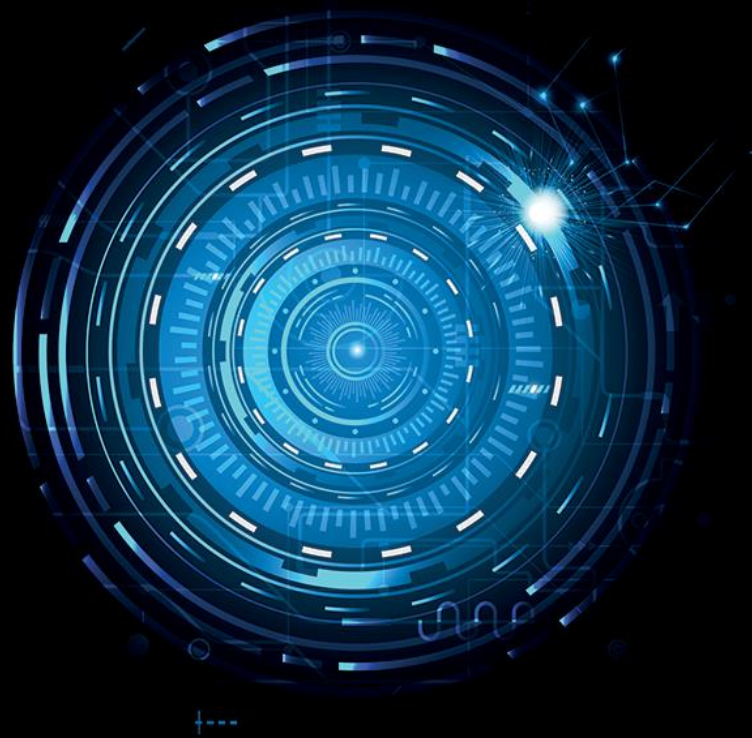


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Thriving in uncertainty

Global cost management insights and advanced cost reduction tools in the age of digital disruption

21 July 2017

powered by
The **CFO** Program

Presenters



Omar Aguilar

**Principal, Deloitte Consulting LLP
Global Leader, Strategic Cost
Transformation**

Omar is the Global Leader of the Strategic Cost Transformation service offering for Deloitte Consulting LLP, focused on supporting and serving multinationals and local clients across the globe. His areas of expertise include strategic cost transformation, margin improvement, restructuring, turnarounds, and business model transformations. Prior to his current role, he was the Americas Strategy & Operations Regional Leader. Omar has published widely on the topic of sustainable and scalable cost management, and has been quoted by or has written for Business Finance, The Journal of Cost Management, and The Wall Street Journal, among others. He is a frequent speaker and has been a guest lecturer at the University of Pennsylvania's Wharton School of Business, Stanford University's Graduate School of Business, and Carnegie Mellon's Tepper School of Business. He holds bachelor and master of science degrees in nuclear engineering from the University of Missouri-Rolla, and a master of business administration (MBA) from the University of Notre Dame.



Wendy Lai

**Partner, Deloitte Consulting SEA
SEA Strategy & Operations Leader**

Wendy has built a career around improving an organisation's performance. These improvements have been the result of developing and implementing competitive strategies to increase market share, reduce costs and improve productivity. In today's world, this typically involves innovation, design and digital practices wrapped around data insights and a new operating culture. The ability to bring these threads that is reshaping the business world in practical 'bite-sized' chunks is what Wendy is focused on. Her industry focus is in healthcare and financial services. Wendy also has held previous and current board appointments, including Deloitte (NZ), Counties Manukau Health (Deputy Chair and Chair of Audit and Finance), Te Papa The Museum of NZ (Chair of Audit and Finance), Avanti Finance and Ziera (Chair). These appointments have helped ensure she stays relevant to her clients' pragmatic world and to bring cross industry experiences to solve complex problems. Wendy has worked in New Zealand, Australia, Asia and the United States.

Agenda

- 1. Global Cost Surveys & APAC results**
2. Singapore overview and cost survey insights
3. Choosing the right approach and advanced cost solutions

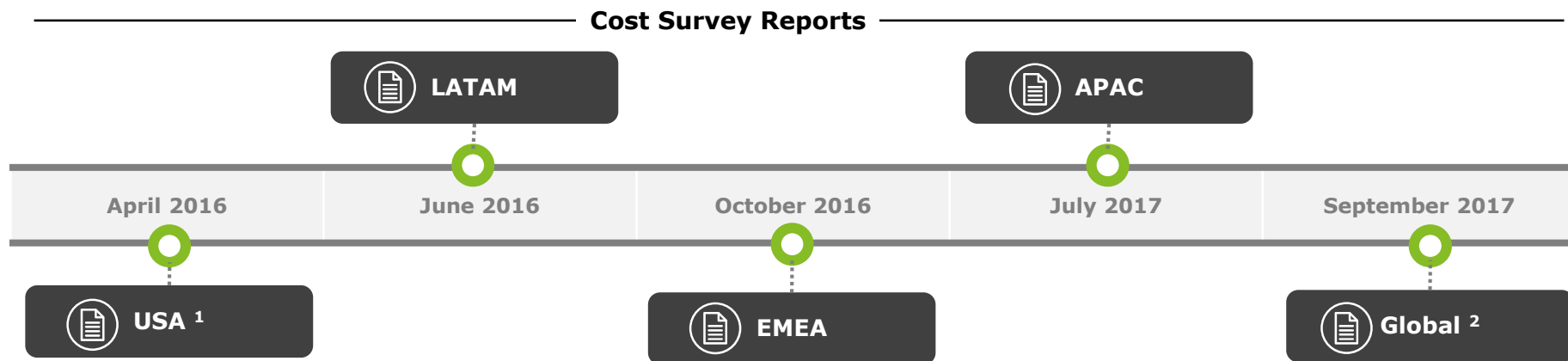
Deloitte has launched regional cost surveys over the past two years to understand executives' perspectives on current and future cost management practices and trends

Objectives

- Understand factors, approach, actions and targets of cost initiatives
- Assess the effectiveness of these cost actions including lessons learned from previous deployment
- Understand the drivers and the scope of future cost initiatives

Criteria

- C-suite/CXO, Executive or Senior Management
- Annual revenue of US\$ 150 million or more for companies in LATAM, EMEA & APAC, or US\$1.5 billion or more for US companies
- Positions involved in managing cost reduction initiatives



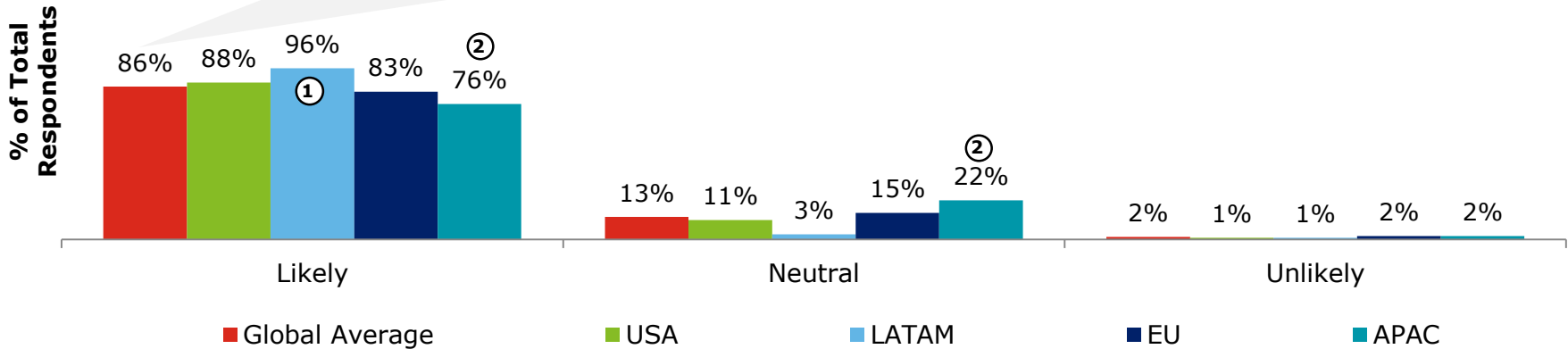
¹ US survey is conducted on bi-annual basis since 2009

