives (65%)

Among the lessons learned covered by the survey, designating a full-time position to drive cost improvement ranked among the two lowest in all countries except Spain (see figure 23).

Figure 23. Lessons learned for effective cost management



Survey findings

① On average, percentage ratings for lessons learned are lower than global and US levels.

② Investing in technology improvements is only a top lesson learned in Germany and France.

③ Designating a full-time position to drive cost-improvement ranks lower than other lessons learned in all countries except Spain.

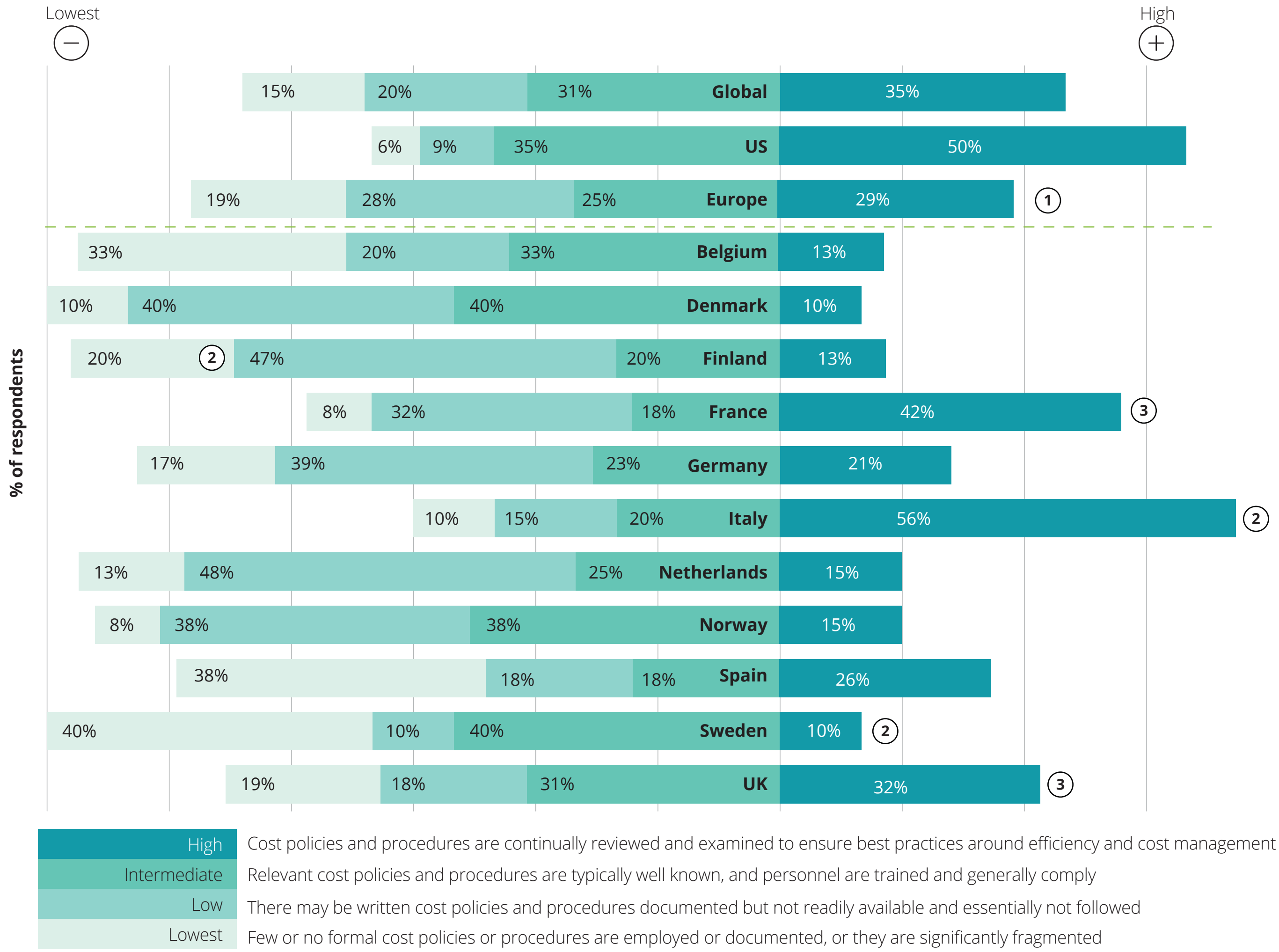
④ Italy generally has the highest ratings for lessons learned, especially for change-management activities.

Cost management maturity varies widely across Europe

On average, less than a third of European companies (29%) reported a high level of maturity in cost management. That number is 21 percentage points lower than US companies (50%), and six percentage points lower than the global average (35%) (see figure 24).

European countries with the largest proportion of companies reporting a high maturity level are Italy (56%) and France (42%). Companies in Denmark and Sweden reported the lowest maturity levels.

Figure 24. Cost management maturity levels



Survey findings

1. On average, only 29% of European companies report a high level of cost management maturity in cost management—21 percentage points lower than US companies (50%), and six percentage points lower than the global average (35%).
2. Italy has the largest proportion of companies with high maturity in cost management (56%), as well as the smallest proportion of companies with low maturity; Finland has the highest proportion of low maturity companies, and Sweden and Denmark have the lowest proportion of high maturity companies.
3. France and the United Kingdom have the second- and third-largest proportions of companies with high levels of maturity (42% and 32%, respectively).

