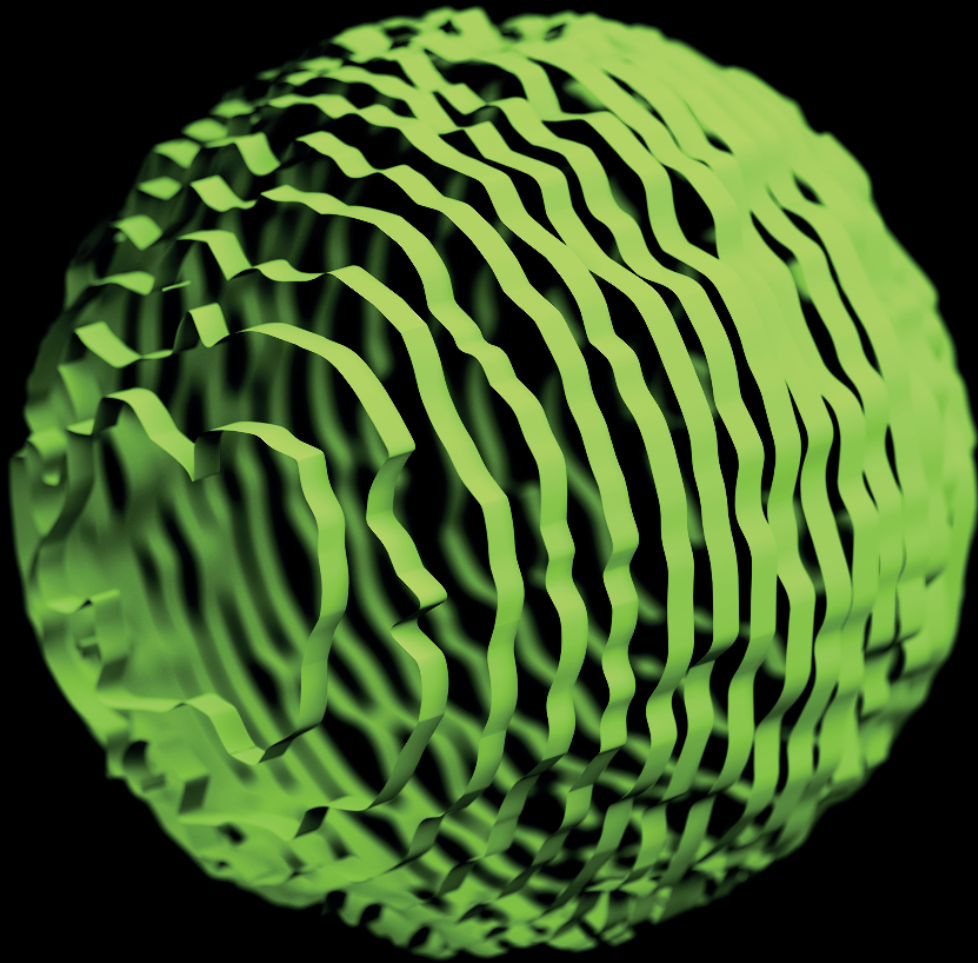


**Deloitte.**



A sustainable and  
measurable approach  
to People Cost  
Transformation

September 2024



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# Need for a comprehensive approach to organisation and people cost transformation

The evolving external macroeconomic trends, technological advancements and intelligent automation, coupled with talent and capability shortages, have pressured organisations to follow sustainable cost structures with the right capabilities for effective growth. Even profitable organisations across various industries, including consumer goods makers, heavy manufacturing, enterprise software and technology, have either announced layoffs or plan to cut down on costs and discretionary spending. Deloitte's 2024 Global Human Capital Trends report also emphasizes prioritising human performance and alternate productivity measures in an era of human-centered work, new data sources and artificial intelligence.

Cost transformation initiatives, especially people cost transformation, although strategic can often go wrong if not approached holistically.

Many cost-reduction initiatives have a short-term focus solely on reducing people costs, leading to a proportional cut across various functions without considering the strategic needs

of that function or the overall organisation. Although this equitable and fair approach reduces complications, it often results in the organisation missing opportunities to reflect upon critical initiatives that can lead to process improvements or how intrinsically organisations manage their people costs.

