

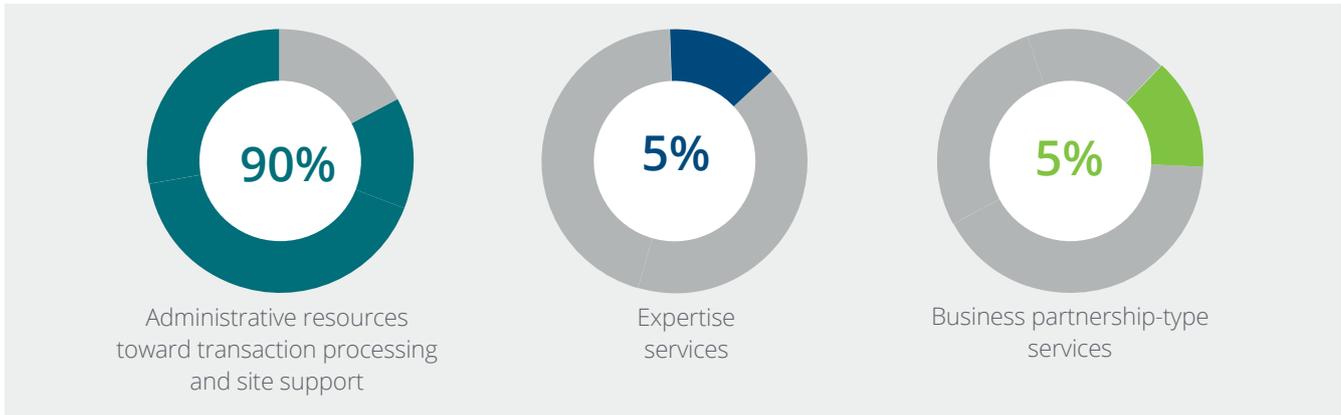


Selling, General & Administration (SG&A)
Cost Reduction Focus

Distribute Work According
to its Value

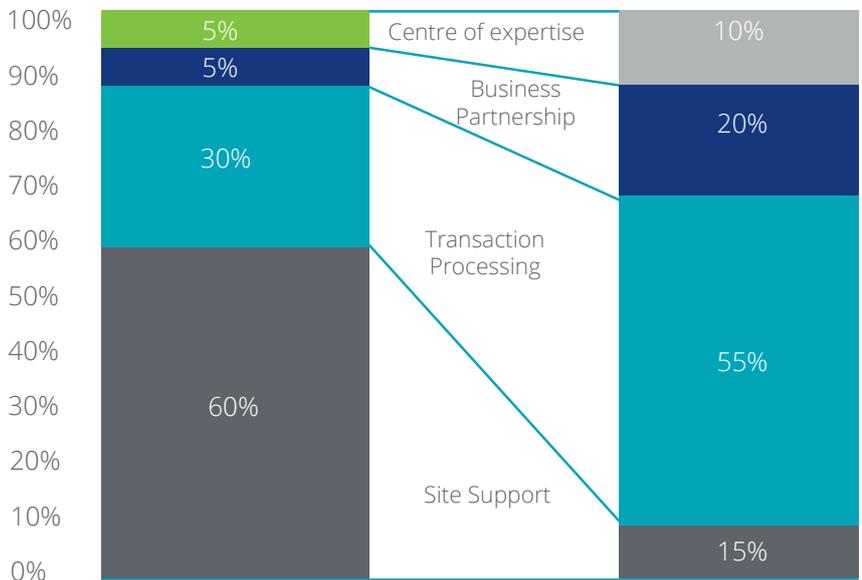
Distribute Work According to its value

Crucial to any cost-reduction effort is to understand what work gets done, how it adds value, and where that work should be located within the organisation. In our experience, there's typically a huge gap between where most companies currently perform work and where that work should be performed for greater efficiency and flexibility.



Comparing the Current State of Most Companies to That of Leading Companies

The distribution of resources before rationalization is typically focused more on nonstrategic processing than on knowledge-based activities.



Typical Current State

Transaction processing not optimised via centralisation
 Site support focused mainly on transaction processing, with little focus on business partnership

Less focus on business partnership and centers of expertise

Better Practice

Transaction processing centralized for increased efficiency and effectiveness
 Site support of transactions that are unique to the business or closely tied to core operations

More focus on business partnership and centers of expertise

The Lean Staff Model: Potential Organisational Structures, Sizing and Savings

A Deloitte method called the “lean staff model” has proven particularly successful in scrutinising how key work processes deliver value. The lean staff model uses a 2 x 2 matrix to categorise each SG&A function and process along two dimensions. Along the method of adding value axis, work is divided into tasks that add value through low-cost or business unit knowledge and defined service levels, and work that adds value through either management involvement or knowledge transfer.