Digital technologies and solutions applied to cost management in Europe

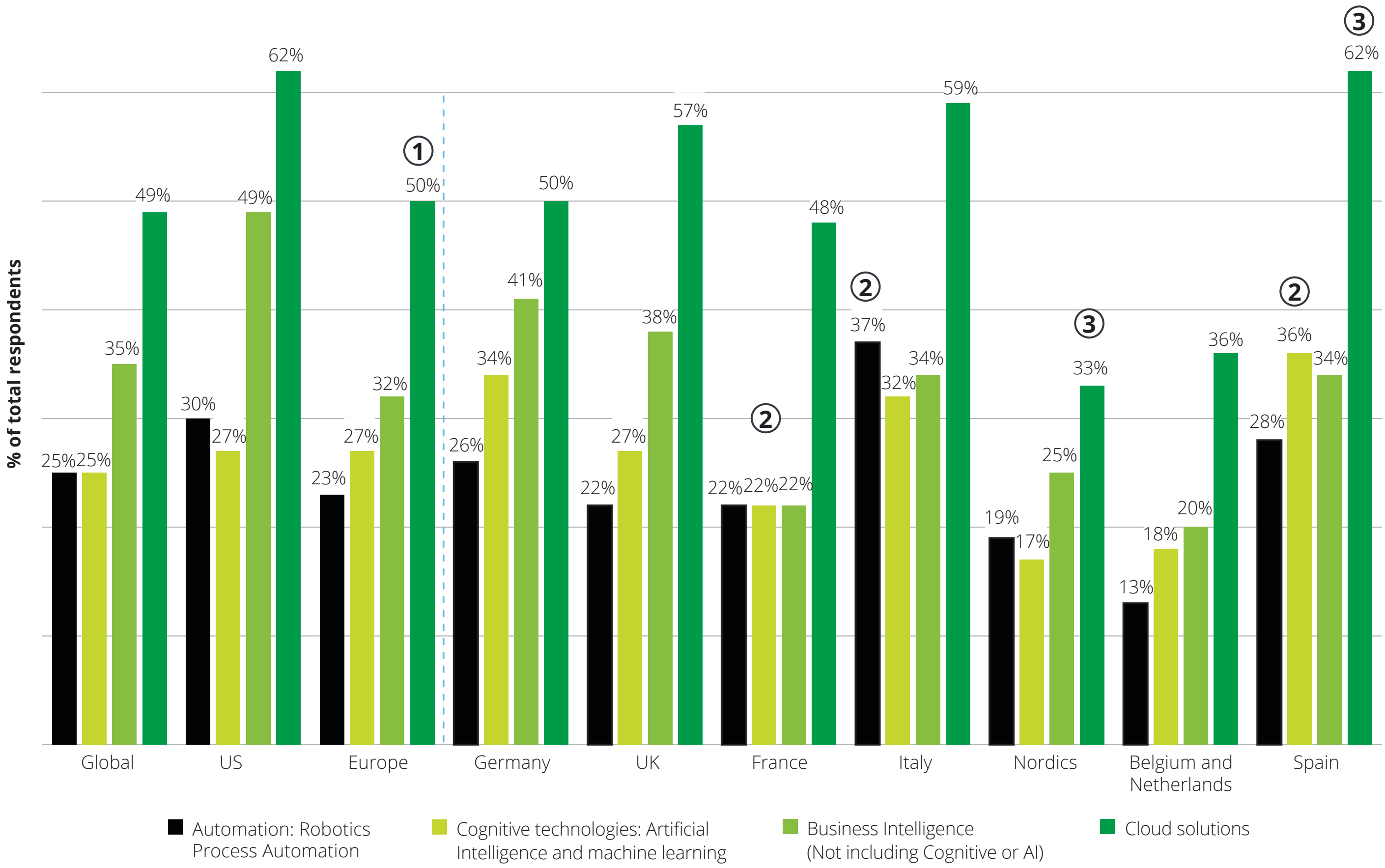
Digital technologies are having a major impact on all aspects of business, including cost management. Breakthrough innovations enabled by digital technology are enabling companies to operate and compete more effectively in an increasingly digital world. They also have the potential to enable new levels of cost savings.

Cloud soars above the rest

Among the breakthrough technologies in our survey, the technologies most widely implemented by European companies were cloud (50%) and business intelligence (32%) (see figure 25). Cloud was also the most widely implemented technology in the United States (62%) and globally (49%).

Technology implementation levels were relatively consistent across all of Europe. The notable exceptions were automation and cognitive, which were the two least implemented technologies in all countries except France, Italy, and Spain.

Figure 25. Technology implementation levels (past 24 months)



Survey findings

① Of the surveyed technologies, cloud continues to be the most widely implemented in Europe (50%), followed by business intelligence (32%).

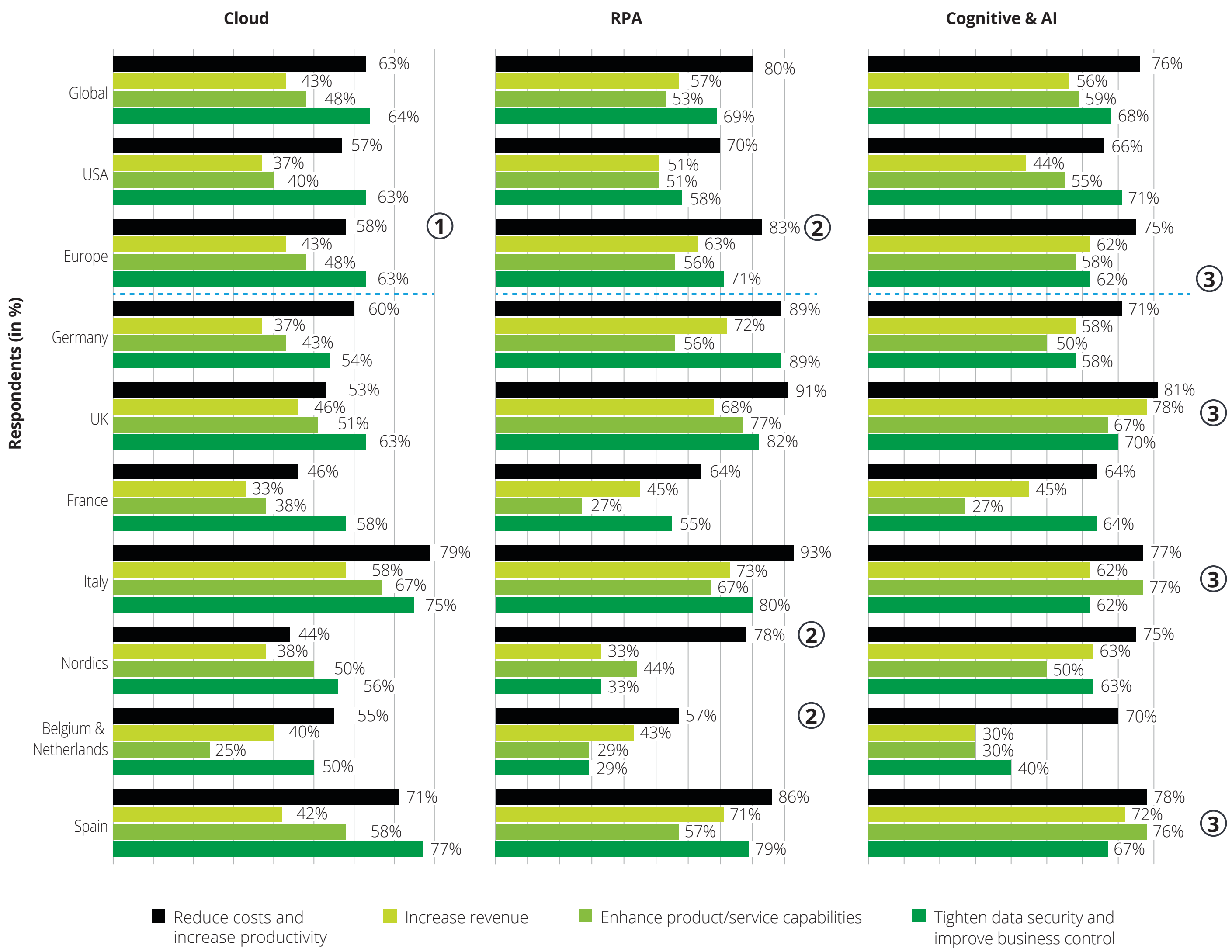
② Technology implementation levels exhibit a similar pattern across Europe, with automation and cognitive the least implemented, except in France, Italy, and Spain.