Instead of short-term cost cuts that can be detrimental, organisations can consider implementing cost transformation strategies that support long-term business and talent priorities.

Picture a large technology company striving to meet the EBITDA targets set by the board. They define the people cost savings mandate, primarily in the 8–12 percent range across functions. However, the organisation needed to invest in certain areas, such as technology and product management, to align with its strategy and goals. The organisation could downsize enabling functions with substantial duplication, such as Finance and HR, without business risk. As the organisation cut costs uniformly, critical functions, such as technology started asking for additional resources to support growth while duplication and inefficiency continued in enabling areas.



## Traditional cost reduction...



is based on blunt headcount reduction, which is unsustainable and can even backfire.



ignores or underplays the importance of employee engagement.



thwarts growth and innovation—aggressive cost reduction can drain resources from high-impact innovation projects.



## Cost transformation should...



be holistic, considering all cost drivers across the organisation's value chain.



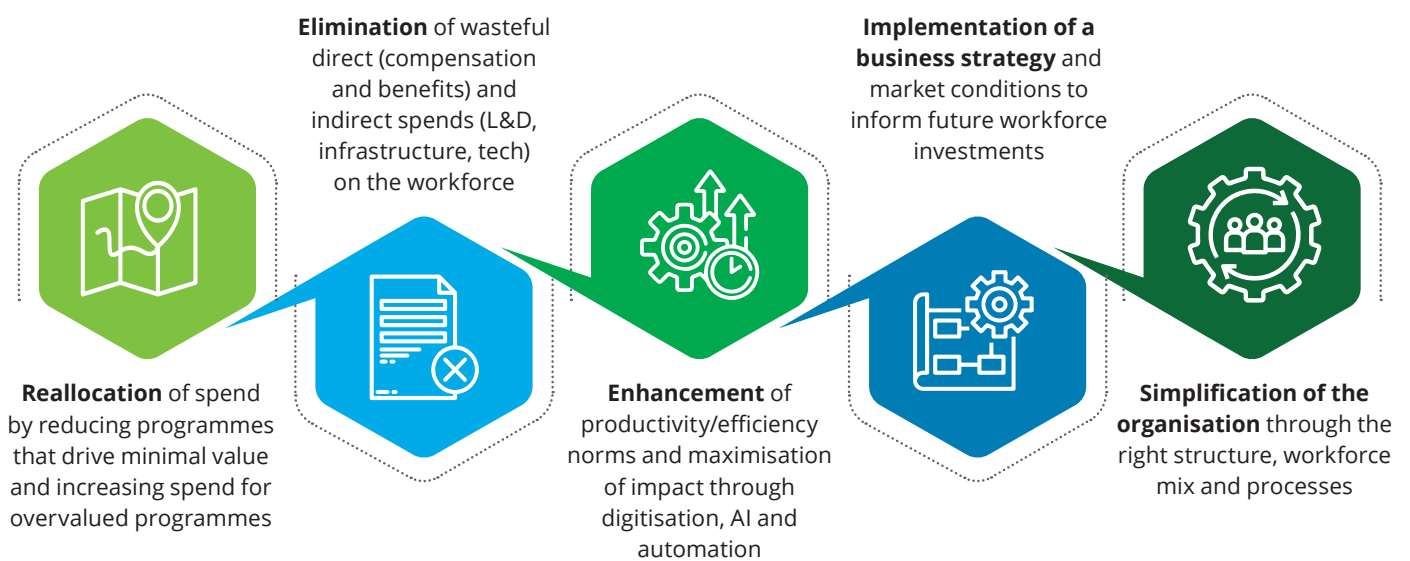
recognise that organisations with high levels of employee engagement are 21 percent more profitable and 3X faster at growing profits than their competitors.<sup>5</sup>



create the capacity to take on growth and innovation opportunities an organisation must pursue to succeed.