² Planned date to release the Global cost survey report

Cost reduction programs have become a normal expectation globally

Likelihood of Cost Reduction in Next 24 Months

Globally, **86%** of respondents plan to undertake cost reduction initiatives

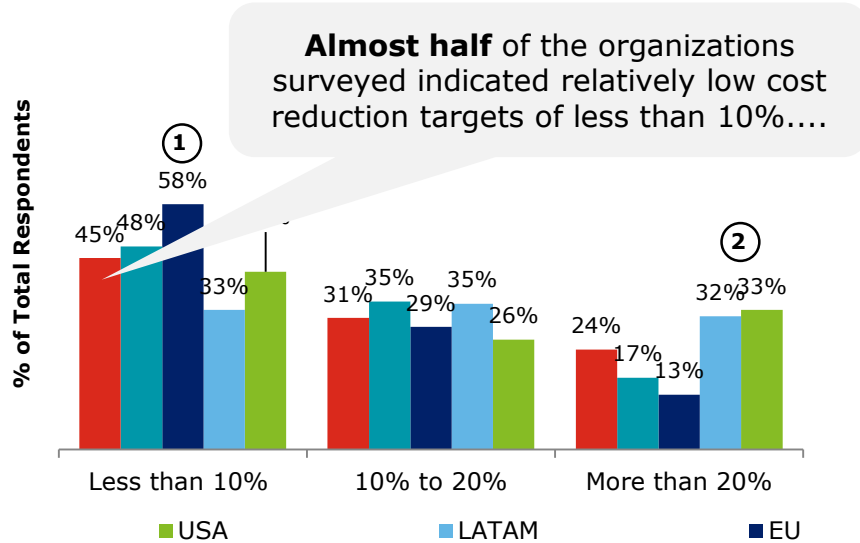


Survey Findings

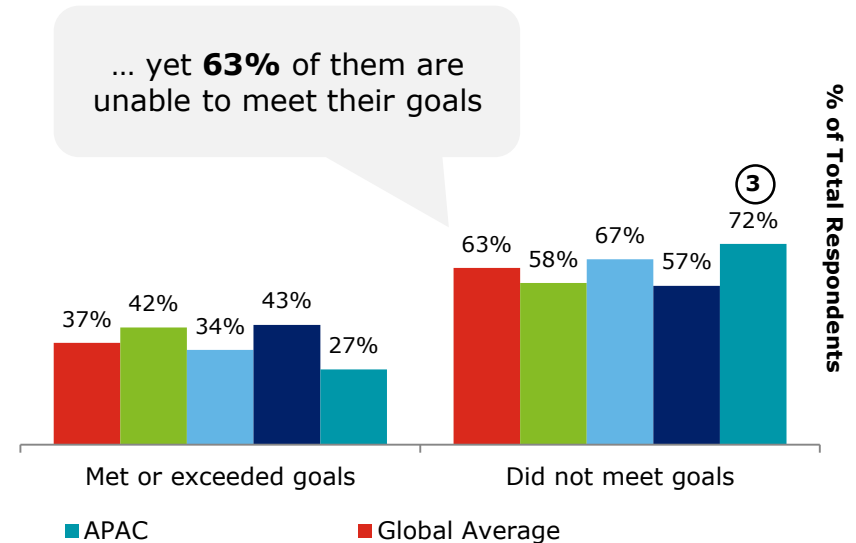
- ① LATAM is the most likely region (96%) to undertake cost reductions actions
- ② APAC shows the lowest likelihood (76%) and at the same time the highest neutral position (22%)

Although most programs seek targets less than 10%, failure rates are about two-thirds

Annual Cost Reduction Targets



Success in Meeting Cost Targets

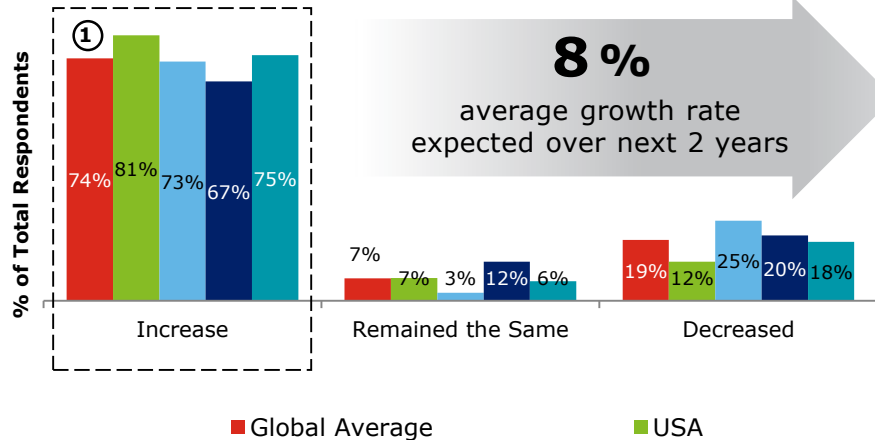


Survey Findings

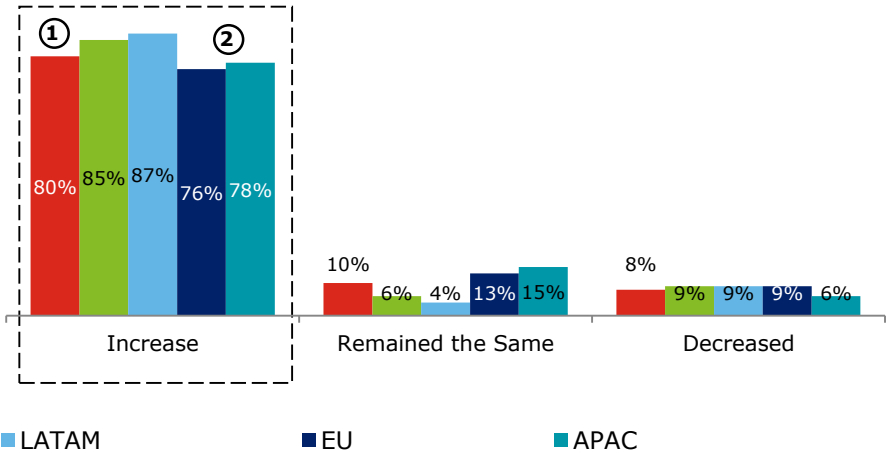
- ① European programs focus mostly on targets less than 10% - could imply prevalence of no-structured cost programs
- ② Most aggressive programs are in USA and LATAM with a third of programs reporting targets higher than 20%
- ③ APAC failure rates are higher (72%) compared to the global average 63%

Organizations are optimistic about revenue growth and this may impact why and how cost management programs are approached

