

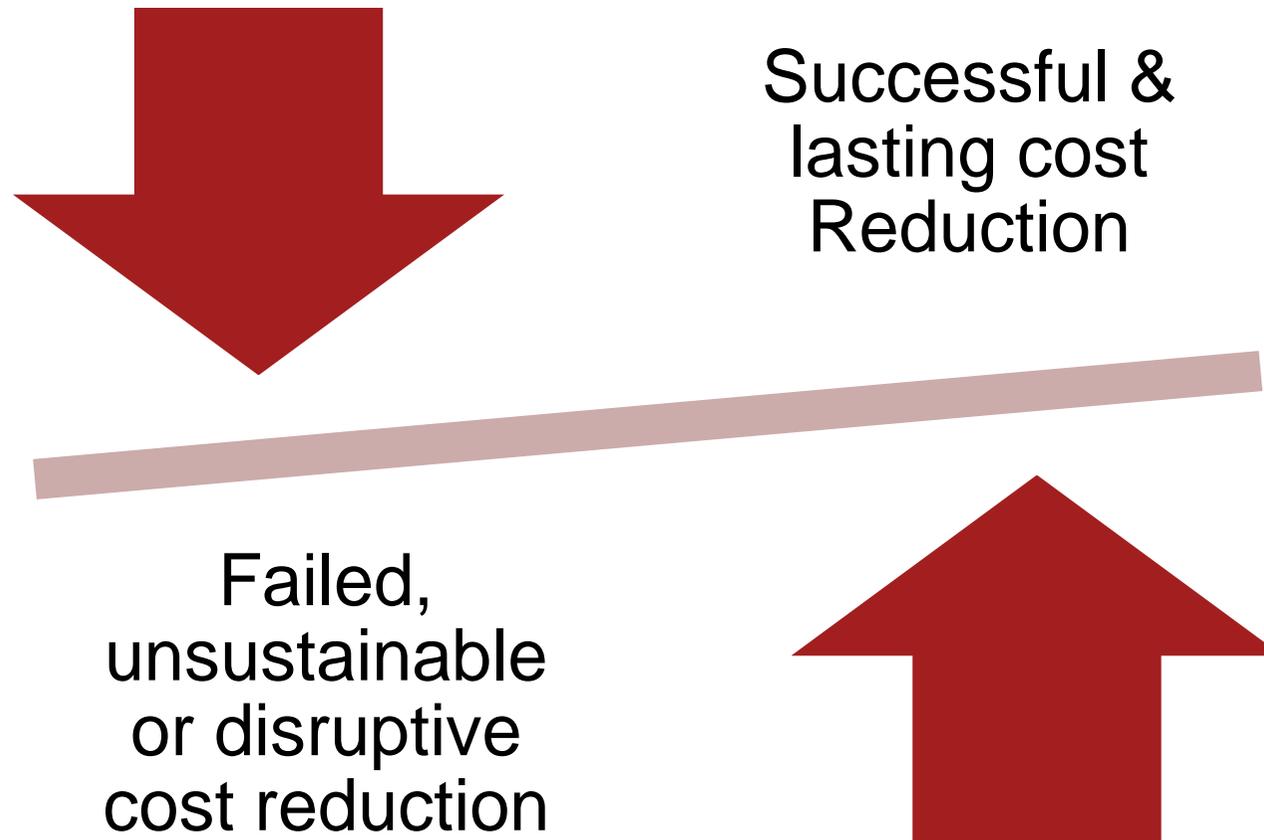
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CFO's role in delivering sustainable cost reduction