# Need for a holistic approach: A balance-sheet view

A holistic approach to people cost transformation accounts for short-term gains and sustainable long-term measures that do not hinder strategic objectives. In this, people cost optimisation and investments need to be evaluated from an RoI mindset. The Human Capital Balance sheet<sup>1</sup> is an incredible approach that aids leaders to look at people costs from a holistic perspective to harness the power of organisational effectiveness through several components such as:








Key levers must be considered and activated to ensure that all aspects of the HC balance sheet are holistically considered to drive a strategic people cost transformation programme.



# Carefully chosen levers to drive a holistic approach

Deloitte's OSSIS framework is robust and highly adaptable, and it can undertake people cost transformation programmes. This framework allows organisations to look at people costs through five cascading layers and reduce costs while preserving and/or advancing strategic goals.

OSSIS cost transformation framework			
Areas	Cost transformation levers	Typical impact	Sample use cases
 <p><b>Strategic levers</b></p>	<ul style="list-style-type: none"> <li>Strategic business model changes</li> <li>Operating model shifts</li> </ul>	15–20%	<ul style="list-style-type: none"> <li><b>Close stores/branches/offices</b> based on business model changes, value additions, etc.</li> <li>Move from an agile yet expensive regional/geographic model to an integrated and cost-efficient functional/product-centric model</li> </ul>
 <p><b>Intrinsic levers</b></p>	<ul style="list-style-type: none"> <li>Service delivery model—shared services</li> <li>Location strategy—offshoring/nearshoring</li> <li>Outsourcing</li> <li>Technology adoption and digitalisation</li> </ul>	10–15%	<ul style="list-style-type: none"> <li><b>Relocate</b> enabling functions (HR, finance, audit, technical cell, manufacturing, excellence, etc.) <b>to a low-cost offshore location</b></li> <li>Consolidate transactional, low-skilled work through <b>shared services</b> (e.g., invoice processing)</li> </ul>
 <p><b>Structural levers</b></p>	<ul style="list-style-type: none"> <li>Spans of control optimisation</li> <li>Organisation de-layering</li> <li>Pyramid corrections</li> <li>Centralisation/Decentralisation</li> <li>Role consolidation</li> <li>Elimination of role overlaps and redundancies</li> </ul>	10–15%	<ul style="list-style-type: none"> <li>Remove <b>“shadow” support groups</b> that are replicated within the core business and, where required, create “scarce” versus “service” support groups</li> <li>Centralise merchandising support groups (e.g., modular planning, product development, promos, events) while ensuring “core buying” retains focus</li> <li>Identify and rationalise <b>pure-aggregator layers</b> in organisations. Expand spans of control wherever it is less than three</li> </ul>
 <p><b>Systemic levers</b></p>	<ul style="list-style-type: none"> <li>HR fixed cost optimisation</li> <li>Zero-based HR budgeting</li> <li>Job levelling and regrading</li> <li>Compensation parity</li> <li>Role/grade inflation correction</li> </ul>	8–10%	<ul style="list-style-type: none"> <li>Rationalise <b>HR fixed-cost investments</b> in technology licences, service contracts, allowances, benefits, etc.</li> <li><b>Zero-based budgeting</b> on increments, bonuses and other allowances</li> <li>Evaluate relative job worth using a job evaluation methodology and <b>regrading roles/ fitting to the right compensation bands</b> to arrest cost escalation due to tenure</li> </ul>
 <p><b>Operational levers</b></p>	<ul style="list-style-type: none"> <li>Productivity improvement</li> <li>Elimination of NVA work</li> <li>Activity-based work loading/collaboration</li> <li>Rationalisation of remuneration increments/ bonuses</li> <li>Tooth-to-tail ratio correction</li> </ul>	5–8%	<ul style="list-style-type: none"> <li>Determine FTE allocation based <b>on complexity factors</b> such as SKUs, suppliers, customers, geographic complexity</li> <li>Reduce the degree of detail required in reporting and <b>rationalise the frequency of work</b> through a risk-based approach</li> </ul>

Key considerations that may be looked at include the following:



**Strategic:** As part of the strategic direction of the organisation, determine WHERE TO PLAY (products and services that will lead us to our goals and/or products and services that need to be re-evaluated or discontinued; geographies to enter or exit), HOW TO WIN (re-evaluate Go-To-Market (GTM) model to consider adding some channels and/or reducing spends on some others); re-look at operating model choices to be more cost-efficient.