Annual Revenue Over Past 24 Months



Annual Revenue Growth Projections Over Next 24 Months



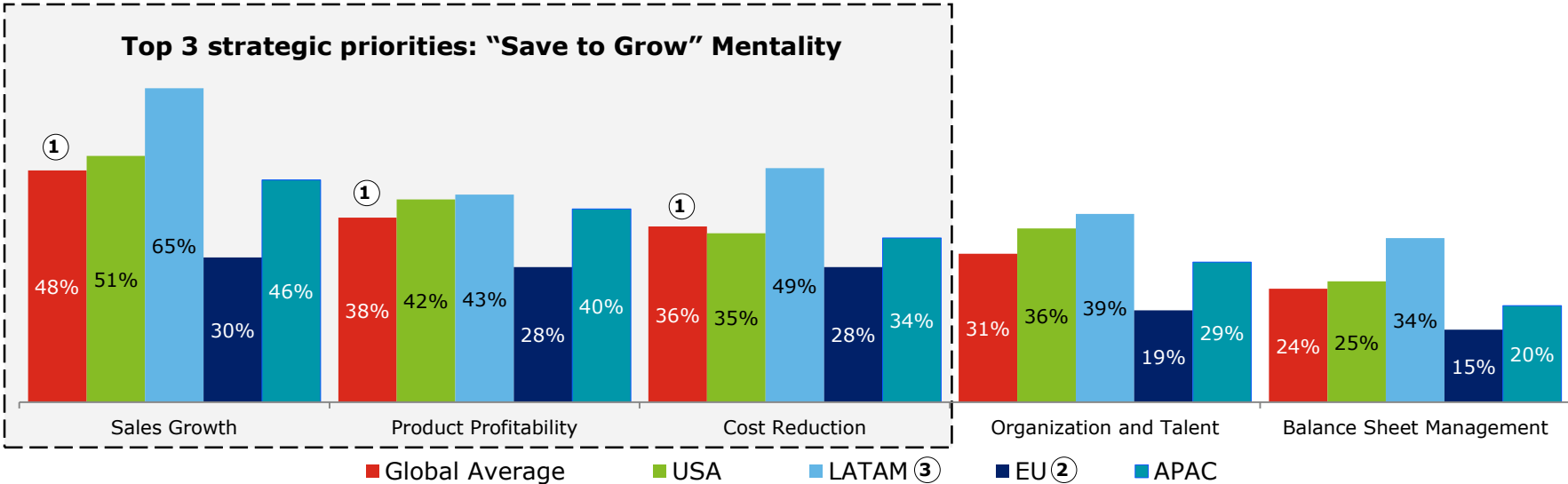
Survey Findings

- ① Global respondents reported more frequently (80%) an increase on revenue growth in the future vs 74% in the past
- ② APAC (78%) and EU (76%) indicate the least positive projections compared to the global average (80%)

Notes: A negligible number of respondents answered "I Don't Know" and are excluded from the results

Strategic priorities are focused on cost and growth, reflecting a “save-to-grow” mentality

Strategic Priority in Next 24 Months

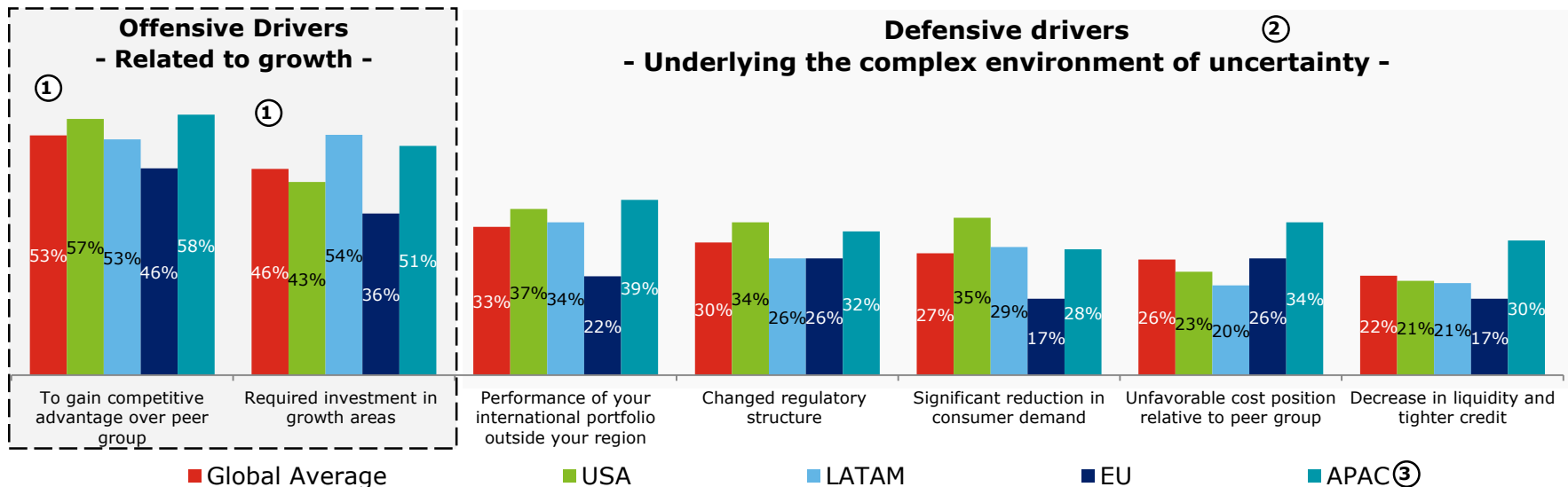


Survey Findings

- ① Top three priorities cited by respondents were sales growth (48%), product profitability (38%) and cost reduction (36%)
- ② European companies surveyed consistently responded less frequently to all priorities compared to other regions
- ③ LATAM companies surveyed consistently responded more frequently to all priorities compared to other regions

Aligned to priorities, top drivers are offensive in nature and growth-oriented but five of seven drivers are defensive in nature reflecting market uncertainty

Drivers of Cost Reduction



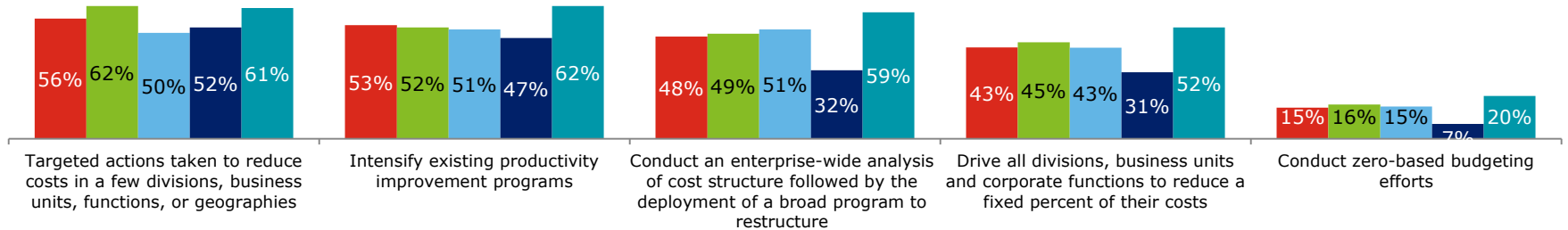
Survey Findings

- ① Top two drivers relate to gaining competitive advantage (53%) and required investment in growth areas (46%).
- ② Five out of seven drivers of cost reduction are defensive in nature and reflect uncertainty
- ③ All drivers of cost reduction rated higher for APAC companies relatively to the global average.