③ Spain has the highest level of cloud implementation (62%), matching the United States; at the opposite end, the Nordics have the lowest level of cloud implementation (33%).

Top reasons for applying digital technologies

In Europe, the top reason for respondents using cloud is tightening data security and improving business control (63%). This is consistent with the survey results for the United States (63%) and globally (64%). Reducing costs and increasing productivity is the top reason for using automation/RPA (83%) and cognitive/AI (75%), not only for Europe as a whole but for each of the surveyed countries individually (see figure 26).

Figure 26. Reasons for applying technologies



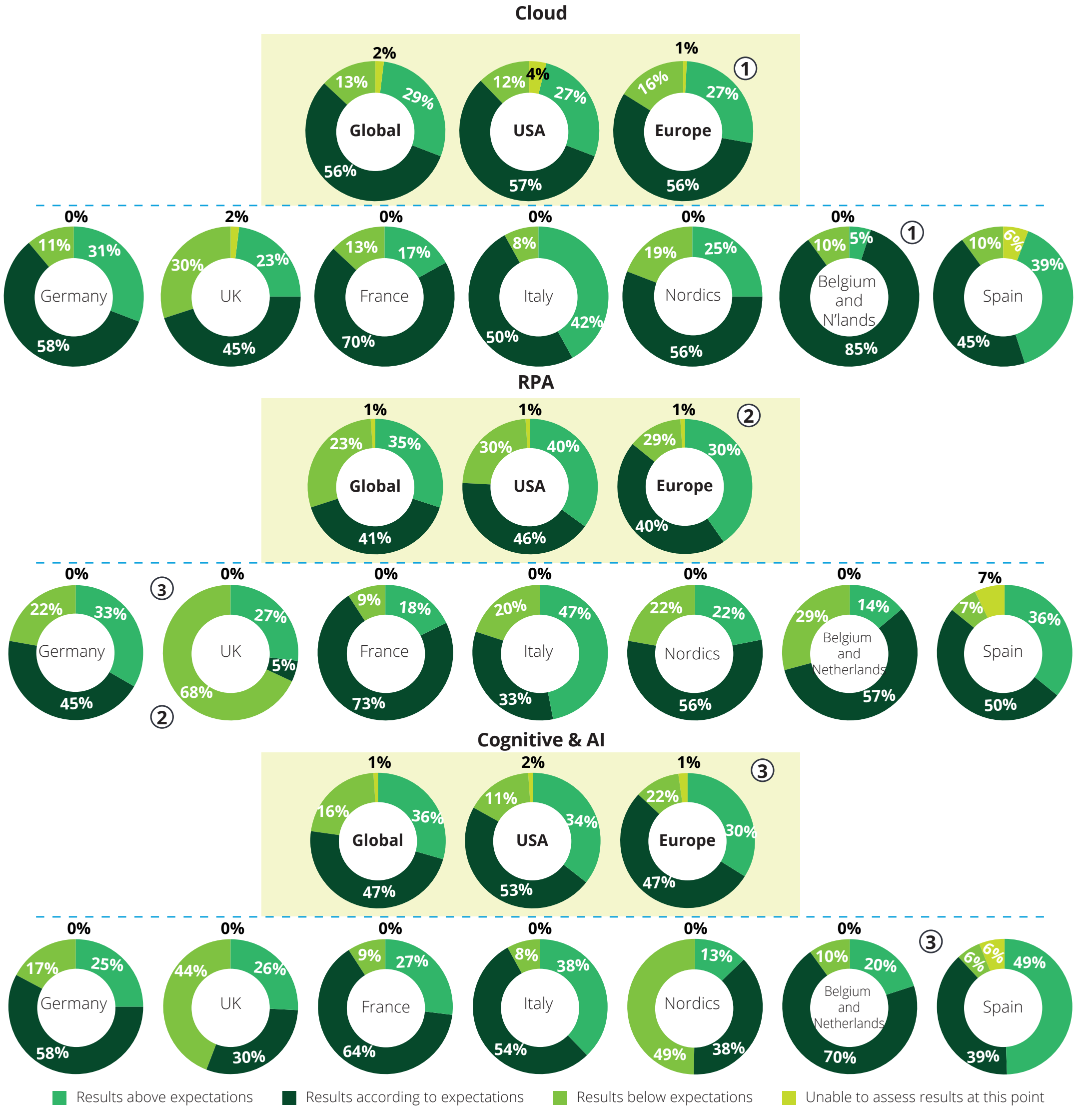
Survey findings

1. In Europe, tightening data security and improving business control is the top reason for applying cloud solutions; this is consistent with the United States and global results.
2. Reducing costs and increasing productivity is the top reason for applying RPA for Europe as a whole, and in each of the surveyed countries. This is followed by tightening data security and improving business control (except in the Nordics and Belgium and Netherlands).
3. For Cognitive & AI, reducing costs and increasing productivity is the top reason across Europe and in all countries; followed by tightening data security and improving business control, and then by increasing revenue (except in the United Kingdom, Italy, and Spain).

