CFO reality check:
Good intentions in cost management are not good enough

By David A.J. Axson and Aneel Delawalla
Nearly one-quarter of CFOs think that their companies as they exist today will die, according to an Accenture Strategy survey. Fifty-eight percent believe their industries will be disrupted, and some competitors will disappear.¹

With disruptive forces everywhere, CFOs are under pressure to defend against the threats, harness the opportunities and strengthen competitiveness. Are they doing enough now to survive?

The answer is no for many of them.

Cost reduction is central to the role of the CFO and has contributed significantly to earnings growth over the last few years. But as CFOs pivot to growth, many risk leaving the cost flank exposed. Just 6 percent of CFOs say that cost management will be their top strategic priority in 2016. This is the case even though they expect costs to increase year over year from 2015 to 2017.² Yet a flexible cost structure is essential to fuel profitable and sustainable growth.

CFOs must do more now to drive a broad cost management mandate. Strategic cost management offers a radical approach to disrupting enterprise costs from the inside, a structural transformation powered by digital technologies. This is not status-quo cost reduction focused on doing the same things for less. It makes deliberate and durable changes to the business or operating model to sustain 20 to 50 percent in cost reductions to reinvest for growth.³

Nearly $\frac{1}{4}$ of CFOs think their companies as they exist today will die.
Act now on strategic cost management

Accenture Strategy research indicates that CFOs are not making cost management their strategic priority for now, although they are in a fight for survival. Many predict that their companies will be materially, if not negatively, impacted by disruption. Fifty-nine percent say that strategic cost management is an initiative they will take to ensure their business survives disruption—much higher than other options such as mergers and acquisitions (35 percent) or ecosystem collaboration (27 percent).⁴ With disruption having arrived in full force and CFOs recognizing that strategic cost management is vital to defend against it, what are CFOs waiting for?

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Go beyond blind cost cutting

The more costs that CFOs can take out of the business now, the bigger the investments companies can make toward profitable growth—in product and service innovation, adopting digital technologies, improved productivity, better customer experiences, new market entry or other areas.

By attacking costs comprehensively and strategically, CFOs afford companies a longer runway of financial viability to buy time for growth measures to work. Businesses also benefit from optionality in pricing, lower pricing without sacrificing profitability thanks to lower margins. And by taking the cost management actions that potential acquirers or activist investors would themselves, organizations can fend off private equity buy-outs or hostile takeovers.
Strategic cost management identifies and removes activities and processes that do not drive business value, sizes the business for remaining tasks, assigns the right people in a purpose-built organization to complete them, and tracks outcomes. It also enables companies to reinvest savings to drive growth. This happens better, faster and cheaper with digital technologies. Digital interventions are inherently less expensive to implement and natively allow for agile and iterative changes.

For those CFOs who are actively pursuing strategic cost management, mobility (54 percent) and moving technology to the cloud (52 percent) are their most common investments. Consider how global mining group Rio Tinto is transforming by migrating its core enterprise information systems and technology systems to an as-a-service solution based in the cloud. Rio Tinto expects to directly benefit from significant cost savings through increased business agility and cost flexibility inherent in cloud services, and from continued lower infrastructure prices in line with cloud economic trends.

In three years’ time, CFOs expect to make additional investments in robotics (44 percent) and big data analytics (40 percent) to support strategic cost management. Some companies are already making progress in these areas. One bank is using 70 virtual machines to process account maintenance, payments, debt management, collections and regulatory compliance queues for an up to 80 percent reduction in processing costs.

A consumer products company has brought together mobility and big data to engage its retail trade customers through digital processes and technology for sales and service. Customers can access a broader product catalog, which supports cross-selling and promotes under represented products and higher margin SKUs. More online orders free up sales teams for other tasks. In pilots, the company has seen a 24 to 40 percent reduction in order taking costs. It has also benefited from reduced direct labor costs and improved sales productivity.

Do more than dabble in digital

In their current pursuit of **strategic cost management**, how are CFOs investing?

- **54%** mobility
- **52%** moving technology to the cloud
- **44%** robotics
- **40%** big data analytics

Added investments in **3 years**...
Get in the driver’s seat

Over the past decade, the CFO has moved from corporate bean counter to enterprise value architect. Consider that 75 percent of respondents to Accenture Strategy’s latest High Performance Finance Study say that the CFO’s role in strategic decision-making increased in the past two years. What’s more, 70 percent believe that the CFO’s leadership in driving business transformation initiatives is on the rise.⁸

By positioning themselves as catalysts for digitally-driven strategic cost management, CFOs can extend their role. The good news is that 56 percent of CFOs already have performance objectives in place that make them responsible for strategic cost management on a daily basis.⁹ The challenge now is to act on these expectations without delay.

Realize competitive advantage

There are three fundamentals that CFOs must embrace to effectively lead the charge on strategic cost management:

1. **Pass a digital stress test with flying colors.** Conduct outside-in scenario planning for digital disruption to highlight those areas of the operating model and cost structure that need to be transformed to keep pace with competitive threats. It is critical to leave no stone unturned. Companies must understand how every facet of the business—from targeting new customers to teaming with new partners—enables it to compete on the digital playing field. Be prepared to develop a plan to transform fixed costs to variable costs if the company must scale down in specific functions, areas or geographies.

2. **Create a gutsy, digital-first plan of action.** Create and implement an action plan to redefine the current cost base, with digital at the core. This means that enterprise investment plans must include a view into how any and every investment equips the company to run as a digital business. Determine how to break the mold and define the immediate tactical actions to generate momentum and ignite the transformation. The plan should allow the business to operate at a fraction of the current cost base, offering immediate targets as well as long-term cost-cutting goals.

3. **Live and breathe relentless customer obsession.** Ensure that strategic cost management does not stop at the corporate center or at the walls of an advanced shared services model. In line with the digital stress test, extend it to go-to-market models so customers have better experiences and realize better quality, cost and responsiveness. Without this, companies cannot reap the full competitive advantage from digitally-powered strategic cost management. By creating better customer experiences, companies create a virtuous circle. Happier customers lead to more revenue to reinvest in further differentiation and transformation.

Disruption demands that senior leaders challenge and stretch their own roles. Just as every company has a leader who owns the agenda for innovation for the outside around markets, channels, products and customers, someone must own innovation for the inside with strategic cost management. This is a natural fit for CFOs. It is a position of strength for them, a place where they can guide the business to compete to win. Both despite disruption—and because of it.
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