Companies are using diverse approaches but implementation is the top barrier

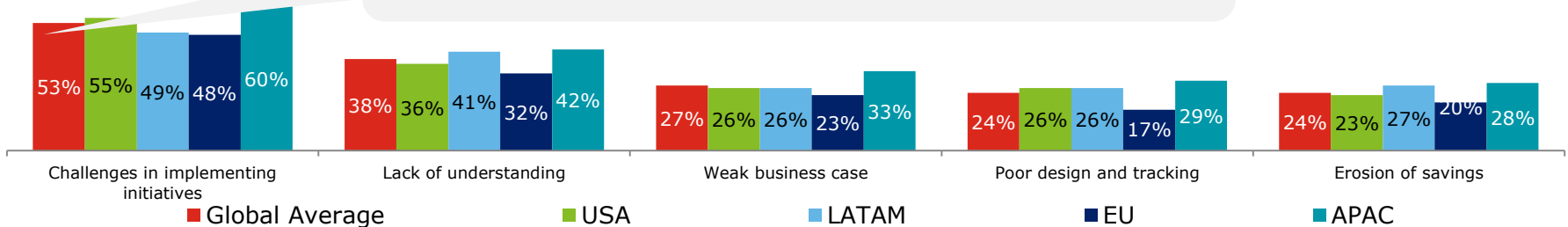
Approaches to Manage Costs Over the Past 24 Months

Diverse approaches are reported on similar rates with the exception of ZBB which rates much lower than any other approach with only **15%** global average



Barriers to Effective Cost Management

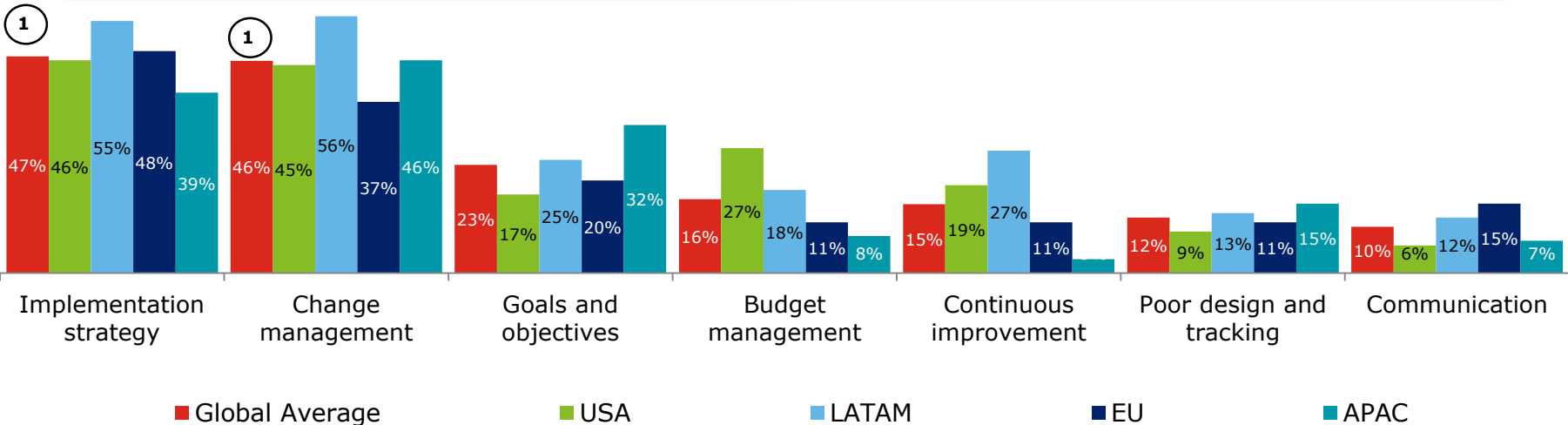
Challenges in implementing initiatives is significantly higher than all other barriers with **53%** average globally, reflecting a transition towards technical vs. non-technical barriers



As expected, most lessons learned reported globally are also related to implementation

Lessons Learned - Past 24 Months

5 out of 7 lessons learned are related to implementation challenges



Survey Findings

- ① Top lessons learned reported more frequently are (47%) Implementation Strategy and (46%) Change Management
- ② APAC ranked much higher in Goal and Objectives as a lesson learned (32%) relative to the global average (23%)

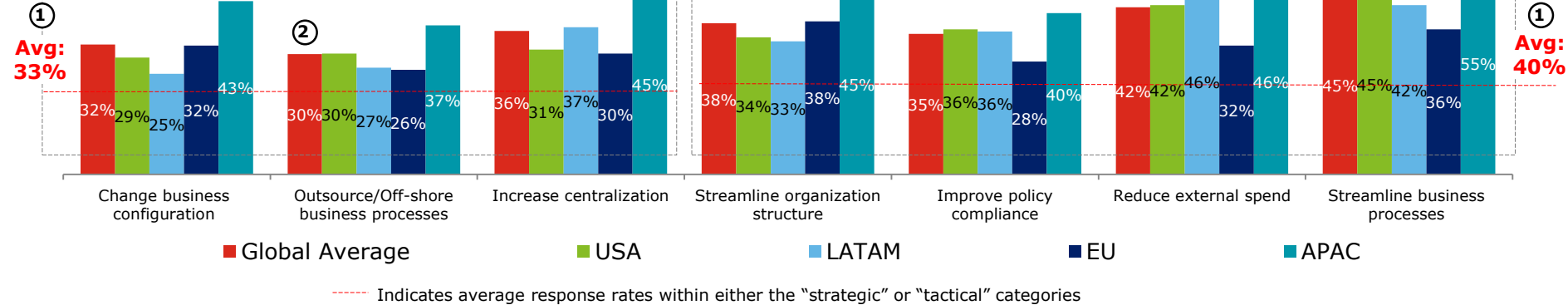
Likely actions are focused on tactical rather than strategic cost management efforts

Cost Actions Viewed as Most Likely in Next 24 Months

Strategic: Less likely

Tactical: More likely

Streamlining business processes is viewed as the most likely cost action (cited by 45% globally)



Survey Findings

- ① 33% of respondents plan to undertake a strategic cost action vs. 40% that plan to undertake a tactical cost action
- ② The least frequently mentioned cost action is strategic: Outsourcing / off-shoring business processes (30%)

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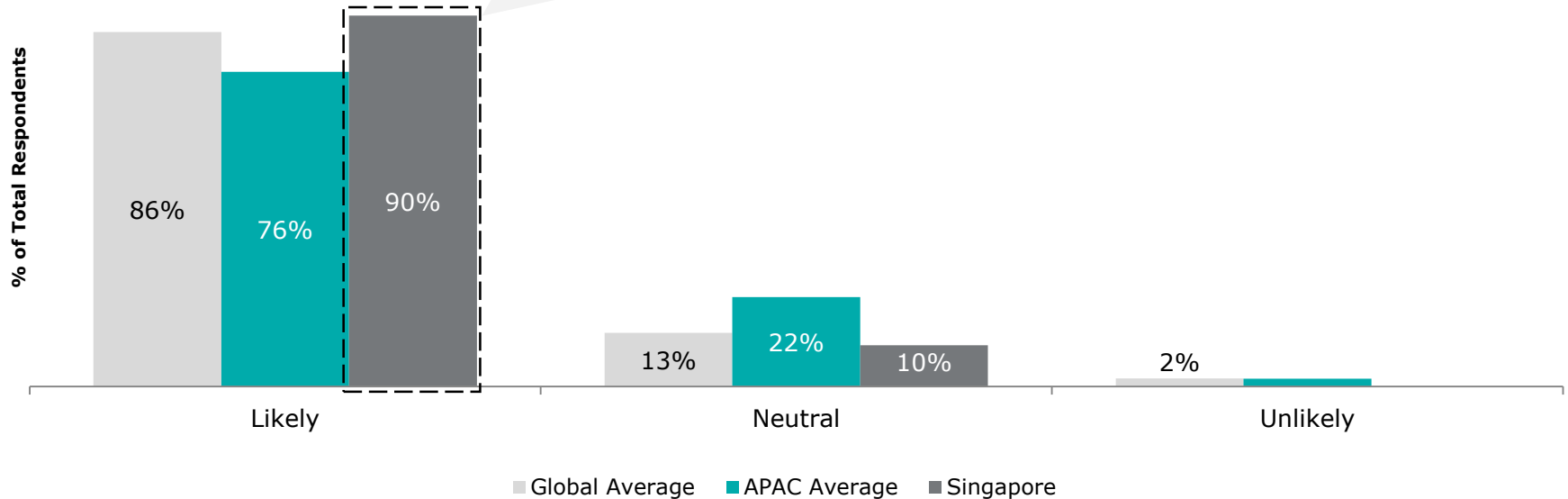