Most technology implementations meet or exceed expectations

When implementing each of the technologies covered by this year's survey, at least 70% of the respondents across Europe say their expectations were met or exceeded (see figure 27). For cloud, the number is 83% (56% met + 27% exceeded); for Cognitive and AI, the number is 78% (48% met + 30% exceeded); and for RPA, the number is 70% (40% met + 30% exceeded).

Figure 27. Implementation results



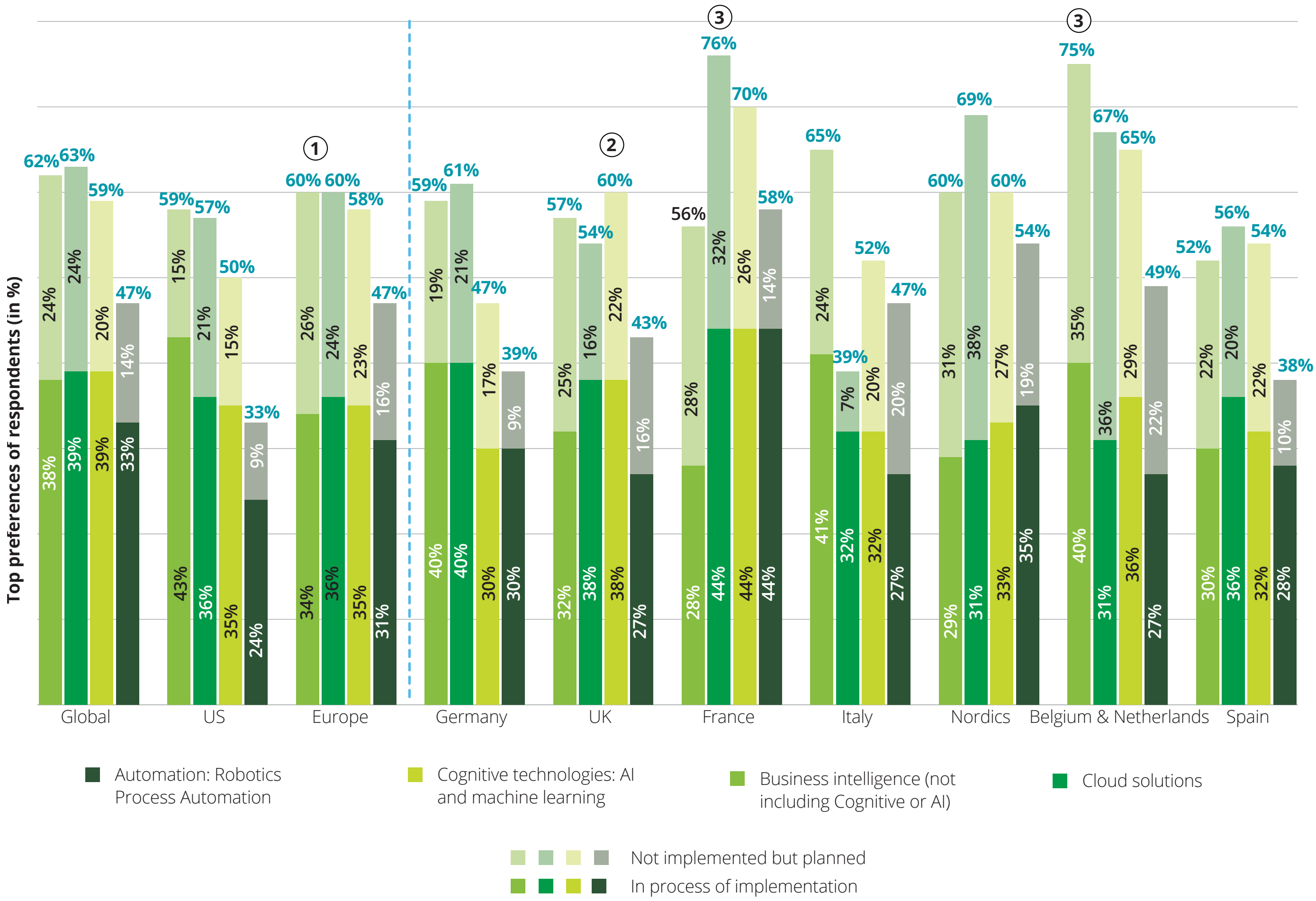
Survey findings

1. In Europe, 56% of the companies that implemented cloud had their expectations met, and 27% had their expectations exceeded; Belgium & Netherlands had the highest proportion of companies that had their cloud expectations met (85%).
2. When implementing RPA, 40% of European companies had their expectations met, and 30% had their expectations exceeded; the United Kingdom had the largest proportion of companies with RPA implementations that fell short of expectations (68%).
3. When implementing Cognitive & AI, 48% of European companies had their expectations met, and 30% had their expectations exceeded; Spain had the best results, with 39% of companies having their RPA expectations met and 49% having their expectations exceeded.

Europe is expected to set the pace for technology implementation

Over the next 24 months, implementation levels (in-process or planned) for all the surveyed technologies are expected to be slightly higher in Europe than in the United States and globally. Automation and cognitive are expected to be the most actively implemented technologies (see figure 28).

Figure 28. Technology implementation levels (next 24 months)



Survey findings

① Automation and cognitive are expected to be the most actively implemented technologies in Europe over the next 24 months; the lowest expected implementation level for any technology is 47%.

