FROM CRASH DIETS TO FISCAL FITNESS

Sustainable margin expansion for communications, media and technology companies
Crash diets are no way to get and stay fit—in life or in business. Yet too many communications, media and technology (CMT) companies are responding to the rampant disruption in the industry by cutting costs alone, which drags them down at a time when they need to be at peak performance to compete.

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CMT companies have experienced significant disruption, and competitive advantages are fleeting amid high rates of innovation, according to the Accenture Disruptability Index. To respond to this and a host of other pressures, CMT companies need new sources of revenue to shift from rapidly commoditizing legacy products to new products that what will take them into tomorrow. To fund new solutions and business models, many are seeking to cut costs to expand margins and increase cash flow from their legacy businesses—transforming the core to scale the new.

But the Achilles heel of traditional cost-reduction methods is that they do not yield sustainable margin improvement. Costs creep back into the business in 12 to 24 months, triggering a cycle of cost cutting that never delivers durable savings for reinvestment. Meanwhile, boards and shareholders get impatient as management is distracted with an endless series of crash fiscal diets that weaken the business.

An integrated margin expansion program—rooted in zero-based principles—can break this cycle. It releases new value by pairing operational cost optimization with go-to-market transformation. It is a balanced approach underpinned by analytics and intelligent automation to optimize costs and realign front-office assets to drive growth. Finally, there is a way to trade strict cost-cutting diets for a holistic approach to fitness that gets—and keeps—the company in top shape in efficiency, profitability, and growth.
Getting lean, building muscle

For most companies, cost reduction is the de facto approach to improving profitability. The results of this diet-first approach have been underwhelming. The top 50 communications service providers’ current cost reduction plans will achieve only 35 percent of the savings needed to invest in growth and infrastructure.\(^2\)

This gap between cost savings and investment happens because most CMT companies manage cost and growth in silos without recognizing the power of doing them together. Without a view of the big picture of increasing sales and revenue, decision makers often unnecessarily cut costs too much. Efforts to take costs out of one part of the business often create them in other areas—or worse—hinder growth by cutting too deeply. Companies often fail to capture synergies across support functions or miss hidden cost drivers such as “shadow” IT, analytics sprawl, and duplicative automation efforts.

Integrated margin expansion is a coordinated program that balances sustainable cost reduction and cost optimization in both the front and back office with realignment investment to drive profitable growth.

Companies using this approach report that they redirected cost savings to\(^3\)...

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Category</th>
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</thead>
<tbody>
<tr>
<td>52%</td>
<td>Growth initiatives</td>
</tr>
<tr>
<td>31%</td>
<td>Digital</td>
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<tr>
<td>29%</td>
<td>Other capabilities</td>
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<tr>
<td>15%</td>
<td>The bottom line</td>
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Integrated margin expansion avoids these pitfalls by shattering the silos and creating senior-level accountability for revenue growth and operational efficiency. It applies zero-based principles to the cost structure, optimizing operating costs and third-party spend. At the same time, it drives top- and bottom-line growth by capturing more revenue from current customers, reaching new ones, and improving pricing and sales effectiveness (see Figure 1). With operating margin as the key metric, companies can stop over-indexing on fiscal diets and start focusing on total financial fitness.

Figure 1: Integrated margin expansion takes a balanced approach to cost and growth

<table>
<thead>
<tr>
<th><strong>GROWTH</strong></th>
<th><strong>COST</strong></th>
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<tbody>
<tr>
<td>Improve ROI on sales investments to increase top and bottom line growth</td>
<td>Chart a course to durable improvements in direct and indirect spend</td>
</tr>
<tr>
<td>Unlock selling capacity</td>
<td>Reduce cost of core operations</td>
</tr>
<tr>
<td>Realign investments in sales channels with customer value</td>
<td>Transform cost of core operations (e.g. product and network ops, manufacturing, etc.) to improve direct cost structure</td>
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<td>Increase retention and growth</td>
<td>Transform SG&amp;A</td>
</tr>
<tr>
<td>Reduce churn and increase cross and up-sell in valuable, high-curn customer segments</td>
<td>Optimize back office, sales support and customer care by transitioning to a digitally-enabled business that delivers high value work in the right locations with the right talent</td>
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<tr>
<td>Win at point of sale</td>
<td>Optimize third party spend</td>
</tr>
<tr>
<td>Increase pocket price and margin through improved pricing discipline and negotiation skills</td>
<td>Eliminate non-productive spend through analytics; improve supplier performance through optimized procurement</td>
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**Unlock selling capacity**
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**Increase retention and growth**
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**Win at point of sale**
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**Reduce cost of core operations**
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**Transform SG&A**
Optimize back office, sales support and customer care by transitioning to a digitally-enabled business that delivers high value work in the right locations with the right talent

**Optimize third party spend**
Eliminate non-productive spend through analytics; improve supplier performance through optimized procurement
Consider the story of a global network provider. The company faced pressure from an activist investor amid falling growth rates and increasing operational costs, thereby shrinking operating margins. Business owners worked in silos and solved problems reactively, without knowing where to place their bets on either cost optimization or growth.