**Intrinsic:** Determine how to reduce complexity in the organisation

- a. **Outsourcing and shared services:** Outsourcing non-core functions to external providers can lead to significant cost savings. Further, consolidation of functions into shared services centres streamlines operations and reduces redundancies, which can be especially effective in standardised processes across multiple business units.
- b. **Location strategy and offshoring:** Assessing geographic factors for operations can uncover cost-saving opportunities. Relocating operations or offshoring to regions with lower labour costs can significantly reduce expenses without sacrificing quality.
- c. **Technology and AI adoption:** Introducing intelligent automation in routine, low-value tasks saves costs and reallocates human resources to higher-value functions, boosting overall productivity and reducing errors. Multiple use cases have evolved with the emergence of GenAI, illustrating the breadth of work that can be augmented. GenAI can bolster innovation, productivity and outcomes while making work easier for people. People can use GenAI to complete tasks faster and more easily because technology has evolved, and certain tasks can be assigned differently to expedite operations.<sup>2</sup> A study estimates that 80 percent of the US workforce could have at least 10 percent of their tasks freed up by machines, while 19 percent could have at least 50 percent of their tasks automated.<sup>2</sup>

### Impact of AI on work and workforce<sup>2</sup>

1. **Work:** Opportunity to evolve the nature of work to transition from repeatable tasks to more meaningful and value-driven work especially routine cognitive jobs, creative jobs, data analyst jobs, etc. For example, research has observed a 14 percent productivity increase among contact centre agents who used a conversational AI assistant. Also, large language and image models are potentially affecting creative professions, by automating the generation of text and images, such as articles, ads and artwork.
2. **Workforce:** The skill landscape will evolve across organisations and sectors. While some skills will be augmented by AI, others may be automated, and some new skills, such as GenAI fluency, will possibly be woven into work across functions. More organisations are emphasizing and looking to re-skill their workforce in this GenAI era as skills-based organisations get results. Per the Deloitte Skill-based Organisation Survey, organisations that embed a skills-based approach are 63 percent more likely to achieve results than others.



**Structural:** Determine which capabilities to focus on and what benefits will be reaped while improving upon existing capabilities and the addition of new capabilities.

- a. **Taking a capability view of the organisation**
  - i. Are the critical roles being filled by the right talent?
  - ii. Are there any employees that are ineffective in their current role?
  - iii. Do we need to add muscle in enabling functions such as finance and IT or front-line revenue-generating functions?
- b. **Strategic workforce planning**

Aligning the workforce with future business goals helps identify necessary skill sets and adjust staffing levels. This planning involves scaling down where necessary and strategically hiring in key growth areas.

For example, overseeing external demand factors (product or service) and internal demand factors (estimated growth in customer base) and matching that with external and internal talent supply to determine staffing requirements.

c. **Role-based managerial span of control and layers in the organisation**

Adjusting the span of control—the number of direct reports per manager can lead to flatter organisational structures. This reduces management layers, speeds up decision-making and cuts costs associated with middle management.

For example, administering span outliers at either end of the spectrum (spans higher than 10 or lower than 3) and functional hierarchies longer than 4–5 layers.



**Systemic:** Determine if there are some hidden pockets of inefficiencies.

a. **Compensation philosophy and strategy**

Relooking at the compensation philosophy armed with levers such as pay parity (internal and external), level-based compensation and annual budgeting in line with industry norms can lead to a significant impact in a short time.



**Operational:** Understand the inefficiencies/wastages against norms.

a. **Productivity standards re-evaluation**

Considering supplementing traditional processes with digitisation and automating operations, organisations can bump up existing productivity standards across functions.

Key examples: Re-evaluation of field sales productivity in light of automation in order booking and digital CRM.

b. **Elimination of Non-value adding work (NVA)**

NVA activities are defined as a waste of time, resources and quality. Organisations can eliminate these to speed up work and increase productivity.

