



The winning edge in uncertain times

Improving performance through rapid and sustained cost management

The realities of volatile capital markets and a struggling global economy confront management's decision-making at every turn. In recent years the challenges in managing costs have multiplied due to relentless competition, increased earnings expectations, complex global operations, regulatory compliance, efficiency imperatives, proliferating risks and the sheer speed of change. In addition to these challenges, companies today experience unprecedented economic turbulence.

While Malaysia has not borne the brunt of this current economic crisis, there are signs indicating that things are about to get worse. The Ministry of International Trade and Industry (MITI) recently released less than encouraging data, with Malaysian exports in January 2009 slumping by 27.8% compared to just a year ago. Banks are also tightening their lending criteria, with loan approvals having declined significantly.

What can companies do to navigate through such an unfriendly business environment?

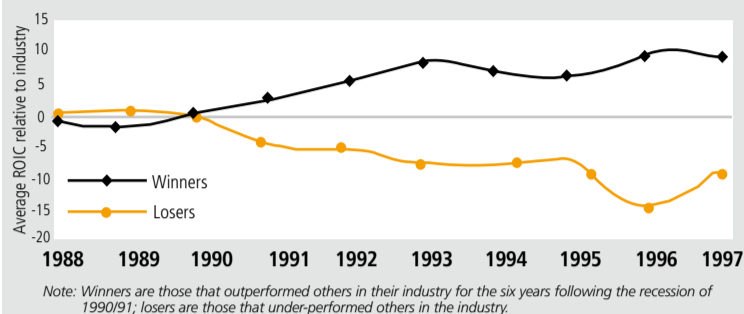
Taking advantage of a downturn

Accenture's High Performance Business research shows that high-performance businesses invest to strengthen their position through mergers and acquisitions, product innovation and market expansion — even in a downturn. In essence, the winners pursued not an "either/or" strategy, but an "and" strategy during difficult times. They looked to strengthen their strategic positions and practised rapid and sustained cost management (RSCM) in areas of their business where costs were not competitive. Rather than make arbitrary cost reductions, winners develop RSCM strategies that are aligned with company strategy. These industry leaders invested to strengthen existing positions and take market share, accepting a low return on invested capital (ROIC) in



Rapid and sustained cost management is an idea that requires laser-like focus — where every single iota of gain, every push forward and every advantageous idea helps sharpen the company's competitive edge and gets the company on the journey towards high performance.

Figure 1
Performance comparison following the 1990/91 recession



the early years in return for a higher ROIC later.

An analysis by Accenture of the financial results of 850 companies that experienced the recession of 1990-1991 corroborates this point (see Figure 1). Strategies employed included acquisitions, forays into new markets, organic growth in adjacent markets, business unit divestments and new product lines.

'Winners' pull away after recession

The wisdom of the winners' strategy from 1990 to 1991 still holds true today. In an uncertain economy, cost reduction and cash flow generation should be top priorities for every global business leader. This inescapable fact makes RSCM more critical than ever for companies determined to succeed during and after this economic slowdown.

RSCM creates value by generating incremental cash. Based on organisational priorities, this cash can then be used to solidify existing positions and fund new directions. Through RSCM, the organisation can become leaner and simpler, thus improving the company's investment risk profile. This also makes the company more attractive to lenders and shareholders, especially in times when stringent loan approval criteria are in effect despite improved liquidity in the Malaysian financial system (Bank Negara Malaysia recently lowered interest

rates and reduced statutory reserve requirements for banks).

Rapid and sustained cost management: A dual focus

More often than not, companies cut the wrong costs for short-term gains. Decisions on cost reductions should be based on data and analytical evidence, ensuring that an organisation's sustained success remains uppermost on the cost control agenda. Accenture's RSCM focuses on two types of initiatives: (1) Those that drive operating advantage; and (2) those that drive structural advantage (see Figure 2).

Operating advantage and structural advantage are inextricably related to each other. Together, they generate the cash flow and credibility with the investment community in order to fund growth initiatives.

Operating advantage looks at the current state of the business and asks, "What can we do better, faster and cheaper while maintaining or improving our customer service?" whereas, structural advantage looks beyond the current state and asks, "What could the business be doing tomorrow and is the business structured appropriately to achieve those goals?"

