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

Build on the Business Model

The Foundation for Lasting Business

Build on the Business Model: The Foundation for Lasting Business

A company's business model prescribes not only how business units will associate with each other and with corporate headquarters, but also how SG&A functions operate throughout the company. Any SG&A improvement program must take into account how the company's larger business model affects the SG&A infrastructure, both when looking for improvement opportunities and when recommending solutions to existing problems.

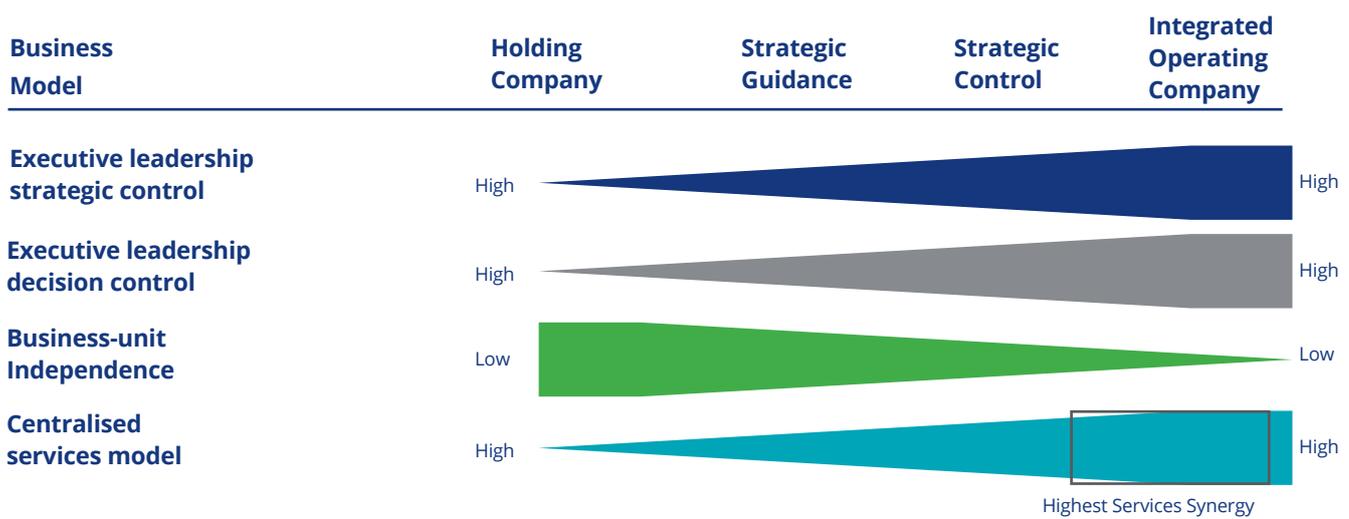
There are four basic business models. On one side of the spectrum is the holding company; and on the other side is the integrated operating company. Most companies falling within the middle are either in the strategic control or the strategic guidance model. An integrated operating company typically exerts highly centralised management control over a set of operating units, each of which has very limited strategic and operational autonomy. A holding company, in contrast, consists of a number of relatively autonomous, stand-alone business units.

The vast majority of SG&A services are provided centrally in an integrated operating company, while SG&A at holding companies tends to be localised at each business unit. The strategic control and the strategic guidance models lie in the middle. In the strategic control model, the operational model is one of a general management team, and a significant portion of SG&A services is provided centrally. The strategic guidance model also has a general management team, but typically provides centralised SG&A services only on an as needed basis. Although SG&A effectiveness can be achieved under any business model, the integrated operating company model offers many potential SG&A cost-reduction benefits and opportunities to improve efficiency.

The integrated operating company model allows SG&A to take advantage of economies of scale and set up leveraged service units to reduce enterprise-wide redundancies, yielding greater efficiencies at competitive price. In many cases, companies find that a strategic control model provides the right balance of business unit autonomy and centralised efficiency, fostering innovation, creativity and entrepreneurship while at the same time benefiting from the synergies of belonging to a large company.

A Company's Business Model Facilitates an Optimal SG&A Delivery Strategy

A shift toward an integrated operating company results in higher SG&A efficiencies, although effectiveness can be achieved under any model



Contact us



Daryl Elliott
Strategy & Innovation |
Enterprise Cost Reduction Leader
Tel: +27731955829
Email: delliott@deloitte.co.za
Deloitte South Africa



Louis Kruger
Strategy & Innovation Director |
Leader Monitor Deloitte
Tel: +27112096165
Email: lokruger@deloitte.co.za
Deloitte South Africa



Arun Babu
Strategy & Innovation Director |
Business Model Transformation
Leader
Tel: +27115174114
Email: arbabu@deloitte.co.za
Deloitte South Africa



Andrew Grobicki
Strategy & Innovation |
Cost Transformation Specialist
Tel: +27115174514
Email: agrobicki@deloitte.co.za
Deloitte South Africa

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