CFO Forum
Ben Lazarus

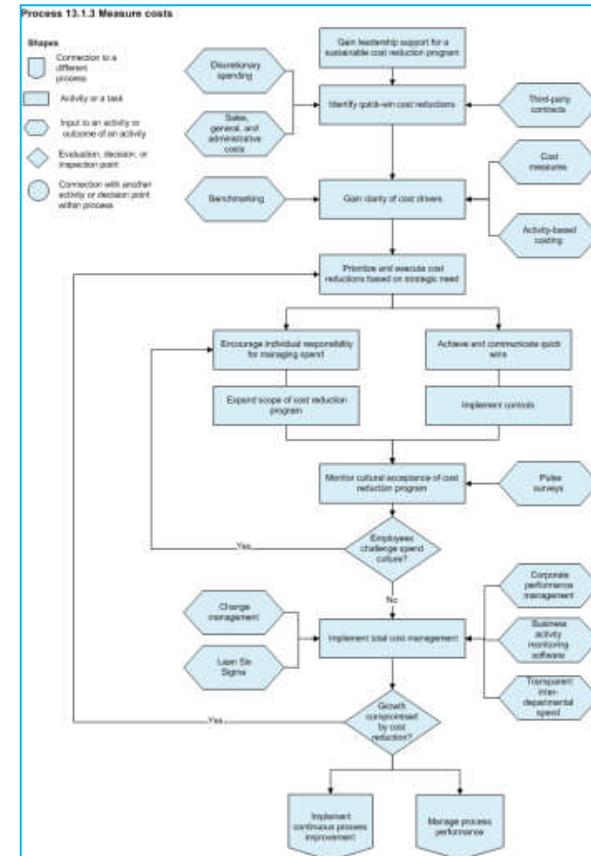
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Put simply...the CFO is a fundamental factor in both:



Objectives of this session

- How can it go right/wrong?
- What are the critical success factors for successful Cost Reduction programme?
- What should the ideal process be?
- How does the CFO make the difference?



A word on Cost Reduction...at its best and at its worst

Its worst:

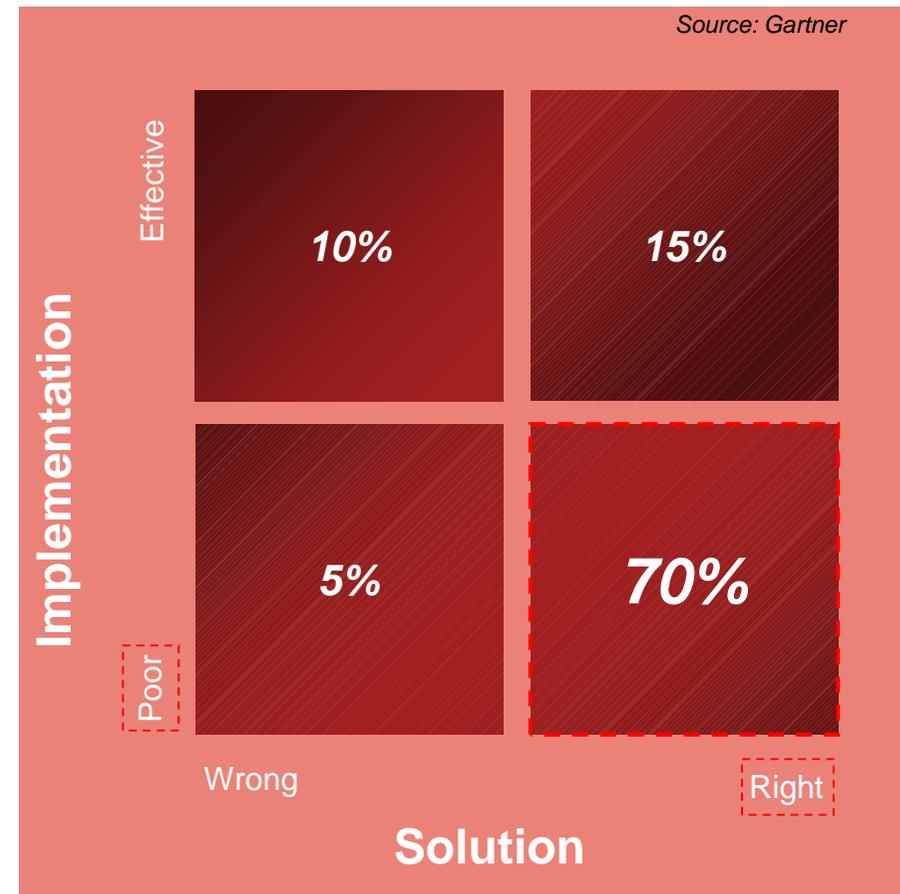
- Knee jerk & reactive
- Value destroying
- Pushed down and resented
- Wishful thinking
- Reduces control
- Lack of ownership
- Betting on a silver bullet
- Scratches the surface
- Ignites warfare and division

Its best:

- Drives lasting change, flexibility, improvement & efficiency
- Drives strategic goals
- Improves life for stakeholders
- Drives the right culture
- Transforms fortunes & competitiveness