② Technology implementation patterns across Europe are expected to vary by country over the next 24 months; however, the top priority in all countries is either cognitive or RPA, except in the United Kingdom where business intelligence is the top priority.

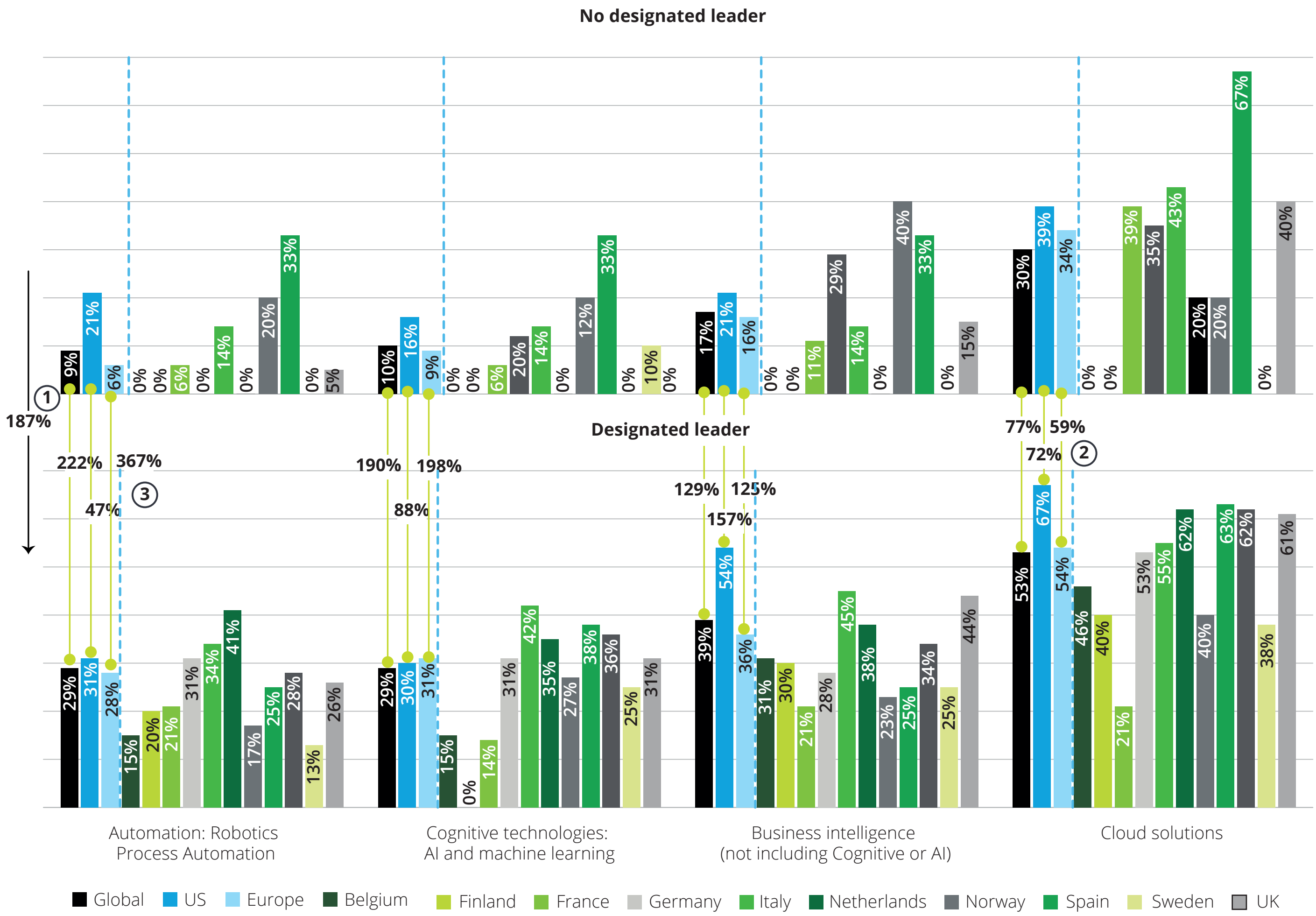
③ Over the next 24 months, 76% of respondents from France plan to implement cognitive, and 75% of respondents from Belgium and Netherlands plan to implement RPA—significantly more than in other European countries.

Designating digital leaders makes a difference

European companies with a designated digital leader have much higher levels of technology implementation—even higher on average than companies in the United States and globally. The impact of designating a digital leader varies across technologies, but on average the level of technology implementation is 187% higher (see figure 29).

RPA is the technology most affected by having a designated digital leader (+367%). Cloud is less affected, but still positive (+59%), and has the highest implementation levels overall—regardless of whether or not a digital leader has been designated.

Figure 29. Impact of a designated digital leader on technology implementation



Survey findings

1. The impact of designating a digital leader varies across technologies, but on average the level of technology implementation is 187% higher.
2. Cloud is the technology with the highest implementation levels, whether or not a digital leader is designated; it is also least affected by having a designated leader, although the impact is still very positive (+59%).
3. RPA is the technology most affected by designating a digital leader (+367%).

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

Cost management practices and approaches have grown increasingly sophisticated over time, with digital solutions—although still maturing—now representing the most advanced level of cost management. Companies that relied on more traditional cost management methods in the past are now finding that digital solutions can open the door to a whole new level of savings—as well as enable new and more innovative business models.

