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Agility to Compete

Manage Costs to Fuel Growth—and Make it Sustainable

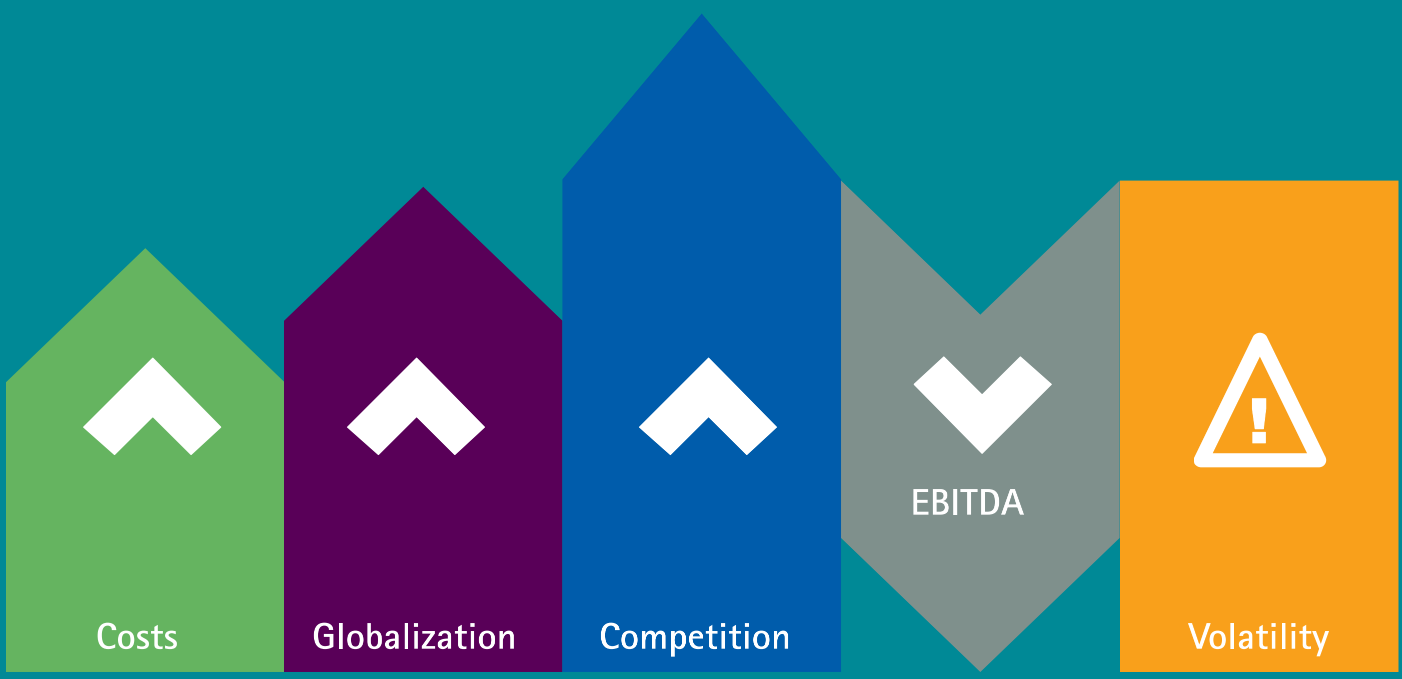
High performance. Delivered.

Growth is on the agenda for businesses across sectors—even as market volatility remains at an all-time high. CEOs, CFOs and COOs recognize that their organizations must get fit and stay fit to sustainably compete amid several disruptive changes (see Figure 1). However, gaining the agility to compete isn't a one-time exercise, and it's not about just cutting costs or pinching pennies. Success comes from reinvesting those savings in activities that will drive competitive advantage and revenue growth.

Businesses, whether in an up cycle or down cycle, can create a culture of cost consciousness by looking holistically across the business to get full visibility into spend, and then remove duplicative or non-value-add costs. Here is where zero-based budgeting can help. Budgeters start with a zero base and justify each item's need or cost. This open, transparent process unearths insights about consumption—insights that can unlock savings and foster ongoing cost management. This process includes prioritizing where to be more efficient and how to get to a place where selling, general and administrative expenses (SG&A) grow more slowly than sales.

