

Right-sizing your cost base for COVID-19

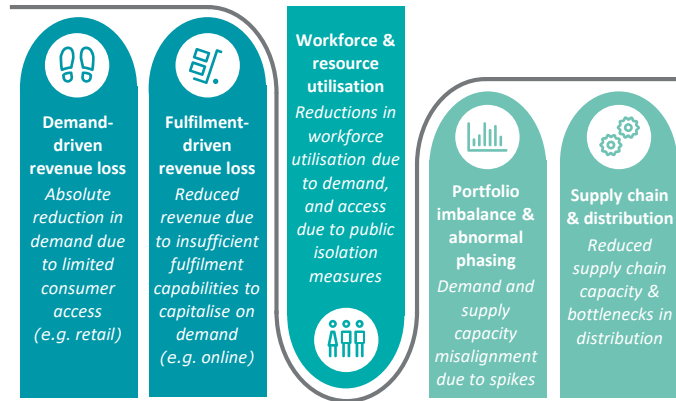
Rapid cost re-calibration solution to maintain business continuity

The unprecedented rise of COVID-19 and subsequent government measures are triggering immediate P&L impacts on businesses across the world. Public social distancing obligations and guidelines are translating into various effects on business depending on the segment – demand-driven revenue losses, fulfilment-driven revenue losses, abnormal revenue phasing, portfolio imbalances and reduced workforce utilisation.

Businesses are rapidly left with a cost base, both direct and indirect, that requires immediate right-sizing to fit the interim shape and size of their portfolio’s performance. This unprecedented right-sizing requires tailoring like no other – this is not solely an accelerated ‘cost reduction’ exercise, but one that demands cost- and resource-flexibility by design, enabling businesses to rapidly bounce back on the return of regular trading conditions.

Our cost performance and right-sizing team has worked under comparable conditions to those faced by a number of businesses today – immediate loss of significant contracts, immediate demand-erosion, fulfilment restrictions and supply chain shortages. We understand the pace and flexibility required.

Assess and define the impact on your value chain



Identify key processes & resources for right-sizing

Key processes & costs for immediate assessment	Take action
Leadership and strategy	1 Stop spend in specific areas
Develop vision and strategy	
Develop and manage products, services and capability	
Acquire, construct, and manage assets	2 Reduce spend to scale interim business
Market and sell products and services	
Front office	3 Re-allocate spend for productivity
Deliver services	
Manage customer service	
Supply chain and production	
Deliver Physical Products	
Manage supplier, distributor and third party relationships	
Acquire and manufacture products	
Support functions	
Develop and manage human capital	
Manage technology infrastructure	
Manage financial resources	
Manage risk, compliance, remediation, and resilience	
Manage footprint and Real Estate	

How our approach can help you respond and inform your stakeholders



How rapidly can we address and impact our cost base?

- **Assess activities to stop immediately:** many activities will not be required during this period due to change in business demand.
- **Re-assess how to conduct middle and back office activities:** identify key activities and assess how best to service them i.e. re-allocate and re-purpose existing workforce based on assessment and interim requirements. Make the relevant changes if required.
- **Scale-down activities related to long-term contracts:** where multi-year asset leases, real estate contracts and other contracts exist, eradicate all associated servicing and utilisation spend, furthermore, where possible re-allocate or re-purpose for revenue generation.



How can we deliver right-sized business continuity?

- **In short-term, prioritise existing contracts and live customers over new business**
- **Define your revenue-critical population:** focus on retaining and enabling FTE that are critical to ~80% of your re-forecast revenue and fulfilment: client relationship owners, key sales personnel, client service, manufacturing and distribution (where applicable).
- **Identify best practice cost performance and right-size to adjusted revenue forecast:** identify functional and/or process costs as proportion to revenues for comparator businesses, and scale proportionally to revised revenue forecast. A number of costs may reach a point where loss of scale will require entirely new ways of working to drive cost down.



Are we sufficiently flexible to capitalise when trading conditions resume?

- **Interim operating model must enable rapid scaling:** revised resourcing, operating structures and processes must be modular to ensure that all segments of the value chain can be flexed individually to manage cost, e.g. rapid scale-up in front office should not be hindered by Finance or HR capacities
- **Assess outsourcing and contractor models:** external capacity will enable rapid scale-up when demand is unlocked to capitalise on market opportunities

Your local contacts

UAE

David Stark
Partner
+971 50 658 4057
dastark@deloitte.com

Sam Surrey
Partner
+971 50 657 8665
ssurrey@deloitte.com

Neil Hargreaves
Partner
+971 50 650 6214
nehargreaves@deloitte.com

Rana Shashaa
Partner
+971 56 661 3444
rshashaa@deloitte.com

KSA

Azhar Hussain
Partner
+966 56 234 5755
azhussain@deloitte.com

Karim Labban
Director
+966 53 121 6730
klabban@deloitte.com

Qatar

Laky Chhina
Partner
+974 6608 5166
lchhina@deloitte.com

Joseph Gordon
Director
+974 6680 2103
josgordon@deloitte.com

Oman and Bahrain

Milhan Baig
Director
+973 32254051
+968 9436 3943
milbaig@deloitte.com

Kuwait

Mohammad Araj
Director
+965 53 182 0020
+965 9932 2545
moaraj@deloitte.com