In less than 18 months, an integrated margin expansion initiative improved operating margins by more than 600 basis points without hurting the growth trajectory. The domino effect of customer segmentation was a boon. It helped the company recalibrate sales investments toward higher-value customer segments which, in turn, informed how best to streamline the back end. The approach transformed margins, simplified the business, and ignited sales—and Wall Street approved.⁴
Breakthrough fiscal fitness

As this company learned firsthand, advanced data analytics is a breakthrough tool to identify opportunities for integrated margin expansion that did not exist even two years ago. Analytics empowers companies to see the drivers of cost, growth, and productivity in a different light, and work from a clean sheet to recalibrate—even reinvent—the business. Not surprisingly, 65 percent of high-performing companies plan to use data and analytics to discover insights and make recommendations to a significant extent over the next five years.5

The power of analytics is in how it enables forensic visibility into the business. This is a notable departure from traditional cost reduction initiatives where functional leaders are tasked—often in a “spread the peanut butter” approach—to reduce costs of operations under their control. Different parts of the business often make decisions without any sense of the cause-and-effect of their actions. In contrast, integrated margin expansion uses analytics to understand cost drivers within end-to-end value chains. This empowers CMT companies to work cross-functionally to target and prioritize cost and revenue centers for a surgical approach to improving—and sustaining—margins.

On the cost side, analytics creates transparency into labor and non-labor spend across functions. Case in point: A leading electronics component manufacturer implemented savings initiatives for both labor and non-labor SG&A spend to reallocate capital, improve efficiency, and support profitability. The company reduced non-labor spend by 40 percent and labor spend by upwards of $60 million.6
On the growth side, analytics helps companies identify high- and low-value customer segments to align marketing, sales, and service investments around revenue and margin growth (see Figure 2). The global network provider discussed earlier used newly available analytics tools to identify customer patterns, revealing that 60 percent of customers were low-value and were receiving high-touch services. By creating standard ways of selling to and engaging “the long tail,” the company realigned its valuable sales capacity to drive growth.7

Figure 2: Analytics aligns front-office investments to drive growth
Staying in shape for good

Success stories like these get at the heart of what makes integrated margin expansion so different from traditional cost reduction methods. The focus is on sustainable outcomes over time, rather than on fad diets that burn off the pounds at first only to pile them back on fast.

Digital tools and capabilities like artificial intelligence (AI) and automation are key to sustaining the benefits of integrated margin expansion. An operating transformation is often required to enable implementation of the analytical insights developed. However, this is not just about using digital technologies to reduce headcount. By shifting people to higher-value activities, CMT companies can not only optimize cost, they can also develop the insights, products, and sales and service capabilities that drive growth. Accenture did this as part of our own digital reinvention. The firm deployed more than 7,250 automation solutions across our delivery network, using proprietary and third-party software platforms, which freed about 20 million annualized work hours. The unlocked value contributed to investments in new capabilities and client service capacity.

Digital tools are driving powerful changes in the back office. For example, in finance, 60 to 80 percent of backward-looking accounting activity can be automated with limited to no human intervention. CMT companies are already seeing results. A large US communication provider ran an enterprise-wide automation program that targeted more than 300 automations across human resources, finance, customer care, and IT. The company identified millions in savings and positive return on investment in just a year and a half.

CMT companies can also harness AI and automation to realign front-office investments. AI capabilities are powering no-touch business models and augmenting higher-touch sales interactions, enabling companies to realign sales and service investments with customer value. Take the story of an enterprise technology company. The company increased renewal win rates by one percent and average deal size by 20 percent by using AI-powered chat bots that augment human sales representatives with insights and recommendations based on customer profiles and data.
Going beyond crash diets

CMT companies desperately need wins like this, but traditional cost-reduction methods are counterproductive to improving long-term competitiveness. Decoupled from growth, they distract management and create the perception that the team is doing the right thing while often eroding the fitness of the business. In addition to using analytics tools to understand the opportunity landscape and prioritize an action plan, getting it right takes these no-regrets moves:

**Become an intelligent enterprise.**
Avoid the industry’s penchant for incrementalism and reset the corporate ambition to pivot fast toward bigger bets that defy business-as-usual. The executive team needs an owner mindset to fearlessly initiate a fundamental renewal of the organization and how it pivots to new sources of growth.

**Double down on digital.**
With digital in the front office, sales, customer service, and marketing models can improve client interactions and reduce dependencies on third parties. In the back office, new data sources and analytics make it possible to align functional processes across sales operations, finance, and legal with customer needs and behaviors.

**Appoint an executive champion.**
One C-level leader with the visibility and authority to make comprehensive decisions must be in charge of cost and growth as a single effort. He/she oversees the transformation management office and holds business and functional leaders accountable.
CMT companies must out-innovate the competition to survive disruption. Integrated margin expansion that balances sustainable cost reduction and cost optimization in both the front and back office can make it happen. Because pure cost-cutting without a holistic approach to overall fiscal fitness can slow the business down at precisely the time it needs to speed up.

Reach out to our experts to learn how an integrated margin expansion strategy can lead to sustainable growth and competitive advantage.
References

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6. Ibid
7. Ibid
10. Accenture Strategy client experience
11. Ibid

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions — underpinned by the world’s largest delivery network — Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With 482,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

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