Cost reduction is a form of change...change is hard and often fails

- Research by Gartner says over 70% of change projects fail to deliver expected benefits
- These failures to achieve the benefits are not because the solution is wrong; 70% are when the solution was right...
- “90% of projects overrun and overspend, 66% are deemed failures, 30% are scrapped”



5 success factors in successful Cost Reduction

PwC Global Best Practice (www.globalbestpractices.com) provides a benchmark of 5 key factors in successful Cost Reduction:

- A. Improve cost reduction and cost management simultaneously **without compromising growth potential**
- B. Create a **culture** of sustainable cost reduction
- C. Build the foundation for cost management and control with **clarity and transparency**
- D. Improve cost management and control by standardizing and **streamlining processes**
- E. Sustain cost reduction through **continuous process improvement**

A: Improve cost reduction and cost management simultaneously **without compromising growth potential**

- 1. Comprehensive program for both cost reduction and cost management and control**
2. Core element of and link to corporate strategy
3. Cost cutting is not a one off single activity
- 4. Look for savings that don't destabilise**
5. Use of external and internal benchmarks
6. Use of analysis wider than the ERP
7. Real analysis of deployment of people and assets

In this context, traditional approaches often fail to deliver

Common approach		Common reasons for failure
<p>Top Down</p> 	<p>“Top-down” review of the business – typically organization and process changes are required</p>	<ul style="list-style-type: none"> • Little consideration for the management decisions driving cost • Organization focus and betting on a “silver-bullet” (e.g., shared services and off-shoring) • Complexities of reducing costs and existing behaviors are not changed
<p>Slash and Burn</p> 	<p>Business as usual but at less cost due to reduction in operating plans by a set target (e.g., 10% cost reduction)</p>	<ul style="list-style-type: none"> • Reactive and focused on survival • Short-term cost cutting and focus on one-off savings (e.g., travel) • Based on arbitrary targets • Savings difficult to manage and track • Negative impact on morale and culture
<p>Boil the Ocean</p> 	<p>A bottom-up detailed analysis across all departments to identify potential opportunities</p>	<ul style="list-style-type: none"> • Timeframe constraint and lack of urgency • Greater investment required • Typically loses momentum and focus • Negative impact on morale and culture • Process often only produces lists • Departments become personally invested in their own budgets and rarely find waste

B: Create a **culture of sustainable cost reduction**

- 1. Culture that encourages individual responsibility for managing and controlling spend**
2. Engagement to minimize the chances that any costs go unscrutinized
3. Reward and recognize truly sustainable measures
- 4. Small scale, building on quick wins, and expanding the scope of such initiatives gradually sticks better than big bang**
5. Culture of objectivity in evaluation of nonproduction expenses.
6. Strive for quick wins at the outset

People represent the success and failure of projects and change

Top 10 barriers • 9 out of 10 barriers are people related	• Competing resources	48%
	• Functional boundaries	44%
	• Change skills	42%
	• Middle management	38%
	• Long IT lead times	35%
	• Communication	34%
	• Employee opposition	33%
	• People issues	32%
	• Initiative fatigue	32%
	• Unrealistic timetables	31%
Top 10 success factors	• Ensuring top sponsorship	82%
	• Treating people fairly	82%
	• Involving employees	75%
	• Giving quality communications	70%
	• Providing sufficient training	68%
	• Using clear performance measures	65%
	• Building teams after change	62%
	• Focusing on culture/skill changes	62%
	• Rewarding success	60%
	• Using internal champions	60%

- Delivering successful change is all about People
- Engaging people in the journey is critical
- Unlocking people's ideas can generate incredible return
- The opposite can simply kill success

Source: PwC survey focusing on large change projects in 500 multinationals and public sector companies covering all industry sectors in North America Europe, Far East North America Europe, Far East. © PricewaterhouseCoopers/MORI

C: Build the foundation for cost management and control with clarity and transparency

1. Information and deep analysis into cost drivers/activities
2. Metrics based on its overall strategy
3. **Effective customer profitability analyses indicate not just which customers are profitable, but why certain customers are more or less profitable than others**
4. Use of Spend Management processes/tools – including travel expense analysis, spend analysis, sourcing, procurement, invoicing, and supplier relationship management (SRM) software.
5. **Corporate Performance Management culture – such as Balanced Scorecard/KPIs**

