Cost cutting
Methodology and tools
Cost cutting in a company. Methodology and tools

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Cost cutting in a company.
Methodology and tools

Purposes of cost reduction
• Improve financial results including cash flow and profit
• Respond to negative macroeconomic and market changes, reduce business marginality
• Implement cost leadership strategy
• Prepare the company for significant changes
• Prepare and launch a system for continuous improvement

Which approach to cost reduction can be used?

Choice of approach to cost reduction

Quick wins
Balanced approach
Transformation approach

Financial Position

Difficult
Stable
Healthy

Corporate strategy

Survival
Development
Dominance

Main effect

90 days
6-12 months
>12 months

Approach to cost reduction

• Short-term initiatives, quick results
• Short-term results, maybe to the detriment of long-term objectives
• Increase in working capital is the main objective
• Balance of short-term and long-term initiatives
• Improvement programs for basic and management processes
• Moderate investments
• Long-term initiatives, absence of quick results
• Necessity of considerable investments
• “Game Changing” initiatives (e.g., ERP implementation, changes in supply chain management etc.)

What is a Cost Reduction Program?
A Cost Reduction Program is a complex of short-term and long-term cost reduction initiatives. Each initiative is based on an analysis of the company’s operations, best practices and benefit assessments. The program should necessarily include initiative implementation planning, taking into account their interrelations and specifics of the company.
1. Assessment of cost reduction potential

1. Analysis of the cost structure
   - Analysis of the general structure of costs, costs by object, and types of activity
   - Analysis of cost drivers

2. Benchmarking and analysis of best practices
   - Internal and external benchmarking of unit indicators
   - Analysis of best practices of process organization

3. Assessment of cost reduction opportunities
   - Determination and structuring of opportunities
   - Assessment of cost reduction potential

Example of benchmarking

Example of indicators for benchmarking

4. Development of initiatives
   - Detailed analysis of problem areas including:
     - Questionnaire survey
     - Analysis of detailed data
   - Development, assessment and categorization of initiatives

4. Development of initiatives

Example of benchmarking

Example of indicators for benchmarking

5. Calculation of business cases and estimation of effects
   - Detailed calculation of the effect of initiative implementation
   - Assessment of required investments
   - Development of detailed implementation plan

Example of business case

6. Testing and coordination
   - Discussion and coordination of initiatives and business cases with managers
   - Adjustment of initiatives and business cases after discussion

7. Prioritization
   - Prioritization of initiatives

Examples of prioritization of initiatives

Examples of initiatives

Examples of initiatives

Cost cutting. Methodology and tools
3. Preparation for implementation of a cost reduction program

- Development of an implementation plan for each initiative
  - Development of a detailed plan of events
  - Identification of contractors and persons responsible for each stage of initiative implementation
  - Identification of key risks and measures for their mitigation

4. Program implementation

- Development of an integrated plan for implementing the cost reduction program
  - Determination of the priority and schedule of initiative implementation
  - Development of an integrated plan for cost reduction program implementation

Examples of integrated implementation plans

- Example of an implementation plan for creating a Shared Service Center
  - Development of a detailed plan of events
  - Identification of contractors and persons responsible for each stage of initiative implementation
  - Identification of key risks and measures for their mitigation

- Example of organizational structure of project office
  - Implementation of initiatives
  - Development of project office structure and approach to the implementation of the program
  - Development of a communication plan
  - Control deadlines and results of initiatives implementation
  - Launching program implementation

Example of organizational structure of project office

- Transition to the system of continuous improvements

- Assessment of efficiency
  - Evaluation of economic impact from cost reduction
  - Preparation of project status reports for managers
  - Validation of accomplishment of project objectives
Examples of Deloitte tools

Deloitte Value Map
The Deloitte Value Map adapted for cost reduction projects contains a full range of prioritized cost drivers. Use of the Deloitte Value Map guarantees a complete analysis of possible directions for cost reduction.

Why Deloitte?

We are sure that Deloitte will become a reliable partner in cost reduction projects as well as projects for enhancing business efficiency
Deloitte has 18 offices in Russia and in the CIS countries. Approximately 3000 professionals work in the CIS countries.

- And about 1500 in the Moscow office.
- We are currently the fastest growing professional services firm in the CIS market.
- Our firm provides services in the following areas:
  - audit;
  - consulting;
  - finance advisory;
  - tax and legal.
- We work as one team and provide our clients with services of the highest quality.