Increasing agility to fuel growth and competitiveness

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About the research

Accenture conducted quantitative and qualitative research across 700 executives in 13 industries and nine geographies to analyze the challenges and opportunities associated with creating cost-competitive operating models and reinvesting in growth. In parallel, Accenture interviewed 65 industry analysts across these industries to understand what external stakeholders measure, value and expect from the companies they cover.
Executive Summary

Our findings revealed that:

- Companies actively pursue cost reduction initiatives to increase profitable growth, but execution is weak.
- Businesses are not optimized for value creation because executives have competing priorities and don’t agree on where to reinvest.
- Few are prioritizing the reinvestment of cost savings in alignment with business strategy, and they are distributing reinvestment across a spectrum of initiatives.
- Executives are certain about reinvesting savings in digital, especially as a majority sees digital as an enabler for growth and advanced operating models.

Going for growth

Traditional rules of competitiveness do not apply in today’s business world. Digital is driving convergence across a number of industries, enabling new competitors to enter, and forcing companies to redefine how they compete.

Speed is the new normal. Organizations are on the hunt for disruptive innovations that they can rapidly scale. Digital technology—especially social—enables customers to have more transparency and businesses must, in turn, build trust. In many industries, there is added pressure from active investors who have a higher expectation for profitability.

Companies are determined to survive this perpetual state of uncertainty by becoming lean and agile enough to focus on aggressive, sustainable growth. The task may be great and the stakes high—but the path forward is clear.

To grow, companies must proactively identify activities that drive value, take out costs that are not contributing to business goals and reinvest those savings into growth. According to Accenture research, more than three quarters of survey respondents say their business is now focused on cost reduction to free up funds to invest in growth initiatives.
What's getting in the way of creating fuel for growth?

Accenture's research identifies several obstacles on the journey to growth.

**Good start, poor finish.**

Companies give purpose to cost reduction measures to increase profitable growth, but execution is weak. Less than one-fourth of companies surveyed are positioned to optimize and deliver the growth objectives they recognize are critical.

**Not aligned for growth.**

Businesses fail to execute growth strategies and they are not optimized for value creation because executives across titles and levels have competing priorities. Inconsistency at the top puts businesses at risk for cutting the wrong costs and reinvesting in the wrong areas, or worse, achieving poor valuations.

**Difficulty prioritizing growth investments.**

Less than a third of respondents currently prioritize the reinvestment of cost savings in alignment with business strategy—and reinvestment is distributed across a spectrum of initiatives. Without focus, businesses will not make progress on cost reduction initiatives and growth priorities.

**Stakeholder strain.**

Interestingly, less than one-third are reinvesting in shareholder dividends and only 4 percent prioritize using cost savings to drive shareholder value through margin improvement, buy-backs and dividends—one of the reinvestment priorities of investment analysts.

**Unified in only one area: digital.**

Leaders are not in sync on growth priorities, but they are certain about reinvesting savings in digital. The most common direction, representing more than half of respondents (54 percent), for reinvesting cost savings was in digital technology. They agree that digital business is an enabler of strategic growth (85 percent) and digital strategies are an enabler of advanced operating models (82 percent).

**The path forward**

To successfully achieve and sustain growth, companies must know where growth is coming from, and align their cost reduction activities and reinvestment of savings to the growth strategy. They must overcome leadership misalignment and build buy-in across the organization through a culture that is centered on continuous cost management. Finally, as businesses strive for increased responsiveness, flexibility and personalization, they must digitize.

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The C-Suite is twice as confident as vice presidents¹ about their company’s ability to execute value-creating activities. The C-Suite is also more confident that they undertake the right initiatives to achieve cost reduction targets; and that they are strategically reinvesting their cost savings in ways that support growth.
Businesses are aiming to free up cash, assets and capital for growth—and cost reduction is the way to achieve these goals. Costs that are duplicative or do not add value for the business impede growth and stifle competitiveness. This leaves no choice but to make cost reduction a top priority.

When asked if their company is now focused on cost reduction to free up funds to invest in growth initiatives, a strong majority (82 percent) agreed. Seventy-two percent of respondents say that their organization plans to funnel cost savings into growth—and they have an enterprise-wide strategy.

Companies have specific outcomes in mind for their cost reduction activities. Accenture’s research showed the top four outcomes driving cost management activities are simplifying and increasing the flexibility to respond to market changes (57 percent), improving competitive advantage (54 percent), improving financial performance (53 percent) and reinvesting cost savings into growth initiatives (49 percent)—see Figure 1.

**FIGURE 1. GIVING PURPOSE TO COST REDUCTION ACTIVITIES.**

*What outcomes are driving the focus of your organization’s cost management activities?*
Execution is difficult. Priorities are misaligned.

Difficulty executing cost reduction programs, inflexible operating models and lack of leadership alignment keep companies from achieving profitable growth.