D: Improve cost management and control by standardizing and streamlining processes

1. Don't focus on department costs - focus on process cost measures such as customer-order-to-delivery time. **Foster collaboration across the entire organization, motivating departments and business units to work together to achieve common performance goals.**
2. Budget:
 - **Last years total should not be the guide**
 - Challenge with questions such as how much does the company spend to produce goods, render service, or support operations
3. In-depth spend analysis of vendors to streamline the purchasing process
4. A systematic approach to SG&A restructuring and cost reduction

E: Sustain cost reduction through continuous process improvement

1. The company determines which process improvements should be initiated first based on their strategic value and cost-saving potential.
2. **Use of Lean/Six Sigma to improve continuously**
3. Use of shared services for core/common processes
4. **Employee support and engagement with Continuous process improvement**
5. Business Activity Software in place



Some example KPIs

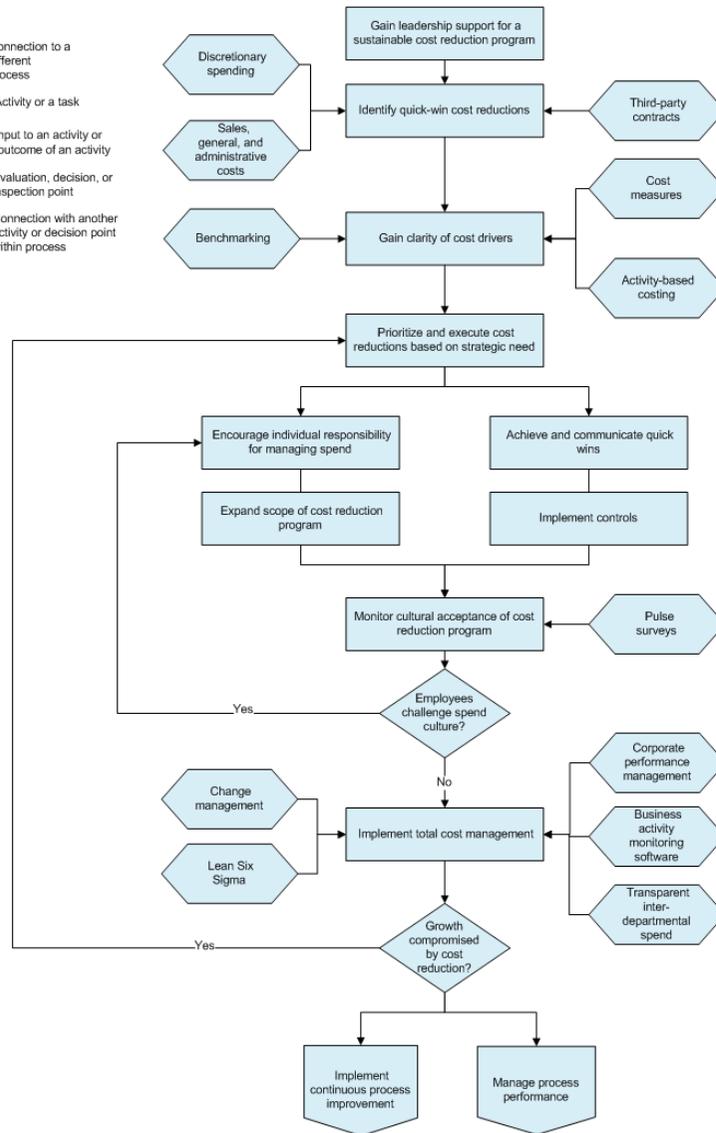
Key objective	Outcome measures	Activity measures
A: Sustainable cost reduction without compromising growth potential	<ul style="list-style-type: none"> • % of cost reduction initiatives that directly support strategies • % of cost reduction initiatives that adversely impact company performance 	<ul style="list-style-type: none"> • % of cost reduction initiatives driven by senior management • No of sourcing arrangements initiated over the past 12 months • % of third-party spend contracts analyzed for cost inefficiencies • % of cost measures that are compared to internal and external benchmarks
B: Culture of sustainable cost reduction	<ul style="list-style-type: none"> • No of employees out-of-policy with travel and entertainment expenses in past 12 months • No of cost reduction quick wins in past 12 months 	<ul style="list-style-type: none"> • No of employees formally assigned to challenge costs • No of communications per month on progress of cost improvement initiatives • No of employee suggestions for cutting costs in their departments
C: High degree of cost clarity and transparency	<ul style="list-style-type: none"> • No of cost reduction initiatives that used activity-based costing in past 12 months • No of cost reduction initiatives that used corporate performance management in past 12 months • No of customer profitability analyses conducted in past 12 months 	<ul style="list-style-type: none"> • % of employees trained in using activity-based costing • No of employees trained in the principles and use of corporate performance management
D: Highly efficient processes	<ul style="list-style-type: none"> • No of processes that have reduced costs in past 12 months • No of processes that have reduced operating times in past 12 months • No of process improvement initiatives with a positive return-on-investment (ROI) in past 12 months 	<ul style="list-style-type: none"> • % of vendor contracts renegotiated in past 12 months • % of process cost measures versus all cost measures • No of times each process cost measure is reviewed per year • No of process redundancies identified in past 12 months
E: Continuous improvement	<ul style="list-style-type: none"> • % of process improvement initiatives in past 12 months that have failed • % of process initiatives that meet or exceed performance goals 	<ul style="list-style-type: none"> • No of employees trained in using business process management technology • % of process improvement initiatives monitored in real time • % of process improvement initiatives with active, ongoing support of executive leadership