The next step is assessing the operating model – efficiency alone is not enough; it needs to be responsive and deliver on the business strategy. Once companies are reorganized, standardizing and improving processes end to end can drive significant business outcomes. Newfound operational agility and process models create leading-edge capabilities that help the business do things differently – building a layer of "muscle" that helps weather the storm of volatility today and into the future.

Figure 1. Drivers of change



These steps lay the foundation for organizations to increase efficiency and speed, drive effectiveness and flexibility, and meet customer, consumer and market demand:

- Creating a more efficient operating model that delivers on the business strategy.
- Embedding process excellence throughout the organization to drive effectiveness.
- Differentiating by building leading-edge capabilities.

In essence, these are the key ingredients to gaining the agility to compete—agility that allows businesses to be more competitive not just in the near term, but the long term, too. (see Figure 2).

A global food company gains agility through a new operating model

Accenture and a global food company designed and built a new operating model to increase the company's efficiency and agility. This Global Business Services platform will deliver key functions including supply chain, finance, human resources and IT. The value generated through the program—an expected $100 million in recurring savings—will enable the company to fuel its growth strategies including investment in geographic expansion, brand building and core commercial and operational capabilities.

Figure 2. Gaining the agility to compete

Creating a more efficient operating model that delivers on the business strategy

There is no one-size-fits-all operating model. Companies might pursue shared services, a global business services unit, benchmarking, and spans and layers identification. But while there is no single solution, there are commonalities in where businesses are falling short.

Perhaps the biggest shortfall is thinking on a local scale. Companies need to have a balanced local and global outlook; otherwise they are missing out on opportunities to scale. Some have pushed the pendulum in the global direction, building centralized capabilities, but their SG&A is still too high.

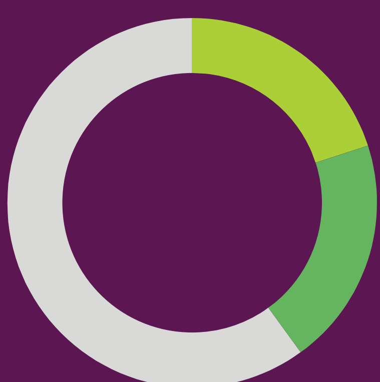
Businesses must determine what activities they want to perform globally to increase efficiency in the back- and middle-office, and which do they want to perform locally to increase relevance. For instance, a promotion may be local, but the team managing the data that comes out of the campaign might be global.

Deciding on local vs. global is not always a geographic play. Businesses might look at processes from an organizational viewpoint. The key is to achieve consistency of processes around the world because that leads to data consistency, which will yield better insight and awareness of business trends. This heightened awareness also enables the business to be more effective in delivering on customer and consumer demand.

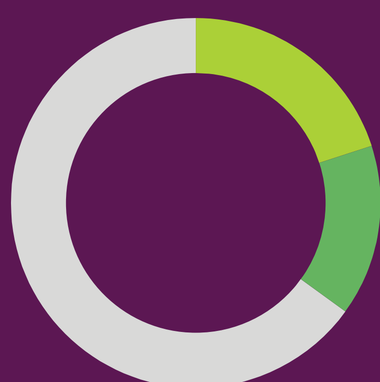
Of high performance businesses surveyed, 78 percent have initiated/completed a rationalization of their operating model over the past two years.[1]

To design the right model:

- Increase visibility into what the company is spending, how and why.
- Make zero-based budgeting part of an annual exercise, not just a one-time thing, to help drive sustainable cost management.
- Look at both SG&A costs and compensation.
- Design a new operating structure that is flexible to serve multiple business models.



By bringing together costs from across the business, companies often discover there are more expenses than they believed, typically increasing indirect baseline by 20-40 percent.[2]



Visibility is not just a mapping exercise, but a real analysis. Through this analysis, usually 20-35 percent of costs are reallocated.[2]

Depending on procurement maturity for each company, some 60-70 percent of savings would come from consumption and the rest from price. Two-thirds of savings can be realized within the first year.[2]

1. Accenture 2014 High Performance Finance Study
2. Based on Accenture client work and analysis

Embedding process excellence to drive effectiveness

Businesses must establish an effective underlying operating model to unlock value, but they also must understand how to make each area of the value chain as effective as possible. Current processes are often inefficient. For instance, a business hires a person through one function, pays them through another function and tracks their performance through another function. This disjointed way of working is costly, and teams may not be aligned with the company's business strategy.

