

ACCENTURE BUSINESS JOURNAL FOR INDIA

AUDIO TRANSCRIPT

RESETTING COST BASELINE TO FUEL GROWTH

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A zero-based mindset for businesses to fuel growth and outmaneuver uncertainty

- 82 percent CEOs have initiated or plan to execute enterprise-wide cost reduction to free up funds and reinvest in growth initiatives.
- Their focus needs to move from reducing discretionary spend to resetting the cost baseline so that they can achieve greater levels of enterprise value.
- The leaders will strike the right balance between cost and profitability and reinvest for growth.
- Armed with the ZBx approach, Indian companies can achieve their profitability objectives while turning today's challenges into meaningful change.

The COVID-19 pandemic continues to drive fundamental changes in consumer values, supply chains and routes-to-market. At the onset of the crisis, it was a race for survival. Industries across the board faced depleted or zeroed

revenue and increased costs as they rushed to address short-term liquidity challenges.

KEY PRIORITIES for the C-Suite now are

- Improve liquidity and cash flow
- Reset the cost base-line
- Increase variable nature of cost structure
- Build operating resilience – e.g., balance of costs and risks
- Sustain strategic investment, and
- Identify and capture new growth potential to emerge stronger

Our survey revealed that 51 percent of industry leaders were concerned about rebounding and recovering from the pandemic. Among S&P 500 companies, 42 percent are facing a real risk of bankruptcy. And a huge 82 percent plan to execute enterprise-wide cost reduction to free up funds to invest in growth initiatives.

Businesses are taking a series of belt-tightening measures to tide through the initial crisis. As we move to the NEXT, the focus needs to shift to resetting the cost baseline and leveraging the new ways of working to sustain the cost advantage. This is critical to free up the necessary resources to reinvest in growth opportunities and thrive in the NEW NORMAL.

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DRIVING PROFITABLE GROWTH WITH ZBX

An Accenture analysis of actions that outperformers took to remain stable during past recessions found that the right balance between cost and profitability focus and reinvesting for growth has been the most reliable recipe to emerge stronger. This is where a zero-based (ZBx) mindset comes in. ZBx is a strategic and sustainable way of planning limited resources and find the non-working money which can be ploughed into new areas of growth.

The four key steps of this optimized approach are as follows:

NUMBER 1 RESET THE COST BASELINE

Most companies are taking reactive, unsustainable measures such as reducing marketing spends, travel cuts, etc., which will certainly creep back in. The pandemic provides a unique window of opportunity for businesses to intelligently relook costs and reset the cost baseline for the new reality. Budgets will have to be redone keeping in mind that consumer values are constantly evolving, new opportunities are arising and the new ways of working are becoming the norm.

Traditionally, leaders have modeled the past to predict the future. In other words, they would examine past results and incrementally carve out costs. Now, the past is absolutely not a predictor of the future. That's why they need to use the should-cost model while revisiting their cost structure.

NUMBER 2 VARIABILIZE COSTS

There's a need to minimize risks and transform fixed cost into variable costs as much as possible. HR and finance and accounting (F&A) costs can be optimized and variabilized by opting for managed services powered by artificial intelligence (AI) and automating routine, transactional work. Technology costs can be made variable by moving to cloud and adopting software-as-a-service. Similarly, companies can look at outsourcing elements of production or distribution and logistics to third parties. That's where building a successful partner ecosystem can help.

NUMBER 3 DRIVE ONGOING CULTURE AND BEHAVIOR CHANGE

The crisis presents a unique opportunity to drive a broader ownership culture for costs in the organization. Companies must come up with ideas to develop smarter ways of working and spending money. This will generate additional savings year-over-year to fuel growth.

NUMBER 4 REINVEST IN GROWTH

The crisis is giving rise to new opportunities and changing the current competitive landscape. Continued focus on cost reduction will offer companies the funding they need to invest in these new opportunities and future growth.

WINNING WITH ZBx: SUCCESS STORIES

A large consumer goods company is incorporating new ways of working to achieve a 10–30 percent reduction across indirect spend categories, while achieving a 5–10 percent reduction in direct spend categories.



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Further, it adopted the return on investment (RoI) lens to prioritize customer promotions and achieved 15–20 percent optimization by eliminating negative RoI programs.

A large fashion retailer leveraged the commodity downturn and renegotiated yarn prices, improving margins by 4–10 percent across categories. They are reinvesting the savings in reimagining their ecommerce business.

A large industry and mobility client leveraged the ZBx approach to drive 20 percent productivity improvement and 15 percent cost reduction across cost packages such as logistics, general and administrative, manufacturing, and sales and service. It is reinvesting the savings in digital and advanced analytics capabilities to create more value and deepen its competitive advantage.

LEVERS TO AMPLIFY AND SUSTAIN SAVINGS

EMBRACING NEW WAYS OF WORKING

Business leaders are leaving the old employment playbook behind and embracing new ways of working. They are looking at new operating models that are a mix of on-site working and hybrid virtual, and building workforces that are sustainably engaged, inclusive, diverse and resilient. These levers are resulting in significant savings, which can be sustained beyond the crisis.

Forced into working virtually during the lockdown, a medium-sized auto ancillary company was pleasantly surprised by the effectiveness and ease with which it was able to adapt to the situation.

The company is now implementing digital and AI solutions to optimize its HR and F&A functions, reducing costs by 10–20 percent, and variabilizing its cost structure by leveraging third-party service providers.

MAXIMIZING THE IMPACT OF ANALYTICS

While most companies are unlocking savings in direct material by leveraging the core ERP solution, in our experience, core solutions, when combined with EDGE solutions can result in 2x more savings. Accenture has developed EDGE solutions that leverage AI and advanced analytics capabilities to enable businesses to integrate both structured and unstructured data from internal as well as external sources in meaningful ways to find new insights and savings.

For instance, a large oil and gas company developed and leveraged more than 15 digital assets and advanced analytical tools to generate annualized savings of US\$1.1 billion in areas of purchase, material management and logistics.

ACCELERATING DIGITAL TRANSFORMATION

Technology is increasingly becoming crucial as organizations reposition themselves to meet the ever-evolving demands of customers. This means companies need to optimize the non-core IT spend and reshape and variabilize the spend profile to enable growth leveraging levers such as modern, fit-for-purpose architecture, AI-driven automation, migration to cloud and agile delivery.

For example, an agribusiness leveraged the ZBx approach to optimize its technology



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spend by 42 percent, enhance its application landscape, speed up migration to cloud and align its IT services and projects with business outcomes.

REINVESTING TO UNLOCK FULL ENTERPRISE VALUE

The COVID-19 pandemic has enabled companies to make the ZBx approach even more relevant in today's world.

A key step to drive a low-cost base is adopting a should-cost mentality to foster a sustainable, cost-conscious culture within the organization. By ingraining it in how people think and work, it begins to happen naturally.

As business leaders plan ahead, they should proactively focus on economic viability, cost efficiency and competitive moves. To thrive, they must adopt a balanced approach of resetting their cost baseline, improving profitability and creating a blueprint for ever greater levels of enterprise value. When new opportunities start to surface, it will be important to plan to capture these new opportunities ahead of the competition and emerge stronger from crises, now and in the future.

This article is written by MANISH CHANDRA, Managing Director, Accenture Strategy & Consulting, Lead – Supply Chain & Operations, Strategy and ZBx (Growth Markets).

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