Cost Reduction process – Steps 1-6

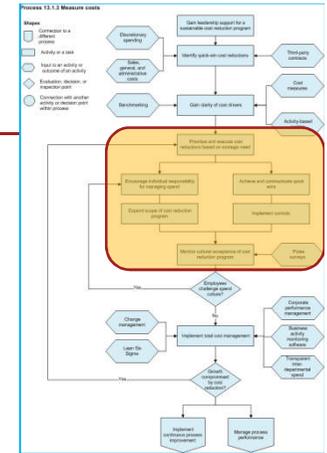
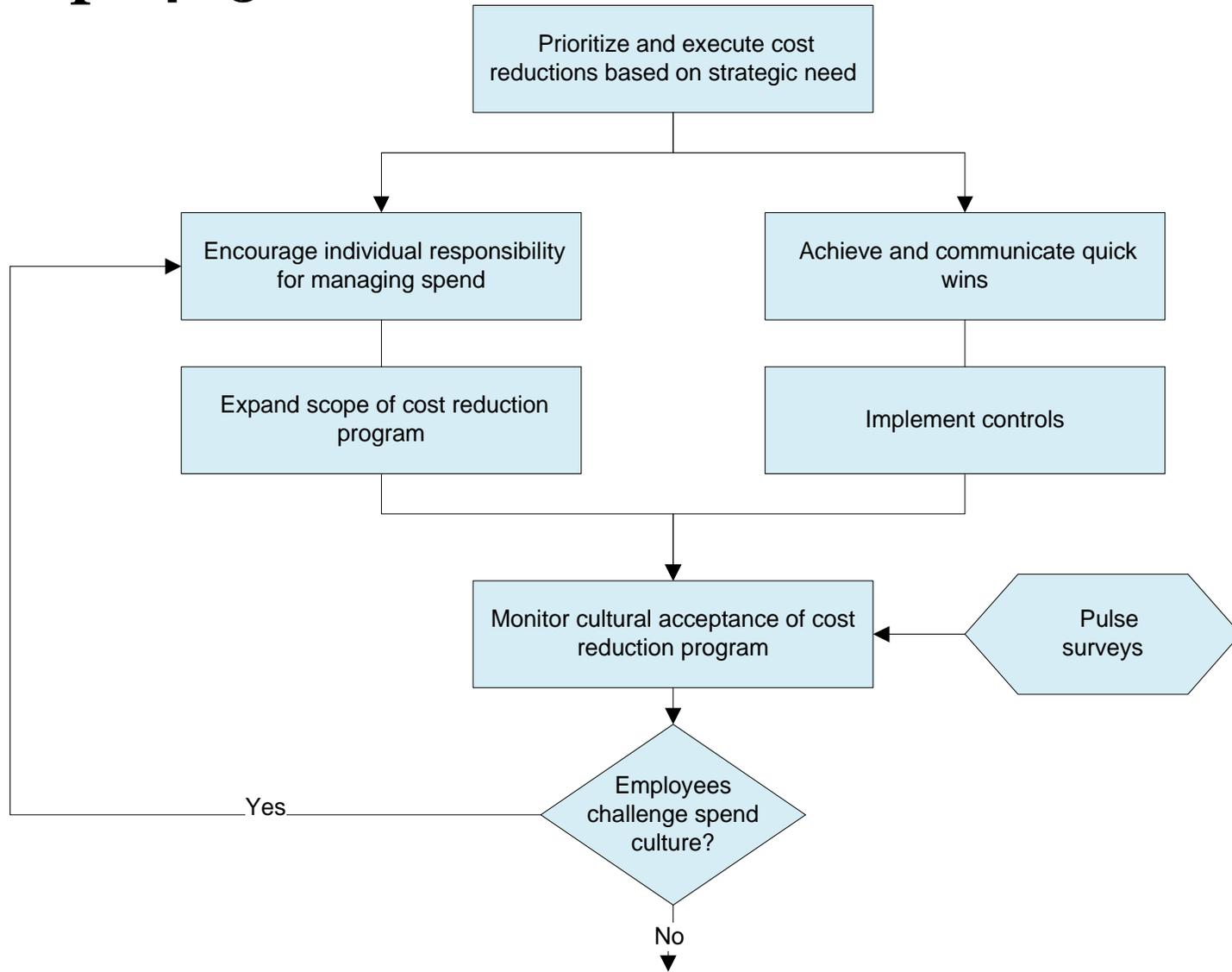
Process 13.1.3 Measure costs