Key examples: Moving of files physically from one department to another, which can be eliminated either by a document management system or delegating to contractual/blue-collar workforce, if unavoidable

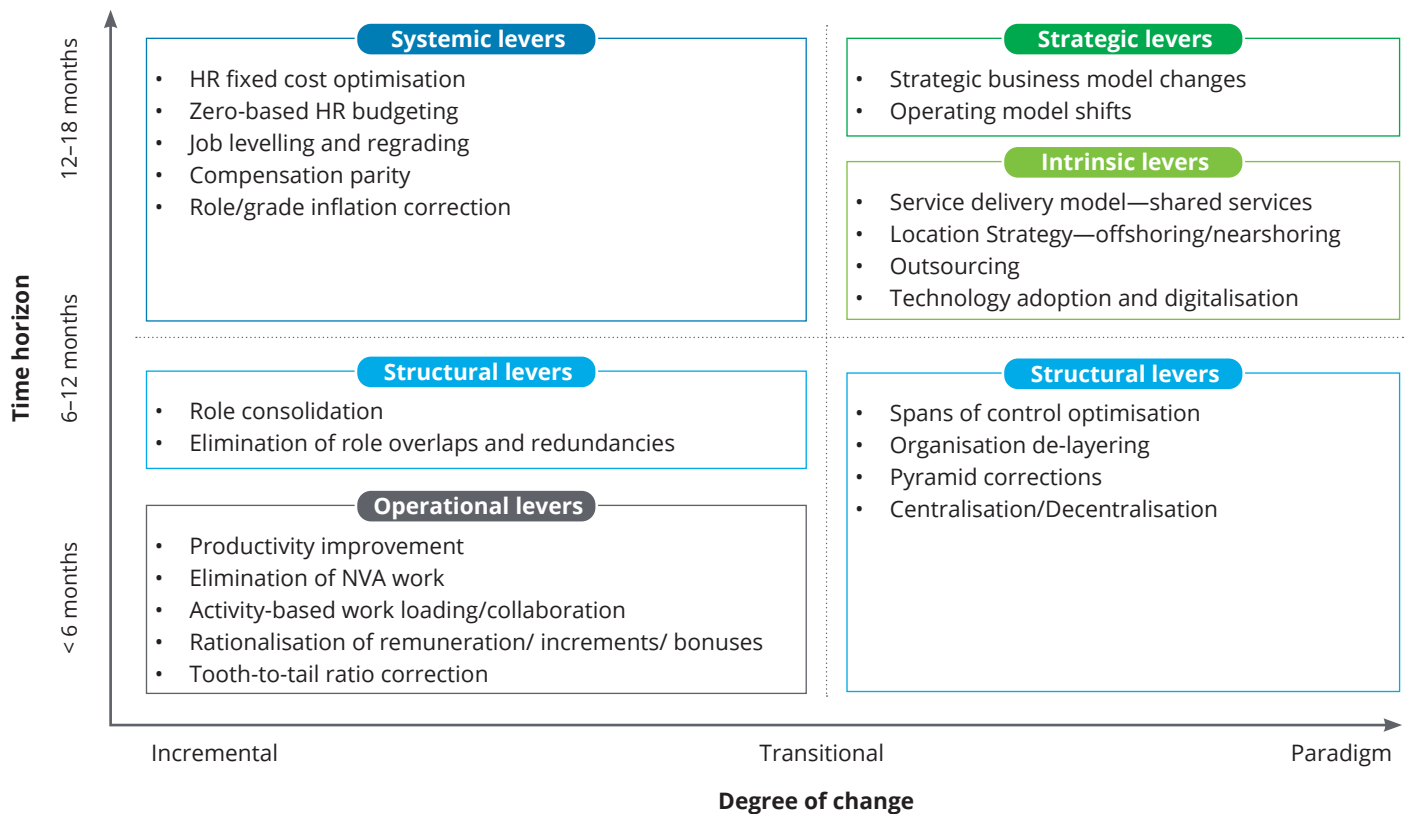






While activating/applying the levers, it is also important to understand the following key questions:<sup>3</sup>

1. How much time does the organisation need to achieve cost savings?
2. What is the appetite of the organization to re-look at the current approach of cost optimization?