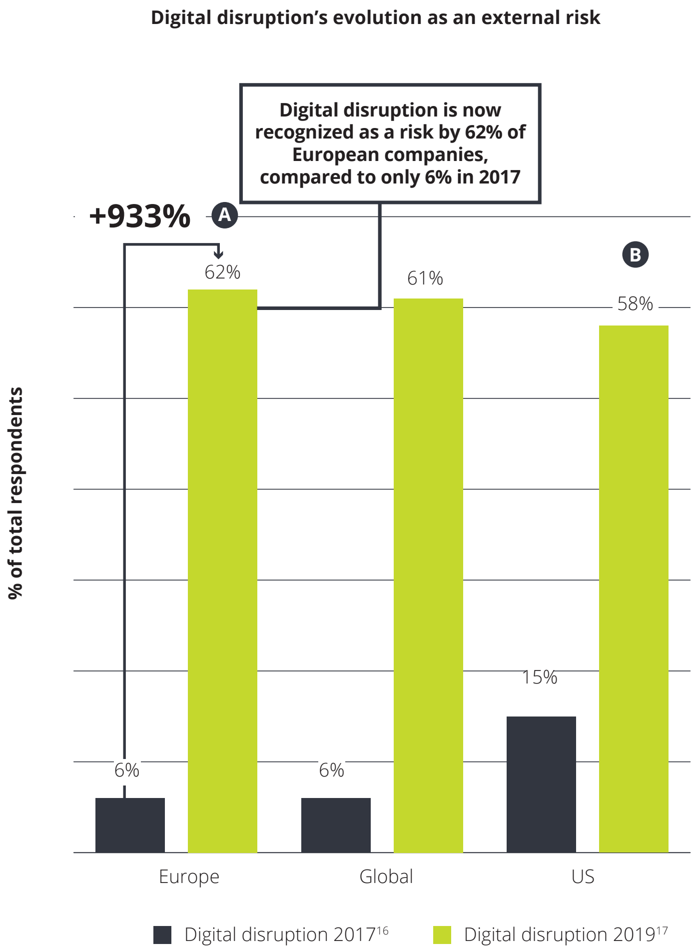
The rise of digital technologies and innovations is also contributing to a shift in how European companies approach cost management, with the save-to-grow mindset from 2016 steadily evolving into a save-to-transform mindset where investments in digital enablement and transformational technologies play a prominent role.

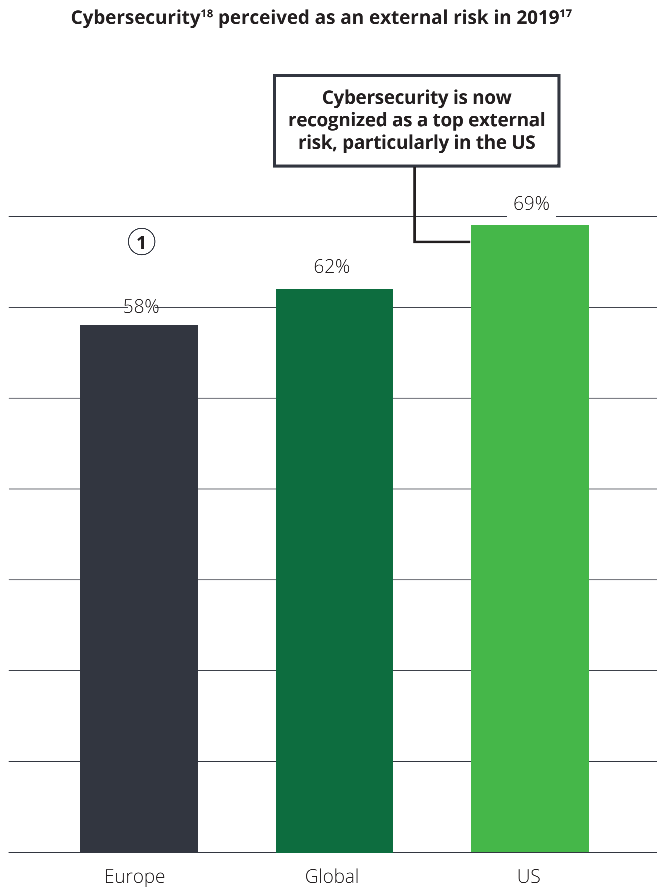
Digital rises to the top of the agenda

Digital disruption and cybersecurity are now both recognized as top external risks in Europe. In 2016, digital disruption was seen as an emerging and significant external risk by survey respondents in the United States but was barely on the radar in Europe (6%) and globally (6%). In this year's survey, however, 62% of European companies now cite digital disruption as a key external risk, which represents a 933% increase in awareness (see figure 30).

Meanwhile, cybersecurity continues to be recognized as one of the top three external risks in Europe, although at levels somewhat lower than in the United States (69%) and globally (62%).

Figure 30. Digital-related business risks





- **A** Digital disruption is cited as an external risk by a greater percentage of companies in Europe than globally and in the United States.
- **B** In 2017, digital disruption was mostly recognized in the United States.

1. Cybersecurity is now perceived as a top external risk in Europe, although at lower levels than globally and in the United States.
   - Cybersecurity is ranked as a top three external risk in Europe, but is the top external risk globally and in the United States .

[16] Thriving in uncertainty in the age of digital disruption, Deloitte's first biennial global cost survey report, December 2017.
[17] Save-to-transform as a catalyst for embracing digital disruption, Deloitte's second biennial global cost survey report, April 2019.
[18] Cybersecurity was included for the first time in the 2019 report.

Save-to-grow

In the recent past, most companies were firmly grounded in save-to-grow mode where cost and growth are the main levers, with talent (including capabilities) as another key component (see figure 31). Cost reduction is a high priority, with the savings used to fund growth initiatives and strategic investments to support a differentiated business strategy.

Figure 31. The continuum of cost management approaches[19]

Turnaround

Save-to-turnaround. Focus on immediate actions to reduce costs, maximize liquidity, achieve stability, and capture savings to avoid further deterioration of the business.

Fund

Save-to-fund. Focus on actions that help improve cost and competitive position; avoid cuts that might inhibit future growth; rebalance costs to fund investment in business strategy enablers.