Shapes

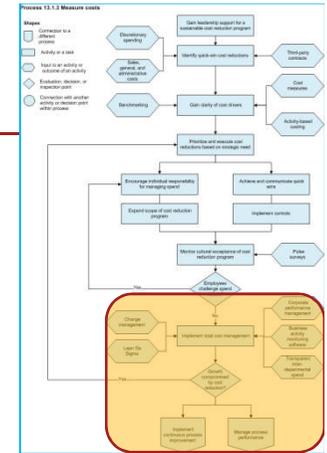
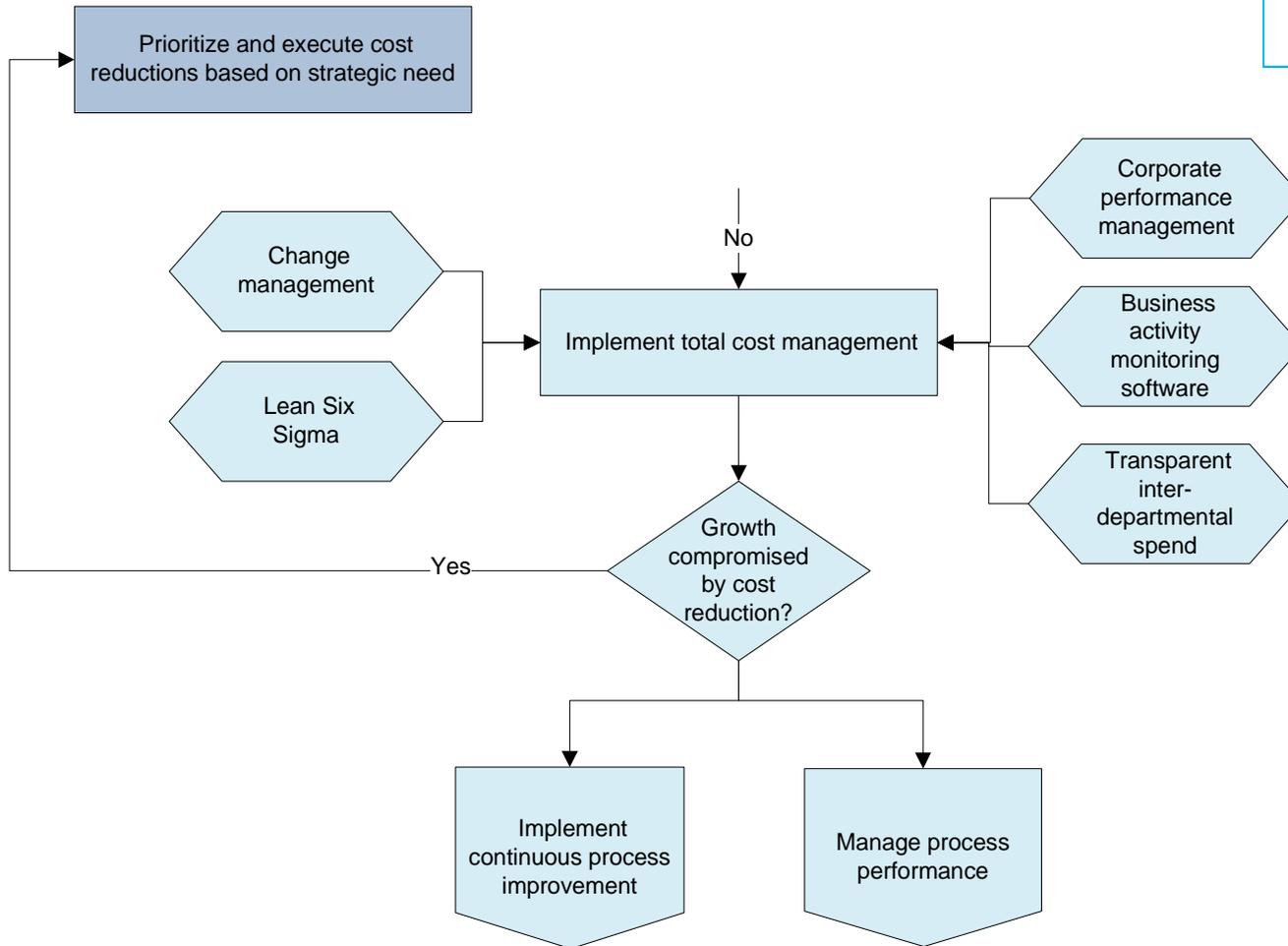
-  Connection to a different process
-  Activity or a task
-  Input to an activity or outcome of an activity
-  Evaluation, decision, or inspection point
-  Connection with another activity or decision point within process