### Insights in action: Case study 1

Deloitte helped a global retailer based out of South Africa to streamline functions, gain efficiencies and remove duplications across multi-divisional structures. As part of the engagement, Deloitte developed a future state operating model for each functional area and required FTE estimations. A combination of multiple levers was used to derive FTE numbers. For example, from a structural perspective in the marketing function, the scope of brand and creatives was enlarged to cover multiple banners and centralisation of analogue media buying, leading to positional efficiency gains. Additionally, some activities such as DTP, ad-production ops and event execution were recommended to be outsourced. In the IT function, a flatter structure with larger roles was implemented to improve decision-making and speed to market and optimise spans of control to ensure efficient, affordable structure and broader accountability.

# An approach to maximise impact and sustain value



## Value discovery

This is essentially a rapid diagnostic phase wherein the organisation must apply a top-down approach by collecting data from various sources, assessing key productivity metrics and benchmarking against relevant industry ratios to create/identify a probable list of high-level opportunity areas. This is often followed by an estimation of the opportunity size, business case building and prioritisation of the opportunity areas that need to be focused on for the feasibility analysis. In this phase, the savings accuracy is typically around 50–60 percent.



## Value feasibility

For the prioritised opportunity areas, the organisation needs a detailed design or the to-be organisation structure, service delivery models, roles and staffing/headcount requirements based on feasibility. It is also critical to detail cost-saving targets, outline phasing options, priorities, pilots, high-level milestones and implementation plans and align with stakeholders, ultimately resulting in implementation charters with defined accountabilities and targets.

Achieving buy-in across various business units and geographies is often a significant hurdle. The success factor here lies in effectively communicating the value of cost transformation, aligning it with the broader organisational strategy and addressing concerns about change.



## Value realisation

The realisation phase may start simultaneously with the feasibility analysis phase. Organisations need to identify quick wins as part of the feasibility phase and move them to realisation at the earliest. The organisation must see some benefits early to remain invested in the larger cost transformation journey.

Collaboration between HR and Finance teams is crucial for success in the realisation journey. An effective partnership between these two functions can ensure a comprehensive understanding of the financial implications of the initiatives being implemented and the benefits being realised. Successful initiatives need to have cross-functional collaboration mechanisms aligning financial and human resource strategies.

In case of retrenchment/layoffs/job losses, some additional measures need to be undertaken, such as planning key activities, phasing the layoff roadmap, training HR employees to communicate effectively with affected employees, complying with relevant labour laws and regulations, drafting a financially viable and fair severance plan for affected employees, planning for employee response and redistribution of roles and responsibilities to ensure continuity.



## Value sustenance

Sustenance of cost transformation initiatives can be delivered with some very fundamental approaches such as:



**Envisioning what success looks like:** It is important that cost optimisation initiatives be spread over a timescale depending on ease of implementation and criticality. Quick wins that can be delivered within 0–3 months instil a sense of success that can propel the organisation towards this journey. On the other hand, being too ambitious may lead to fragmentation of efforts and complacency.



**Continuous monitoring:** A transformation management office with the support of senior leadership goes a long way in tracking implementation initiatives and ensuring stakeholder interest and buy-in. Defining and tracking KPIs and success metrics during the baselining and post-transformation phase helps in data-driven adjustments and sustained efforts to cost transformation initiatives.



**Review and align:** Implementation plans must align with the organisation's future. Alignment and communication of intra and inter-function priorities within the organisation can remove roadblocks and re-allocate resources, reducing uncertainty in execution.