Success stems from breaking down internal silos that make processes disjointed, and instead focus on creating end-to-end processes. Established processes such as promotions are good candidates to be standardized, centralized, simplified and automated. While this streamlining increases efficiency, it also helps balance efficiency with effectiveness for longer-term impact.

Achieving process excellence calls for starting at the end result, and working back from there. This may mean beginning with the final customer or consumer, understanding their needs, and then working backward to ensure that each process is set up to meet these needs.

To drive process excellence, work to improve end-to-end processes in functions across the enterprise, such as:

- Product innovation, from ideation to sunset.
- Supply chain planning through fulfillment.
- Order to cash processing in finance and accounting.
- Sourcing to payment in procurement.
- Managing talent, from hiring through retiring.
- Providing visibility to company performance, from recording actions to reporting them.

Growing aftermarket business by improving parts pricing

Accenture's end-to-end Parts Optimization offering helps Original Equipment Manufacturers (OEMs) replace their traditional "cost-plus" pricing model for spare parts with a customer-centric approach that aligns all prices with customers' perceived value. Manufacturers can optimize spare parts pricing, leverage market intelligence and monitor impact of pricing strategy on revenues, volume and product mix. For example, we helped a global appliance OEM with pricing electronic control boards through an analytical model that used specific physical attributes, as well as their functionality, to determine the final recommended MSRP.

Differentiating by building leading-edge capabilities

When businesses change the way they manage processes, they can improve the way they deliver capabilities. Process excellence allows companies to have greater visibility into the performance of units—not just individuals—providing insight by which to make decisions based on fact, rather than opinion.

Using this insight, businesses can improve core and non-core activities. For example, if incentives and rebates are core activities for an automotive company, but they are providing rebates on vehicles that easily sell at full price—it hurts profits. The company might use analytics to identify the vehicles by region that are selling slowly, and in turn, offer rebates in the slow markets to boost sales—therefore driving growth and not just cost savings. By improving the way that company manages incentives and rebates, they are at the same time building a new capability. For non-core activities, such as some IT functions, replacing legacy applications with an integrated platform can improve the capability by reducing maintenance or making product launches easier and faster.

Another outcome of process excellence is creating leading-edge capabilities that help people to do their jobs better, automatically improving efficiency and effectiveness and delivering other differentiated outcomes. When the incentive management team understands what the sales team is trying to accomplish, both entities can work together to create a stronger capability that reduces rework, drives down costs and ultimately boosts competitive differentiation. Some organizations are realizing up to a billion dollars or more in savings by reducing duplicative and non-value-add expenses.

To build leading-edge capabilities:

- **Create a flexible framework for responding quickly.**
- **Develop strategies to weather the storms of volatility.**
- **Create a cost-conscious culture.**
- **Improve customer and consumer engagement.**
- **Attract and retain the right talent to deliver these leading-edge capabilities.**

North American retailer makes analytics-driven decisions about its fleet

An apparel company with more than 1,000 stores worked with Accenture to identify, quantify and plan for the closure of more than 300 stores in the most profitable way. By using a sophisticated, analytically rich store closure simulation tool, the business is making decisions that are based on facts rather than best guesses. The tool takes into account the transferability of customer demand to other stores and eCommerce for a given store's or group of stores' closure. The company can better identify areas of potential savings and optimize margins for stores.

Making the change

To successfully take the three steps outlined previously, businesses need proficiency in change management and communications. The journey of change may be difficult. That's why it's important to communicate "what's in it for them" to increase buy-in throughout the organization. People must understand the value of change, how it will affect their responsibilities and how the change relates to the overall business strategy.

The reward for companies that take the leap is stronger EBITDA and shareholder value brought on by a reduction in operating costs and increased productivity. At a time when growth is at the forefront of many senior executives' minds, these changes provide an opportunity to grow and expand into exciting new areas.

- Reducing operating expenses
- Reducing revenue leakage
- Increasing productivity
- Driving revenue growth
- Optimizing working capital
- Reinvesting in growth
- Driving sustainable process improvement

For more information, contact:

Donniel Schulman
donniel.schulman@accenture.com
+1 973-301-4436

Shiv Iyer
shiv.iyer@accenture.com
+1 312-693-4320

Chris McManus
christopher.mcmanus@accenture.com
+1 (678) 657-7732

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