Singapore was more closely aligned with the APAC average than any other APAC country surveyed

Singapore companies are significantly more likely than their APAC peers to undertake cost reduction (90% vs 76%)

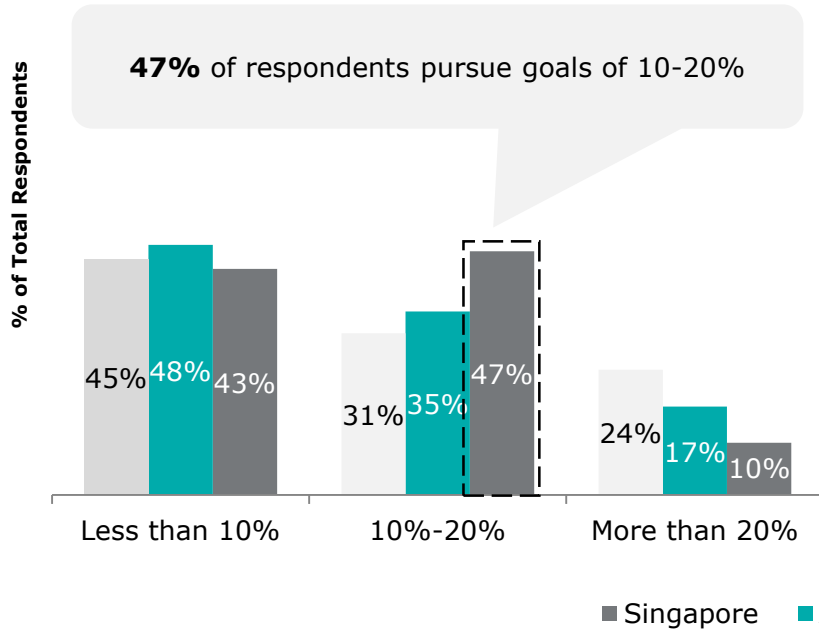
Likelihood of Cost Reduction in Next 24 Months

Singapore companies are **some of the most likely organizations to undertake cost reduction** compared to the Global and Regional averages

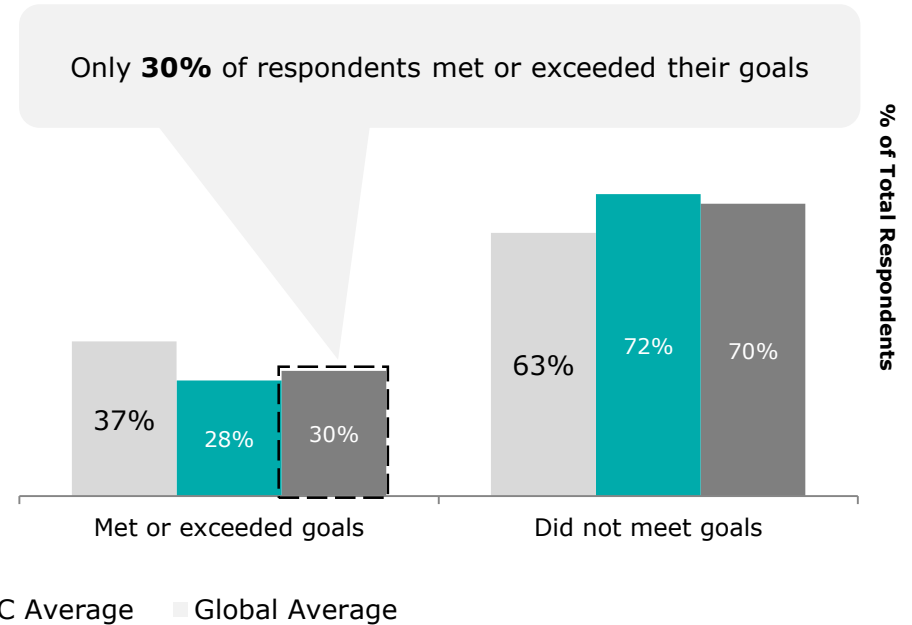


Cost reduction targets in Singapore are higher compared to APAC but success rates are low and consistent with APAC and Globally.