Transactional activities such as accounts payable, for example, add value through low-cost knowledge and a well-defined set of services. This differs from a more expertise based activity, which delivers value through the work’s quality and/or analysis. Consider compensation design: The goal isn’t to conduct the work at the lowest cost but rather to design a program that meets the company’s needs.

Functional Decomposition Matrix (2x2)

		Method of adding value	
		Standardisation/ Efficiency/ Defined Service	Management Involvement/ Knowledge Transfer
Business Independence	Specific Division/Location	1 Site support <ul style="list-style-type: none"> • Distributed to location(s) • Service focus • Specialized services • End-user intensive 	4 Business partner <ul style="list-style-type: none"> • Aligned with function / unit • Line / management focus • Knowledge and know-how transfer • Decision / action intensive
	Generic/ Company wide	2 Transaction processing <ul style="list-style-type: none"> • Consolidated organisation • Operational focus • Standardised services • Process intensive 	3 Center of expertise <ul style="list-style-type: none"> • Organised by knowledge set • Expertise focus • “Onetime” expertise • Issue/knowledge intensive

Sample Decomposition Matrix: Marketing Function for a Retail Company

		Method of adding value	
		Standardisation/ Efficiency/ Defined Service	Management Involvement/ Knowledge Transfer
Business Independence	Specific Division/Location	1 Site support <ul style="list-style-type: none"> Customer/in-store communication execution Promotional communication execution Ad hoc reporting on an exception basis P.O.S. data collection Grand openings Graphic production vendor selection 	4 Business partner <ul style="list-style-type: none"> Credit promotions development Event development and implementation Customer/in-store communication and implementation Brand definition and communications Provide input to marketing survey criteria Implementation of loyalty and retention programs Promotions development and evaluation Media plan development and implementation Advertising creative work
	Generic/ Company wide	2 Transaction processing <ul style="list-style-type: none"> Media buying vendor selection Standard reporting Data management Graphic production 	3 Center of expertise <ul style="list-style-type: none"> Credit promotions development and approval External data collection CSI marketing strategy and policy Marketing event analysis Marketing analysis and research Internal and external benchmarking Credit promotions development and approval Public relations Community relations standards and direction Special CEO projects Develop criteria for marketing surveys



Outsourcing or even offshoring the shared services center can yield additional savings. Just as important, a single shared services center is much more scalable than its equivalent housed within multiple business units.



Moving to a shared services model for transactional activities, allows a company to adjust its related SG&A spend more quickly in response to business and environmental changes.



Taking tax strategies into consideration can further improve the business case for either insourcing or outsourcing. Similar in concept is the "center of expertise," a centralized resource designed to handle any type of specialist activity that is not transaction-based, such as tax planning, treasury, or internal audit.



Represented in the lower right corner of the lean staffing matrix, these activities can carry a high price tag for the specialised knowledge they require, but the expense can be offset by applying that knowledge to as many different parts of the organisation as necessary.



A centralized internal audit function is a good example of a center of expertise: A dedicated group of specialists can be deployed to each part of the enterprise in turn, eliminating the need for each division to maintain its own internal audit department.



Specialist activities that require site specific input, such as marketing, finance, or HR, may be best described as "business partnership" activities, represented in the upper right quadrant of the lean staffing matrix. These activities cannot be placed in a center of expertise due to their specificity to a particular part of the organisation.

To improve efficiency and reduce costs, companies need to reallocate resources to have fewer employees in transaction processing and more in business partnership, and reduce the overall number in both.

The Value Equation

Focus on what needs to be done to gain the greatest impact on value



They also require a greater degree of knowledge transfer and/or management involvement than can be housed economically in a transaction-processing center. Generally, we find that these activities generate the greatest return on investment when local personnel have appropriate freedom of action under the overall direction of a central authority.

Properly balancing local customisation against centralised standards is key, as is the appropriate assignment of responsibilities between business unit and corporate personnel.

Finally, the upper left quadrant of the lean staffing matrix represents the irreducible amount of "site support" activity transactional processes specific to each business area – that must occur in any organisation. These can include anything from photocopying and reception desk staffing to on-site technology support. In our view, these and other site support activities should be housed locally on an exception basis only, in situations where management has determined that there are good and sufficient reasons not to centralise them in a transaction-processing center.

In many cases, starting with the assumption that all transaction-processing activities can be centralised and looking for exceptions can yield bigger, more sustainable cost reductions than treating centralisation as the exception to the rule.

Applying the lean staff model to specific functions, along with key performance metrics, can identify further cost-saving opportunities within each function. Consider a finance function's lean staff matrix. A great deal of transactional work, such as travel and entertainment (T&E), accounts payable, inventory accounting, fixed-asset accounting, and general accounting, took place in individual business units. A lean staff model centralises these activities in the transaction processing quadrant.

Knowledge activities, such as internal audit, treasury management and tax planning, were moved into a center of expertise. And the business partnership segment expanded to include such activities as management reporting.

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