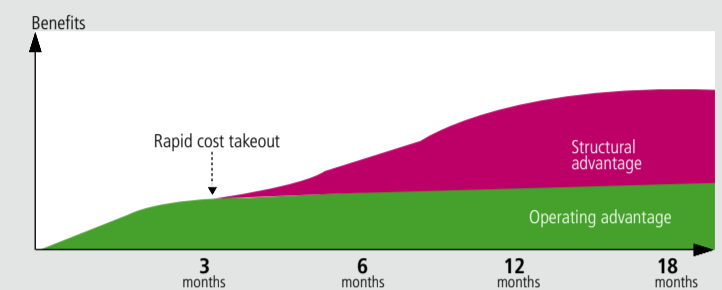
This dual focus to cost reduction is preferred as both operating advantage and structural advantage are mutually important for building sustained value for the company.

Building operating advantage

How do we rapidly take out costs without inhibiting our ability to pursue growth opportunities? How do we improve efficiency, margins and cash flow while maintaining customer service levels?

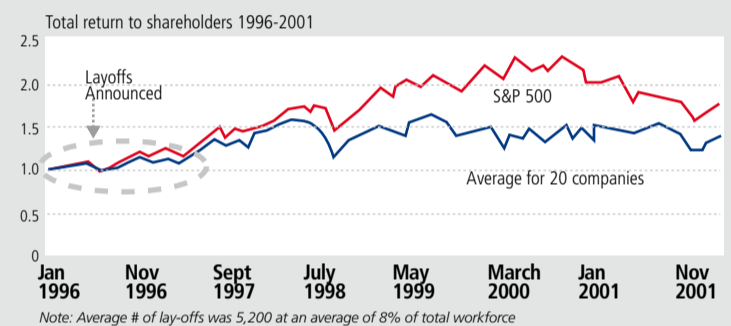
Where logical, decreasing headcount may also be a part of the solution, a trend that we are seeing today with the announcement of job cuts by so many companies globally. However, a focus on reducing high levels of cost primarily through headcount reduction may result in unintended consequences. Figure 3 demonstrates what happened to a small sample of 20 companies Accenture analysed that announced significant headcount reductions during the last recession (average reduction for these 20 companies was 8% of their total workforce). Over a period of five years, their total return to shareholders was only 37% compared with the S&P 500's return of 90%. Instead, taking a process-driven

Figure 2
Rapid and sustained cost management



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Figure 3
A focus on reducing costs primarily through headcount reduction can produce a short-term boost but not necessarily long-term value.



approach to identify the areas for cost reduction is the preferred approach to business success. Cost reduction and working capital initiatives that drive operating advantage are intended to address current cost and cash flow pressures. This approach enables a company to reduce hidden costs in redundant activities, manual hand offs and rework that occurs between functions.

Key processes to consider are lead to cash (sales operations), procure to pay (procurement to accounts payable), hire to retire (all the processes that treat the employee as a customer of the business) and plan to manage (strategic planning to budgeting to managing the performance of the business).

Other potential initiatives that can drive high performance for the business are product portfolio rationalisation, span of control optimisation, global resource and site location rationalisation, and marketing spend optimisation.

How these initiatives are implemented will be a key differentiating factor. RSCM is not a unilateral cost reduction; rather, it is an approach that reduces cost, while ensuring enterprise strength remains intact.

Building structural advantage

Winning companies look beyond today and plan toward the future state of the business. These strategic initiatives, while more difficult to execute, do help companies achieve improved levels of business performance. Structural advantage is driven by managing the assets of the business efficiently.

There are four pillars of structural advantage — capital structure, organisational structure, geographic presence, and portfolio of businesses.

To gain structural advantage, companies need to assess and rationalise

their portfolio of assets. Based on the analysis, companies should then consider changing the structure of the business, if necessary.

Potential actions might include financial restructuring to improve debt-to-equity ratios, organisational consolidation and restructuring to improve agility, reconfiguring physical assets based on a global resource and site location strategy and acquiring or divesting businesses to reshape the portfolio of businesses for the future.

Structural initiatives aim to reduce the cost and complexity of the business operating model, drive long-term profitable growth and demonstrate multi-year expectations to the market.

Why do it now?

The economic environment is very turbulent, given the credit crunch and intense pressure on profit margins and cash flows. RSCM is a roadmap that can help companies navigate through these difficult times. It is an idea that requires laser-like focus — where every single iota of gain, every push forward and every advantageous idea helps sharpen the company's competitive edge and gets the company on the journey towards high performance.

Companies that recognise the opportunities presented during such times and adopt RSCM as part of their strategic business imperatives will not only gain greater value for shareholders today, but will also stand a better chance of outperforming their competitors when the economy recovers. **E**

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