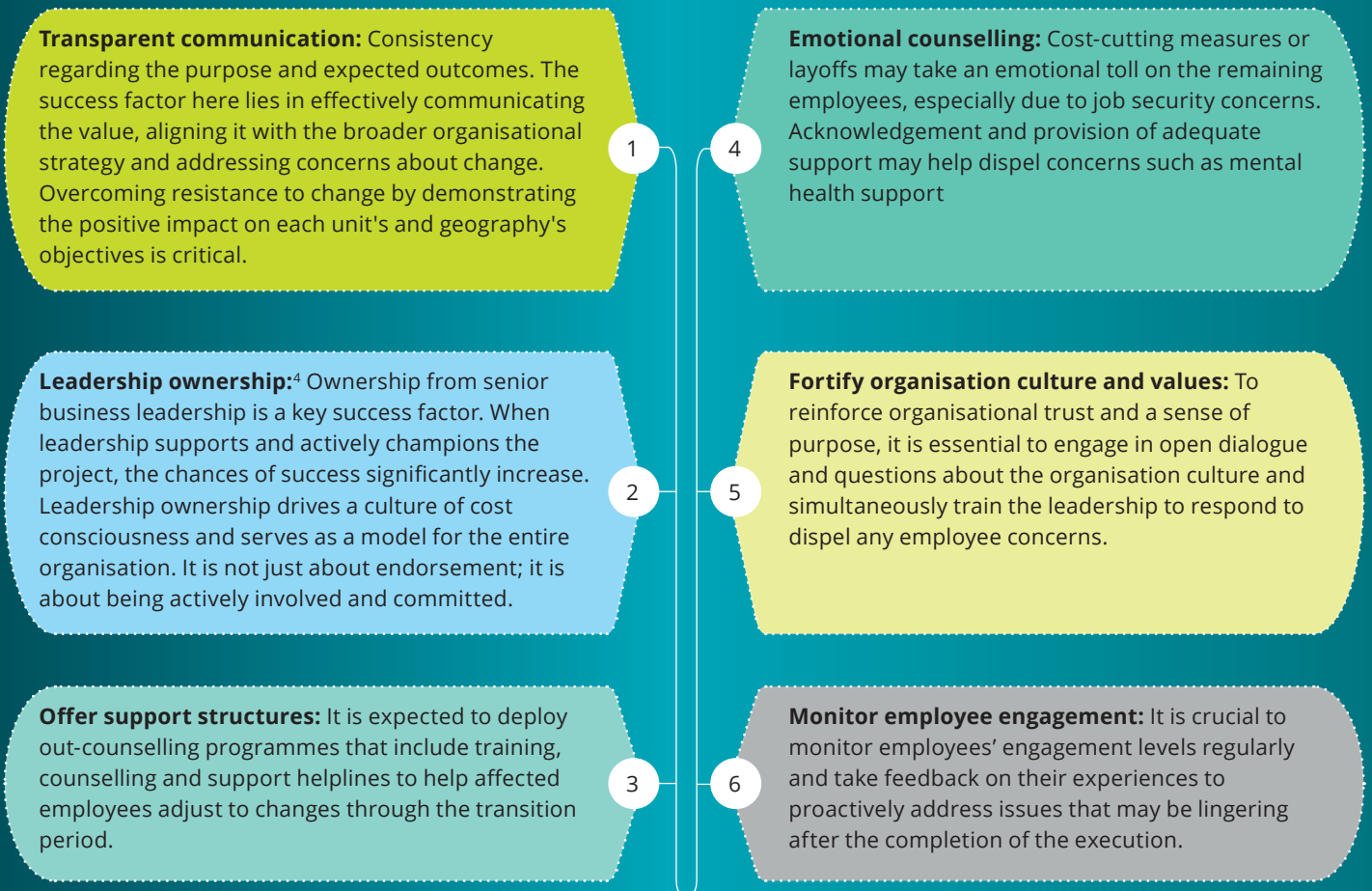


**Data availability and consistency:** Success in sustaining cost transformation initiatives depends heavily on obtaining and maintaining high-quality data across different business units and countries. However, it can often be challenging to ensure good data quality and acquire the capability to compare different data sets between business units and geographies. Inconsistencies or data gaps may impede organisations' efforts to track their progress and pinpoint areas requiring improvement.