Grow

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

Transform

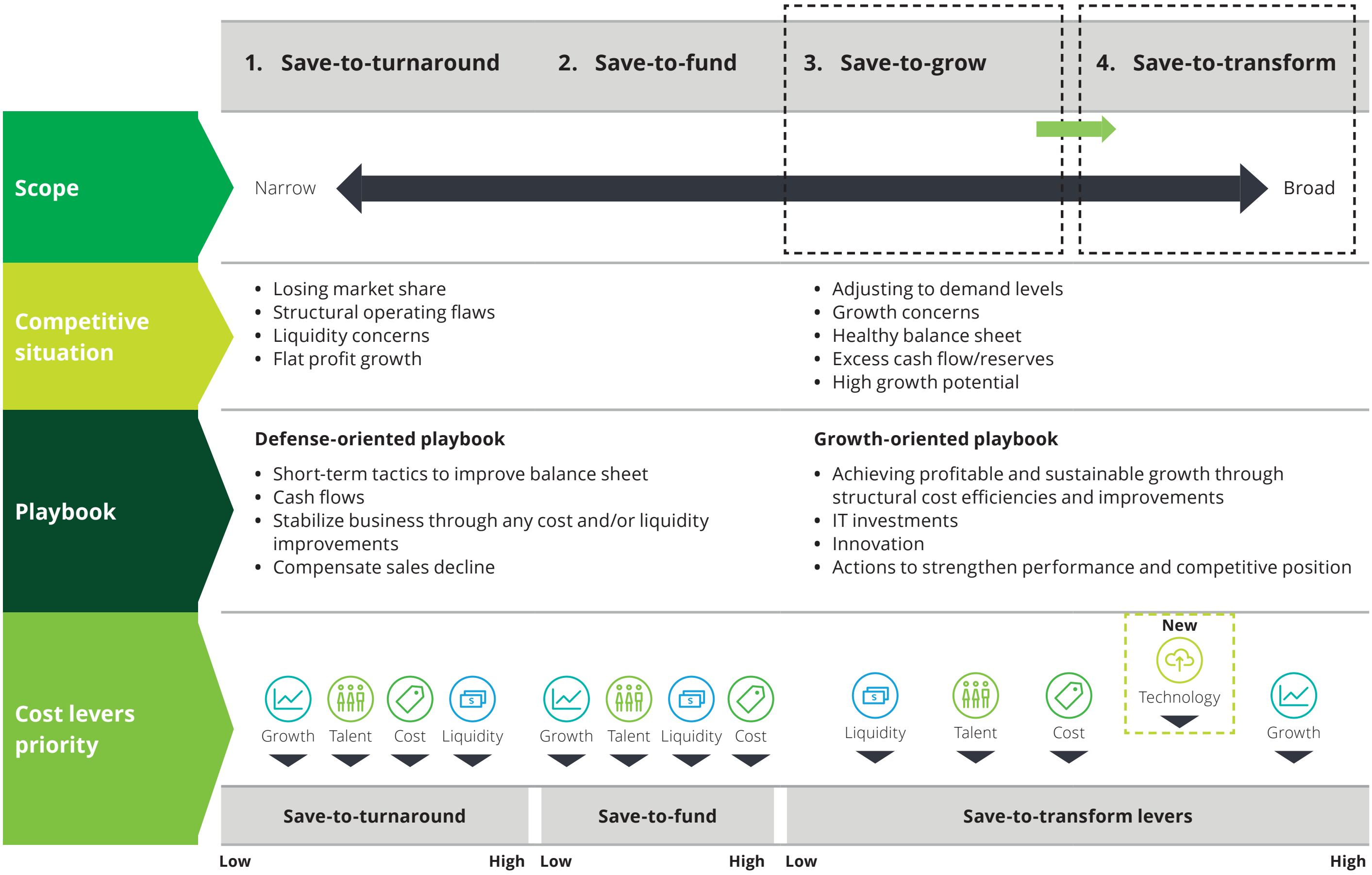
Save-to-transform. Invest in digital technologies and technology infrastructure to make operations more efficient and effective, enabling new and more agile business models to prosper in a digitally disrupted market.

[19] Source: Deloitte Consulting LLP

Save-to-transform

Now, many companies are moving into save-to-transform mode, with the save-to-grow approach expanding to include a strong focus on digital enablement and technologies that can transform the business and help it capitalize on the vast opportunities of an increasingly digital world (see figure 32).

