

Monitor
Deloitte.



Strategic Cost Reduction



Where do you start?

Business drives results in different ways. There is no “perfect” portfolio of costs or investments. A portfolio that is managed effectively is one that balances short-term and long-term objectives. For your business then, how can you make radical changes in your cost base that will drive business results and portfolio performance?

It’s no wonder that half of the companies that have recently been surveyed indicate that their cost programs did not meet the required objectives. Radical changes to cost structure can be triggered by liquidity and revenue compression, or the desire to free up cash for reinvestments and chase profitable growth. Other factors that drive companies to focus on cost reduction as a strategic priority include growing competitive pressures, market uncertainty and volatility, cautious external borrowing, continued expansion in developing markets, and increasing cost of regulatory and environmental compliance.

As organisations face increased multiple triggers simultaneously, the question becomes: **Where do you start? Where and when should you cut, invest, or do both?**



What are your business levers?

Competitive situations guide priorities and actions

	Distressed / Turnaround	Prolonged uncertainty	Growth
Competitive Situation	<ul style="list-style-type: none"> Losing market share Structural operating flaws Liquidity concerns 	<ul style="list-style-type: none"> Recovering from recession Adjusting to demand levels Growth concerns 	<ul style="list-style-type: none"> Healthy balance sheet Excess cash flow High growth potential
Priority Balance			
	Distressed / Turnaround	Prolonged uncertainty	Growth
	■ Talent ■ Costs ■ Growth ■ Liquidity		
Primary Objectives	<ul style="list-style-type: none"> Conserve cash Renegotiate costs Restructure debt 	<ul style="list-style-type: none"> Transform operating model Optimise business processes Right-size FTE structure 	<ul style="list-style-type: none"> Focus on investment and M&A Optimise and align customer and product portfolios Focus on efficient delivery



Strategically linking services

Organisations transform their business for different reasons. Some are positioning themselves for new growth opportunities while others are restructuring to improve efficiency and reduce costs. What they have in common is the desire to dramatically improve their business performance. Deloitte’s Business Model Transformation (BMT) services help drive the business and operating model changes required to achieve an organisation’s strategic vision. Strategic Cost Reduction is one specialty area in BMT.

Visit <http://www2.deloitte.com/za/en/pages/strategy/articles/monitor-deloitte.html> for more on our other capabilities. Look out for the release of our Cost Survey in quarter two of 2016.



How we can help

Deloitte's Strategic Cost Reduction offering focuses on structural, enterprise-wide changes that can produce sustainable cost savings and margin improvements. In doing so, we strive to help our clients build scalable cost platforms to drive profitable growth. Based on extensive experience with cost improvement programs across industries, we offer three broad cost reduction strategies that help our clients focus on cost categories tailored to the specific cost challenges at hand.

Our services include:

Getting the house in order.

Focus on immediate actions to reduce costs, bring stability, and capture savings to avoid further deterioration of the business.

Sustaining the business.

Take actions that help improve the company's cost and competitive position, avert cuts that might inhibit future growth, and rebalance costs to fund investments in strategy enablers.

Setting the stage for growth.

Develop a scalable cost platform for growth and invest in building capabilities to enable the strategy while managing costs in alignment with the stated growth strategy.

How each strategy is shaped is based on answers to important questions, several of which include:

- What cost strategy can best enable the business strategy?
- What is the objective of the cost program?
- Which cost levers should be pulled?
- How quickly is cost improvement desired?
- What is the company's track record with cost reduction initiatives?
- What is the anticipated change management burden?
- Is business information and data readily available?

As we design tailored programs, we focus on accelerating results, addressing risk management priorities, and incorporating effective practices by leveraging Deloitte's multi-disciplinary capabilities, including:

- Dedicated industry practices to tackle industry or sector-specific cost challenges.
- Human Capital and Tax practices that facilitate change management and tax-efficient solutions.
- The Deloitte Global Benchmarking Center, which leverages both industry-specific and cross-industry benchmarks and leading practices on cost reduction.
- Access to the specialised and extensive resources of the subsidiaries of Deloitte LLP, and the member firms of Deloitte Touche Tohmatsu Limited and their affiliates, to implement global solutions while still accounting for regional and local cost-to-serve considerations.
- Financial management services to introduce concepts like zero-based budgeting that can reset cost reduction practices after structural cost reductions.



Ways to get more value now

- Align with business strategy.
- Have a clear understanding of strategic cost classes versus operational cost classes.
- Be prudent about where to cut and where to invest.
- Focus on structural over incremental.
- Incremental cost cutting without fundamental structural change often results in unsustainable short-term savings that creep back into the organisation over time.
- Strike a balance between cutting too much or too little.
- Take time to understand nuances of local markets to adapt broader enterprise approaches to local requirements.



The big idea

A transformation of cost performance requires a program that is:

- Structural, not continuous improvement focused.
- Enterprise-wide and programmatic, not a point solution.
- Tailored, not a "one size fits all" approach.
- Financially-balanced, so it leverages quick hits to fund longer term opportunities.
- Results-focused, not distracted by obstacles along the way.



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Learn more

Strategic Cost Reduction is central to the long-term sustainability of a business.

To learn how Deloitte Monitor can help, visit <http://www2.deloitte.com/za/en/pages/strategy/articles/monitor-deloitte.html>

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