# Managing the change

Cost transformation initiatives are demanding for the organisation's leadership, but it is crucial to manage sensitivities and expected change across the broader organisation. The following options can be implemented:



## Insights in action: Case study 2

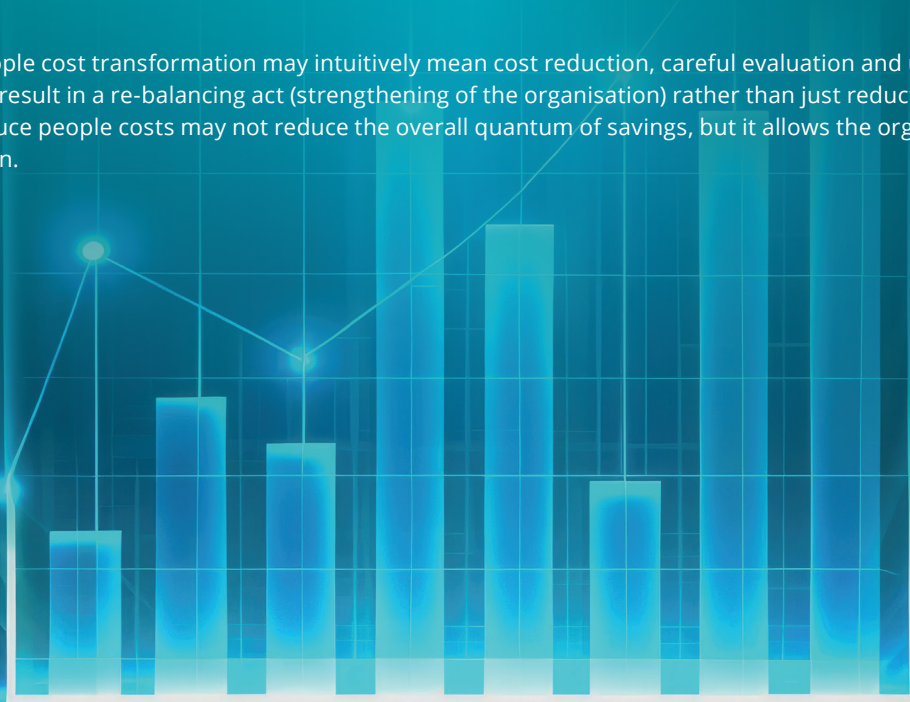
Deloitte helped a speciality chemical manufacturing organisation to identify, realise and then sustain its cost transformation journey. Deloitte set up the PMO office under the guidance of the CFO and CHRO to make these gains stick with the organisation by developing initiatives to identify gains. As part of the PMO, Deloitte established cost targets for each function based on incremental improvements every quarter to push the envelope towards the ideal state identified to realise gains in a phased manner. Functional cost targets were tailor-made with function-specific mandates based on the overall business strategy. These cost targets, as well as initiatives planned, were tracked meticulously month-on-month to drive a culture of cost consciousness throughout the organisation, including not only the leadership but also front-line managers and staff, which are key to sustaining organisation transformation.

# Measure the impact

While it is true that the value of such large-scale people cost transformation emerges over a period of time, the sustainability of envisaged changes ensures robust success. Adopting a data-driven approach to measure the impact of such transformation is crucial for ensuring leadership commitment and employee involvement. Some key metrics that can be looked at include:



While it is true that people cost transformation may intuitively mean cost reduction, careful evaluation and using the levers mentioned above may result in a re-balancing act (strengthening of the organisation) rather than just reduction. Taking a carefully crafted strategy to reduce people costs may not reduce the overall quantum of savings, but it allows the organisation to propel towards its future vision.



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# End Notes

1. Making winning workforce decisions: The Human Capital Balance Sheet published by Deloitte Consulting LLP
2. GenAI and the future of work, Deloitte AI Institute
3. Cost Optimisation Strategies: A Guide for Global Workforce Professionals published by Deloitte LLP
4. Unlocking Organisational Health for a Sustainable Future, published by Deloitte Consulting AG
5. Cost Optimization Strategies A Guide for Global Workforce Professionals



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