Figure 32. Save-to-grow expands into save-to-transform

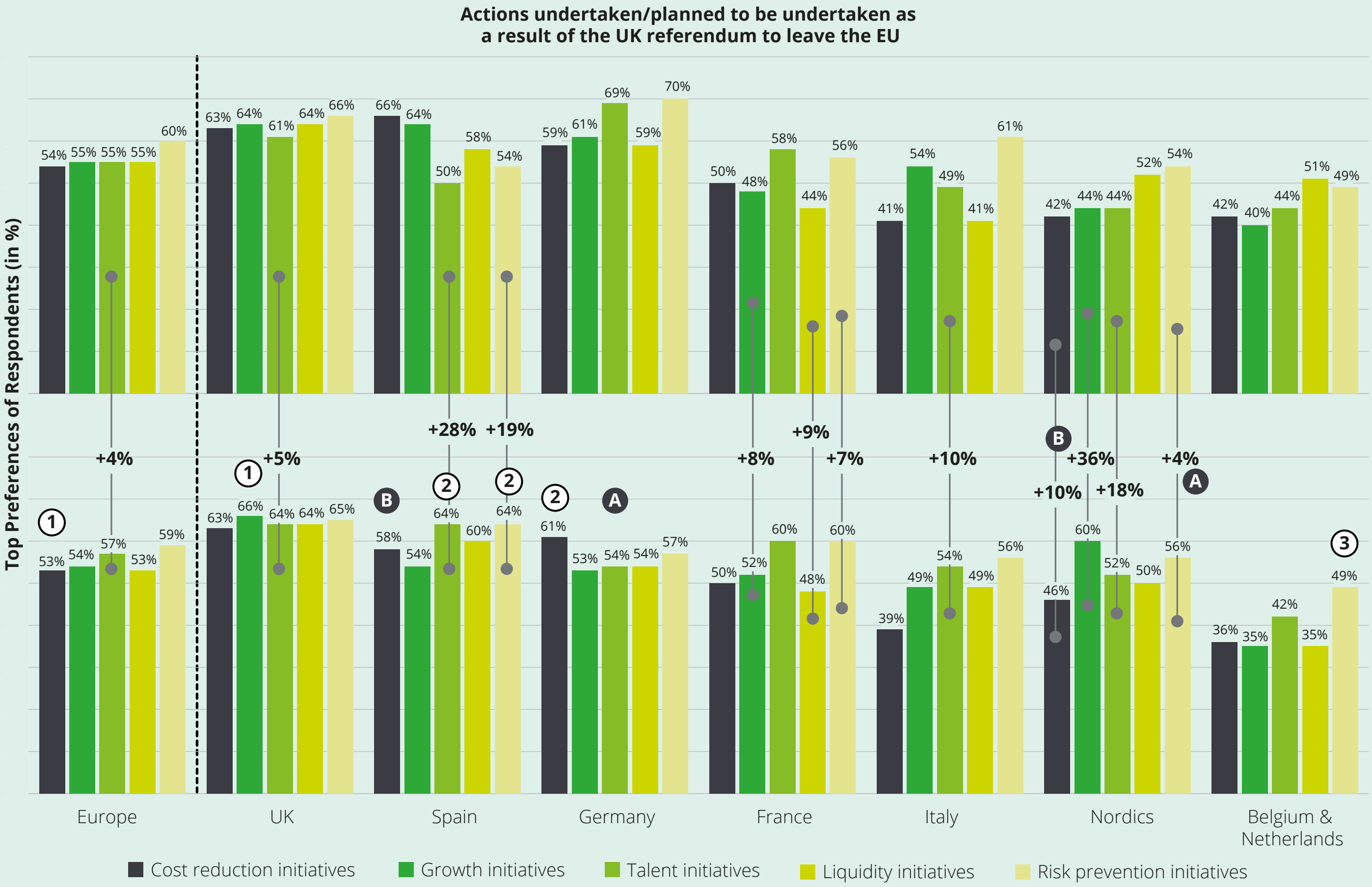


Appendix A: Cost management practices as a result of Brexit

On average, the level of Brexit-related actions across Europe is expected to remain similar to past levels. Not surprisingly, the United Kingdom has the highest percentage of respondents taking (or planning to take) Brexit-related cost actions over the next 24 months (63%). In the United Kingdom, future activity is generally at the same high level as prior activity (see figure 33). A high level of Brexit-related cost reduction activity is also expected in Germany (61%) and Spain (58%).

Respondents in Spain also expect to significantly increase their talent initiatives (+28%), while respondents in the Nordics predict an even larger increase in their growth initiatives (+36%), perhaps as a means to capitalize on economic opportunities enabled by Brexit.

Figure 33. Brexit-related actions



Survey findings

1. On average, Brexit action levels in Europe are expected to remain similar to the past.
   - In the United Kingdom, action levels are expected to remain consistent; however, there is great variability in other countries, with the Nordics, France, and Spain planning to take more actions, and Germany and Belgium and Netherlands planning to take less.
2. Beyond the United Kingdom, Spain and Germany are the two countries expecting to undertake more action than average over the next 24 months, with Spain focusing on risk and talent initiatives and Germany on cost reduction.
3. Belgium and Netherlands have the lowest percentage of respondents expecting to undertake Brexit-related actions over the next 24 months (on average, 40% less than the other countries in Europe).

A. United Kingdom and Germany reported the highest levels of actions over the past 24 months

B. Nordics are the countries in which actions to be undertaken are expected to grow the most (on average, +6%); Germany expects the greatest decrease (on average, –7%)

Looking ahead

Save-to-transform can not only help a company capitalize on digital opportunities, it can also position the company to withstand potential adversity that may be on the horizon by using the power of digital solutions as the key to unlock new levels of cost savings.

Authors

Omar Aguilar
Principal
Deloitte Consulting LLP
Strategic Cost Transformation
Global Market Offering Leader
oaguilar@deloitte.com
USA +1 215 870 0464
International +1 267 226 8956

Contributors

David Izquierdo Sánchez
Senior Consultant | Monitor Deloitte
Deloitte Consulting, SLU
dizquierdo@monitordeloitte.es

Sakshi Kastiya
Consultant | Strategy & Operations
Deloitte Consulting India Private Limited
skastiya@deloitte.com

Contacts

Global

Omar Aguilar
Principal
Deloitte Consulting LLP
+1 267 226 8956
oaguilar@deloitte.com

Europe

Alexander Kainer (Austria)
Partner
Deloitte Services
Wirtschaftsprüfungs GmbH
+43 664 805 372 800
akainer@deloitte.at

Catherine Hannosset (Belgium)
Partner
Deloitte Belgium
+ 32 494 56 68 55
channosset@deloitte.com

Zlatko Bazianec (Croatia)
Partner
Deloitte Croatia
+385 1 2351 906
zbazianec@deloittece.com

Ulrik Bro Muller (Denmark)
Partner
Deloitte Denmark
+45 30 93 40 13
umuller@deloitte.dk

Tuomo Saari (Finland)
Partner
Deloitte Finland
+35 8207 555 358
tuomo.saari@deloitte.fi

Olivier Perrin (France)
Partner
Deloitte France
+33 6 87 14 17 38
operrin@deloitte.fr

Alexander Mogg (Germany)
Partner
Deloitte Consulting GmbH
+49 151 5800 1290
amogg@deloitte.de

Alan Flanagan (Ireland)
Partner
Deloitte
+35 314 172 873
aflanagan@deloitte.ie

Umberto Mazzucco (Italy)
Equity Partner
Deloitte Consulting SRL
+39 0283323053
umazzucco@deloitte.it

Willem Christiaan van Manen (Netherlands)
Partner
Deloitte Consulting B.V.
+31 882883118
wvanmanen@deloitte.nl

Bjorn Grenman (Norway)
Partner
Deloitte AS
+47 911 61 726
bgrenman@deloitte.no

Irina Biryukova (Russia)
Partner
Deloitte Russia
+74 957870600
ibiryukova@deloitte.ru

Gorka Briones (Spain)
Partner
Deloitte Consulting, S.L.
+34 914432520
gobriones@deloitte.es

Jonas Malmlund (Sweden)
Partner
Deloitte Sweden
+46 75 246 33 03
jmalmlund@deloitte.se

Hugh Macquarrie (Switzerland)
Partner
Deloitte Consulting AG
+41 795 298 228
hmacquarrie@deloitte.ch

Lorraine Barnes (UK)
Partner
Deloitte MCS Limited
+44 7765 897434
lobarnes@deloitte.co.uk