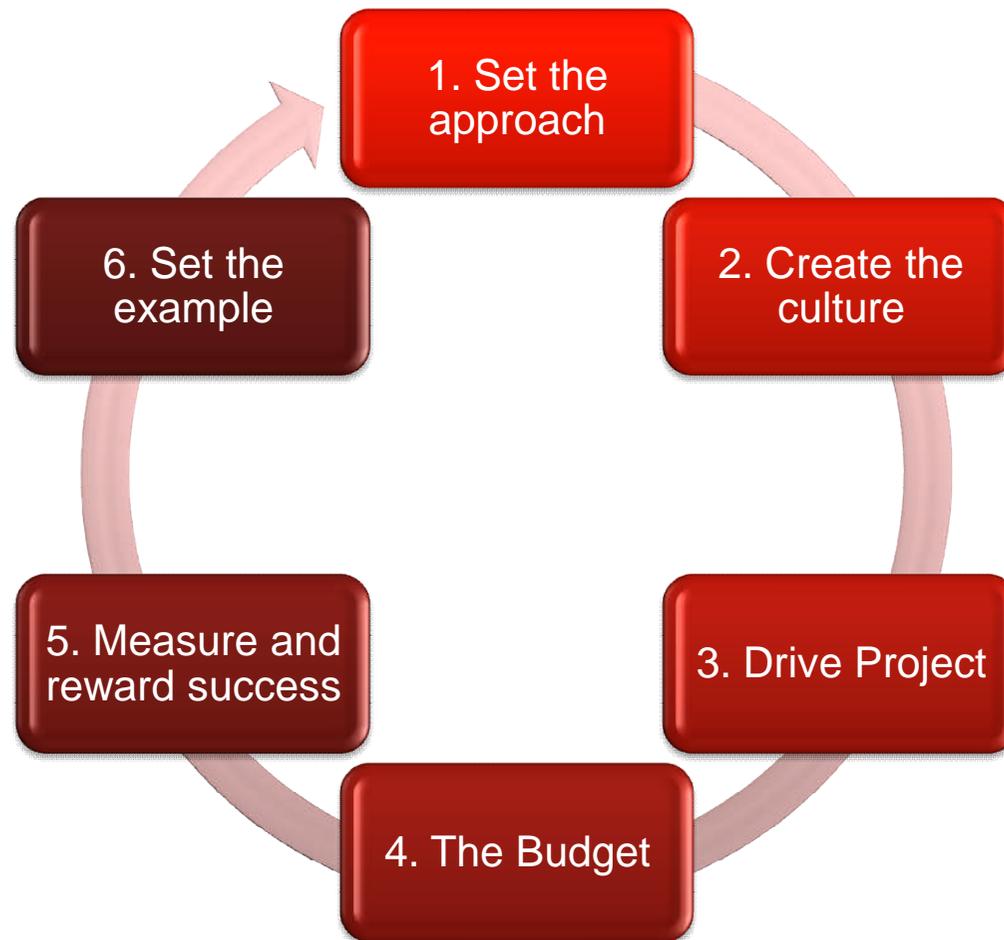
Steps 4&5:



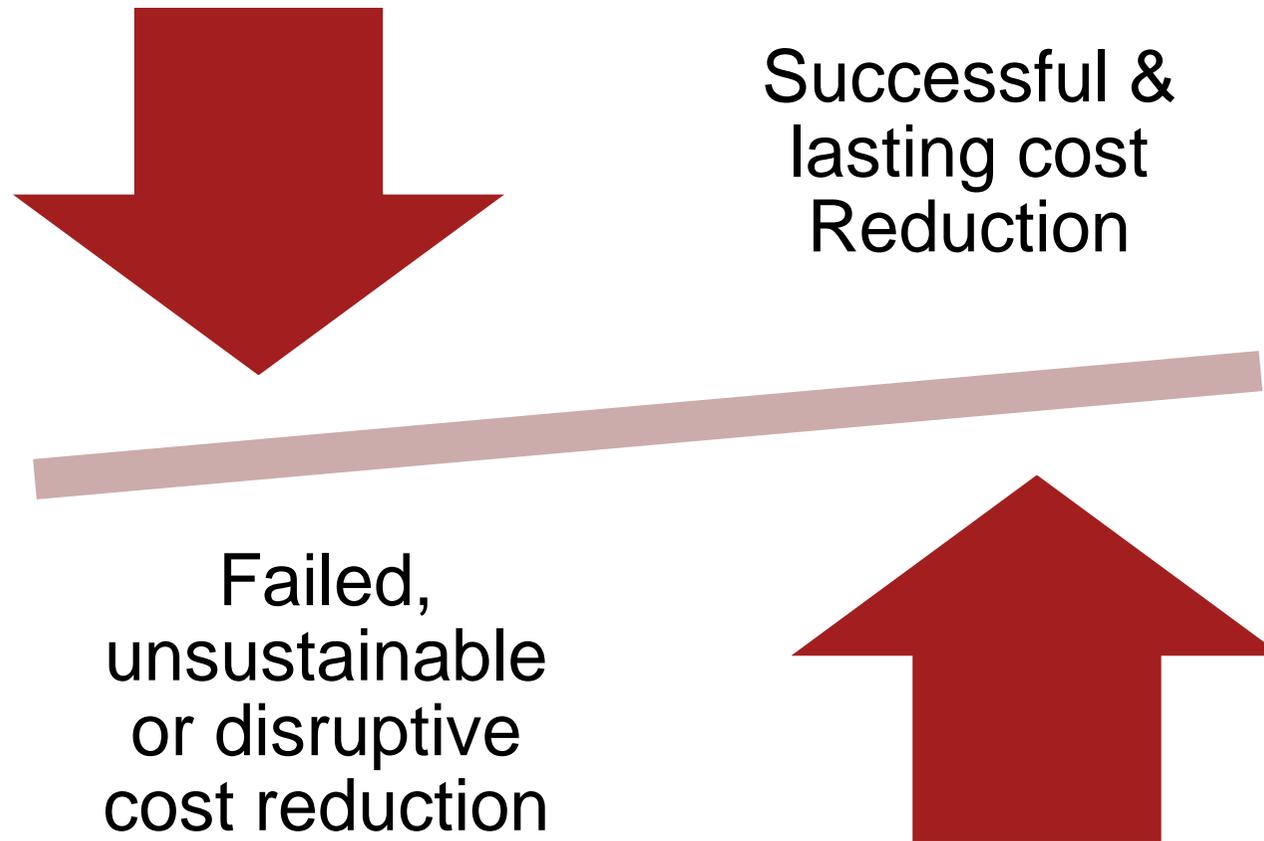
Step 6:



How can the CFO make the difference?



The role of the CFO is pivot



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