Annual Cost Reduction Targets

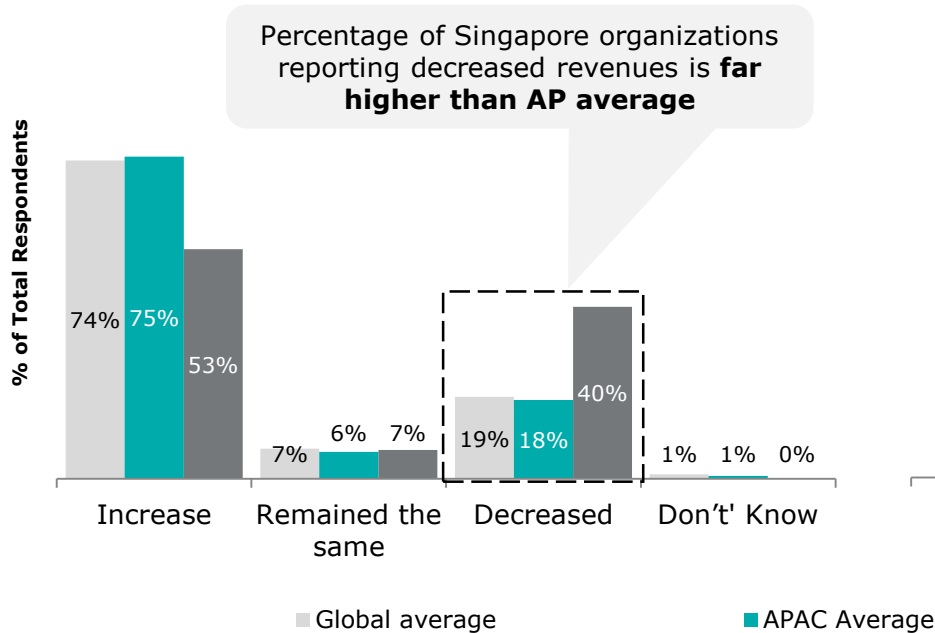


Success in Meeting Cost Targets

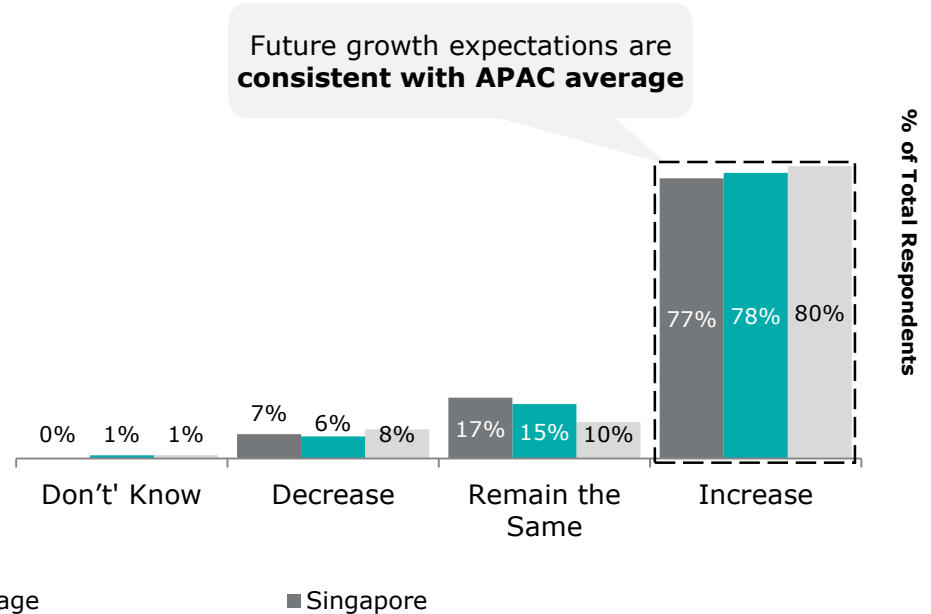


Revenue growth in Singapore over the past 24 months was much less than the APAC average (53% vs 75% for APAC). However, future expectations for growth are very closely aligned

— Annual Revenue Over Past 24 Months —

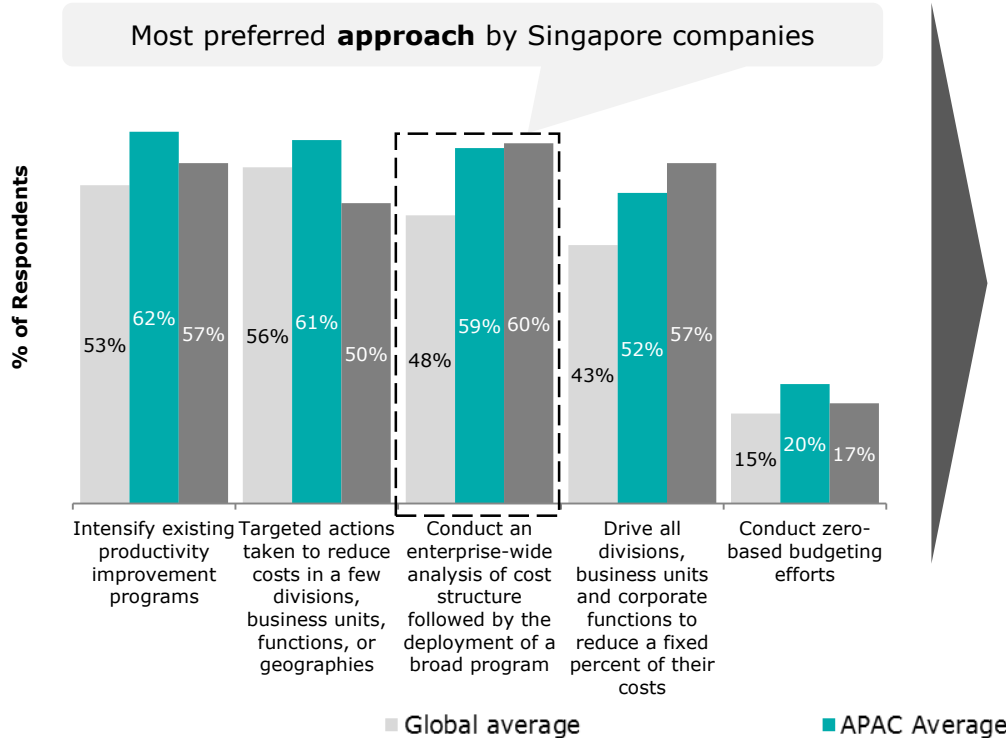


— Annual Revenue Growth Projections Over Next 24 Months —

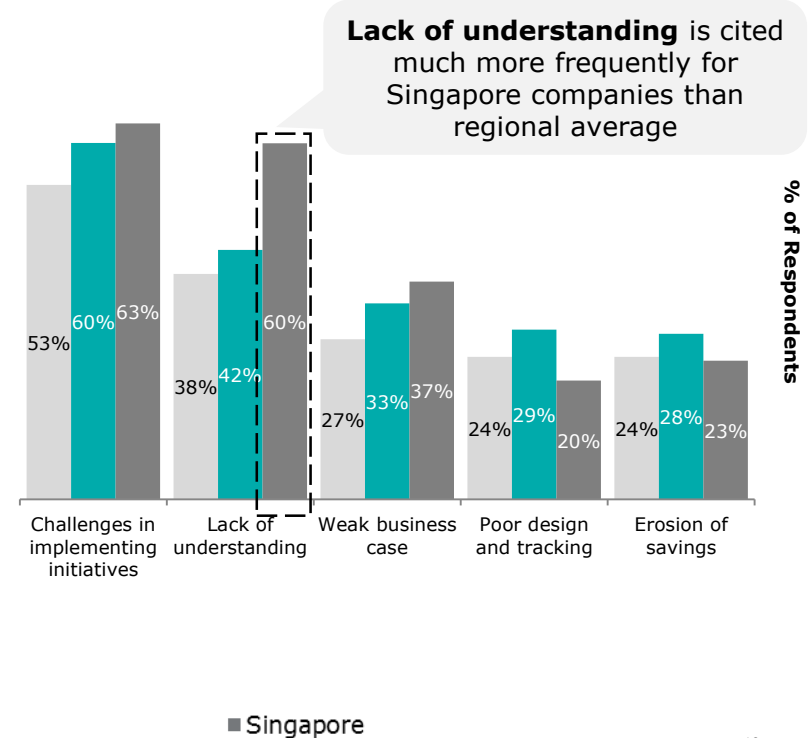


Enterprise-wide analysis is the top approach being adopted to manage costs, although challenges to implementing the initiatives and lack of understanding may pose barriers

Approaches to Manage Costs Over the Past 24 Months



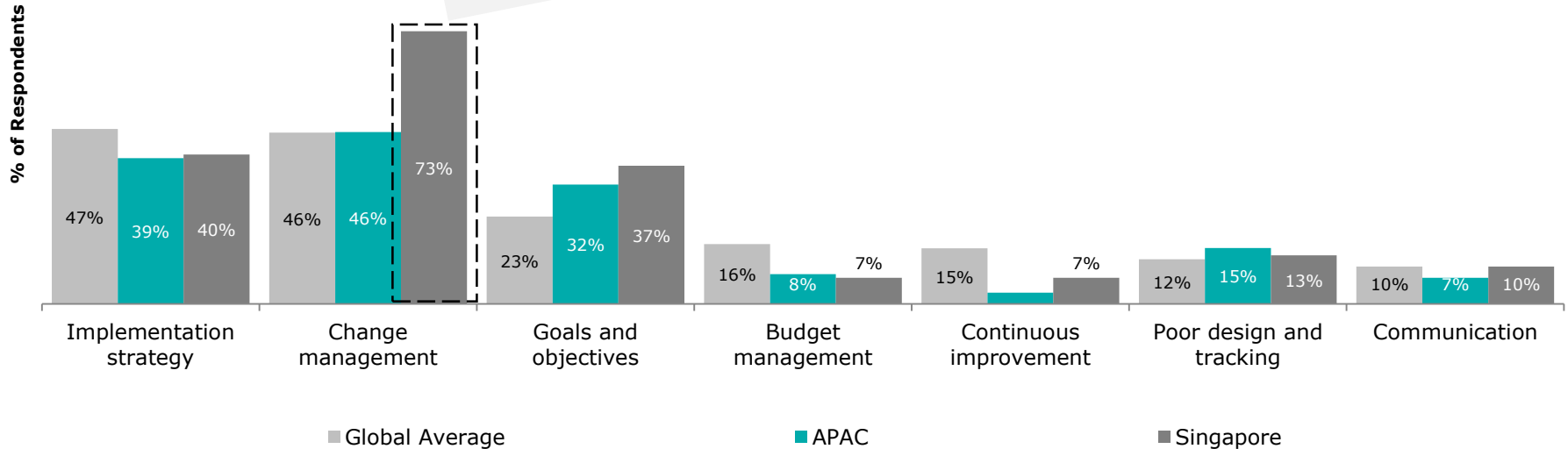
Barriers to Effective Cost Management



Not surprisingly, the top lesson learned mentioned in Singapore is change management

Lessons Learned - Past 24 Months

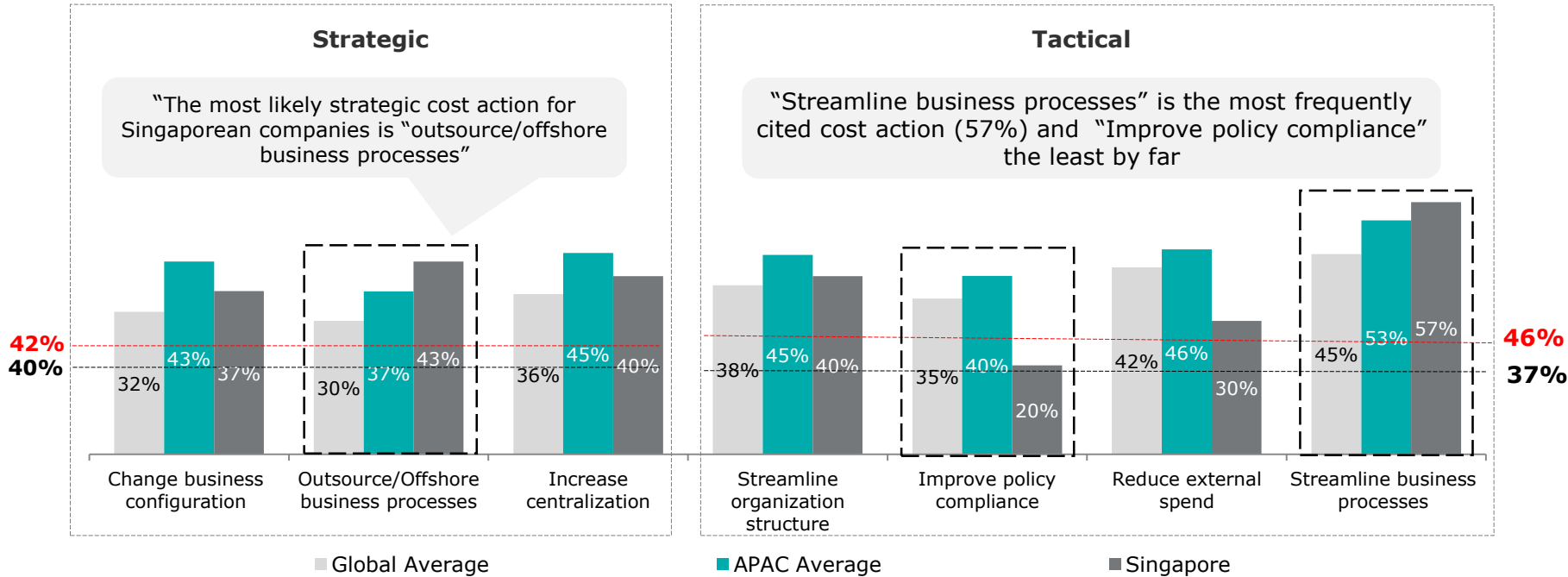
Change management is by far (75%) the most frequent lesson learned mentioned by Singapore companies



Companies here have fairly balanced expectations when it comes to strategic vs cost actions. However, the most likely future action - 'streamlining business processes' (57%) – is tactical

Cost Actions Viewed as Most Likely in Next 24 Months

of Respondents



----- Indicates APAC average response rates within either the “strategic” or “tactical” categories
 ----- Indicates Singapore average response rates within either the “strategic” or “tactical” categories

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High failure rates suggest that cost programs in APAC and globally are not that effective, creating an opportunity for companies to significantly improve how they manage costs

- 48% of APAC respondents have cost targets of less than 10%.
- 46% of APAC respondents plan to undertake tactical cost actions.
- Japanese and Australian companies rate the highest for targets below 10% (74% and 50% respectively).

- 47% of APAC respondents have cost targets of more than 10%.
- 42% of APAC respondents plan to undertake strategic cost actions.
- Indian and Chinese companies rate the highest for targets above 10% (74% and 72% respectively).

Currently, these are the types of approaches many APAC respondents are pursuing



...but the environment suggests many APAC companies should pursue these approaches

Tactical / Continuous Improvement Approach		Strategic / Transformational Approach	
Scope / Cost Areas	Narrow / selective (e.g., streamline organization structure, improve policy compliance, reduce external spend, streamline business processes)	Broad (e.g., change business configuration, outsource/offshore, increase centralization)	
Cost Target Range	<6% (Continuous Improvement) / 6% - 10% (Tactical)	>10%	
Sustainability / Scalability	Lower	Higher	
Change Management Needs	Lower	Higher	

Traditionally, companies in pursuit of strategic cost improvements have fallen into one of three categories: (1) distressed, (2) positioned for growth, or (3) growing steadily

Traditional cost management scenarios

	1. Distressed	2. Positioned for Growth	3. Growing Steadily
Competitive situation	<ul style="list-style-type: none"> ▪ Losing market share ▪ Structural operating flaws ▪ Liquidity concerns ▪ No clear growth options 	<ul style="list-style-type: none"> ▪ Recovering from recession ▪ Adjusting to demand levels ▪ Growth concerns ▪ Conditional options for growth 	<ul style="list-style-type: none"> • Healthy balance sheet • Excess cash flow / reserves • High growth potential • Unconstrained options
Priority balance	<p>Low focus</p> <p>High focus</p>	<p>Low focus</p> <p>High focus</p>	<p>Low focus</p> <p>High focus</p>
Primary objectives	<ul style="list-style-type: none"> ▪ Conserve cash ▪ Renegotiate costs ▪ Restructure debt ▪ Downscale business model 	<ul style="list-style-type: none"> ▪ Transform operating model ▪ Optimize business processes ▪ Right-size FTE structure ▪ Fuel growth through savings (capital efficiency) 	<ul style="list-style-type: none"> ▪ Focus on investment and M&A ▪ Optimize and align customer and product portfolios ▪ Focus on efficient execution and delivery

G Growth T Talent C Cost L Liquidity

However, a new competitive situation may be arising called "thriving in uncertainty" that sits between "distressed" and "positioned for growth"

1. Distressed

If conditions continue deteriorating organizations might end "distressed" ... And they would need to focus on certain value creation levers

New Thriving in Uncertainty



If economic volatility continues in the short-term and growth is stable but slow, then organizations might remain in this new scenario called "Thriving in Uncertainty"

2. Positioned for Growth

If economic variables change and sustainable and fast-paced growth emerges, organizations could position as "Positioned for Growth" or "Growing Steadily"

3. Growing Steadily

Value creation levers on which to focus

Low focus



High focus

Revenue	Pricing Realization	Marketing & Sales Effectiveness	Customer Experience and Channel Mix	Product Portfolio Innovation & Rationalization
Margin	Direct Cost Optimization	SG&A Cost Management	Supply Chain and Manufacturing Effectiveness	Service Delivery Execution
Assets	Working Capital Optimization	Inventory Optimization	Capital Investment and Divestment	Debt Restructuring
Execution	Governance & Change	Organization & Talent	Business Performance Management	Risk, Compliance and Regulatory
Strategy	Mergers and Acquisitions	Business Portfolio Optimization	Partnership & Collaboration	Tax Strategy

Low focus



High focus

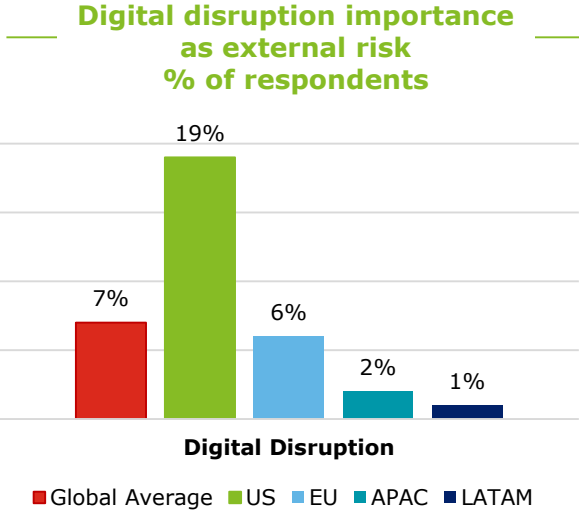
Revenue	Pricing Realization	Marketing & Sales Effectiveness	Customer Experience and Channel Mix	Product Portfolio Innovation & Rationalization
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Execution	Governance & Change	Organization & Talent	Business Performance Management	Risk, Compliance and Regulatory
Strategy	Mergers and Acquisitions	Business Portfolio Optimization	Partnership & Collaboration	Tax Strategy

Legend

Indicates levers that Deloitte identified as potential focus areas

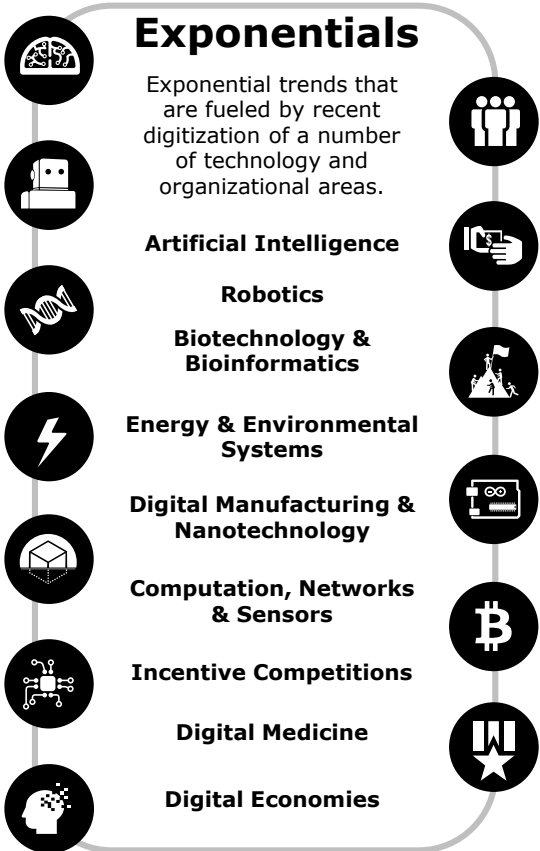
G Growth T Talent C Cost L Liquidity

Although digital disruption is still not widely recognized globally, exponential technologies are already pointing to some clear trends related to enterprise efficiency and cost reduction . . .



Source: Deloitte Regional Cost Survey Reports

The vast majority of companies are just starting to recognize the potentially disruptive impact of digital technologies



The journey towards advanced cost solutions is just emerging but will accelerate and first converge around automation and cognitive technologies / analytics

1980s - Present

2008 - Present

2017+

**Traditional Cost Management:
Cost Categories & Processes**

**Structural Cost Management:
Operating Models & Governance**

**Advanced Cost Management:
Digital Cost Solutions**



Maximizing Traditional Cost Levers

- Focus on cost categories
- Continuous improvement
- Process re-engineering



Alternative Operating Models

- Separation of G&A and ops/commercial models
- Globalized operating model
- Globalized governance



Analytics and Cognitive Solutions

- Cognitive solutions to increase effectiveness
- Cognitive technologies to supplement labor



Traditional External Spend Reduction Levers

- Indirect and direct sourcing
- More effective supply chain integration
- Introduction of CPO



Alternative Service Delivery Models and Demand Management

- Global/regional/local delivery
- GBS/alternative-sourcing
- Demand Management and policies as cost levers



Automation

- RPA to increase efficiency and eliminate labor
- RCA to increase effectiveness and supplement labor



Maturity: Low ● ● ● ● High

Advanced cost solutions are already becoming a common experience but are mostly being applied discretely

Cost Levers	Traditional Approach	Deloitte's Advanced Cost Solutions
<p>Cost</p>	<p>SG&A / COGS Analysis</p>	
<p>Growth</p>	<p>Pricing analysis</p>	<p>Polaris: Insight-driven revenue management (pricing & promotions)</p>
<p>Liquidity</p>	<p>Inventory / Working capital Analysis</p>	<p>Inveritas™: Inventory Optimization and Working Capital</p>
<p>People</p>	<p>Change management</p>	<p>Strategic capability model and mapping</p>

Although digital cost solutions are currently being applied discretely, their use will grow rapidly in the future with oftentimes unexpected and/or strategic implications

Cost solutions: Current state and potential		Maturity	Cost reduction potential	Time to results
1980 to Present	Traditional Cost Management: Cost Categories & Processes	●●●●		
	Maximizing Traditional Cost Levers Traditional External Spend Reduction Levers			
2008 to Present	Structural Cost Management: Operating Models & Governance	●●●●		
	Alternative Operating Models Alternative Service Delivery Models and Demand Management			
2017+	Advanced Cost Management: Digital Cost Solutions	●●●●		
	Analytics and Cognitive Solutions Automation			

Maturity: Low ●●●● High

Digital cost innovations and solutions will migrate from a tactical to a strategic impact by converging on platform-based innovation

Current Digital Innovation Impact

SOURCE	IMPACT	FOCUS	RESULTS
Maturing Exponential Technologies applied internally by companies	Tactical	Product efficiency and customer engagement innovation	Cost reduction potential ≤10-20%

10 TYPES OF INNOVATION:



Future Digital Innovation Impact

SOURCE	IMPACT	FOCUS	RESULTS
Externally driven by market disruptors or disruptive M&A	Strategic	Focus on innovation of platforms and business operating models	Cost reduction potential ≥ 30%

Cognitive and automation technologies will eventually converge to disrupt whole sectors and industries – from external market disruptors or eventually organically

Summary



Global cost management findings

- **Strategic priorities are focused on cost and growth (“save-to-grow”)**
- **Focus on cost management is ubiquitous and mostly tactical**
- **Failure rates and implementation barriers are consistently high**



APAC cost management outlook

- **APAC countries show high disparity in cost positioning**
- **China and India have most intense focus on cost management**
- **Failure rates are consistently high and programs mostly have tactical focus**



Singapore cost management insights

- **Revenue growth expectations are more positive than the past**
- **Higher likelihood of local companies to undertake cost reduction**
- **Unlike other areas, both implementation and change management are barriers**



Digital solutions

- **With the exception of the US, digital disruption is not seen as a risk**
- **Cognitive technologies and automation will impact future cost solutions**
- **Disruptors will not only come from external disruptors but will start emerging from established competitors by disrupting operating models digitally**

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