Execution is failing

Why is execution so hard? Cost reduction programs are often not aligned with business strategy—which makes it difficult to sustain. Only 23 percent of respondents say they have optimized their process for identifying and removing business activities and investments that do not add value, and only 36 percent strongly agree their business sustains the benefit of cost reduction programs.

Flexibility to respond to market changes and competitiveness are the main outcomes driving cost management activities, yet reinvesting cost savings into growth was least selected as a top driver. Interestingly, nearly half of companies still indicate it is one of their top three intended outcomes. This contradiction further illustrates executive misalignment.

Most respondents agree that technology, digital and operating models are enablers for both cost reduction and growth, and 44 percent strongly agree that technology is an enabler of sustainable cost reduction. While technology can be an enabler of execution—it also can increase complexity.

Managing the ecosystem of partners spend is an enabler of sustainable cost reduction (35 percent strongly agree), but it adds to the complexity of execution because it requires focus on collective outcomes.

In order to manage the complexity, businesses must get people to align on policies and procedures. The opportunity is to leverage new technologies to change how the company operates across the ecosystem.

Operating models don't flex for growth

Operating models should align with how a business wants to profitably grow. However, only one-fourth of companies surveyed have a flexible operating model that can adapt to consistently deliver on strategy and execute activities that drive value for the organization.

Businesses can gain agility through new operating models. One global food company designed and built a new operating model to increase the company's efficiency and agility. This global business services platform is delivering 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.

To identify the right operating model that will fuel growth, companies must decide on what axis they are going to manage their business. For example, one axis is global/local. Does the business want to balance global with local to take advantage of scale while enabling local service and effectiveness? Another axis would be brand/category. Is the business focusing on industry-specific product innovations and growth initiatives to differentiate their brand and get closer to customers?
The top three barriers to advancing organizations’ operating models are:

- Cost of the effort: 43%
- Technology: 38%
- Change management: 37%

**Mondelēz International: Delivering savings with zero-based budgeting**

Mondelēz International asked Accenture to help establish a zero-based budgeting system that would help it compete more effectively and improve its operating margins. The two companies collaborated to drive a companywide cultural change that would help control indirect costs.

The improved visibility into spending, new budgeting processes, accountability for cost management and change management program helped Mondelēz International make rapid savings of $350 million in 2014, with $1 billion expected over three years. By embedding cost consciousness into its culture, the client’s efficiency savings can be reinvested into growth initiatives.
Multiple growth initiatives blur focus

Most businesses have too many growth initiatives and they can't decide where to invest—see Figure 2. Less than one-third of companies prioritize reinvestment of cost savings in alignment with business strategy. They generally use a shotgun approach, reinvesting savings across multiple initiatives. Therefore, it's no surprise that less than half of companies assess the return on reinvested cost savings through a formal ROI review.

Only 24 percent rate highly their company’s ability to execute on the activities that drive value for the organization. To achieve profitable growth, businesses need to cut costs that free up cash for growth initiatives. A growth agenda will ensure precision is used when identifying non-working money.

For example, a leading alcoholic beverage company has expanded its organic operating margin by over 200 basis points in the last five years, generating £600m of cost savings. Company leaders believe that the most value-creating way to drive top line growth is to reinvest two-thirds of its productivity savings.

**FIGURE 2. CHALLENGES TO FUNNELING COST SAVINGS INTO GROWTH.**

What are the top three challenges your organization has in funneling cost savings to growth?
Leaders are misaligned on how to execute

C-level executives and VPs are not united on where to invest and how to align cost savings initiatives with business strategy.

For example, an international fragrance company was frequently launching initiatives to reduce inventory. The C-suite wanted to have the number down before end of fiscal year, and VPs knew that this was just creating a pendulum effect.

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**CEOs**

- **51% CEOs vs. 34% CFOs** strongly agree that their business prioritizes and allocates resources to activities that drive value for the organization.

- **70%** of CEOs indicate their organization assesses the return on reinvested cost saving with formal reviews of investment success, yet only **49%** of CFOs indicate the same.

- **23%** of CEOs vs. **10%** of CFOs agree that simplifying and increasing the flexibility to respond to market changes is the top outcome driving cost management activities.

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**CFOs**

- **30%** of CFOs indicate reinvestment priorities are driven by the fastest return on investment (ROI) versus **20%** of CEOs.

- **Only 17%** of CFOs vs. **31%** of CEOs strongly agree their company’s operating model is aligned to fuel strategic growth initiatives.

- **24%** CFOs and **21%** of CEOs agree that improving competitive advantage is the top outcome driving cost management activities.
Our research found the C-suite (36 percent) is more likely than VPs (25 percent) to believe their reinvestment priorities are aligned to business strategy. The C-suite also has different views on where their organization is reinvesting cost savings. Forty-eight percent of the C-suite vs. 36 percent of VPs say their company is reinvesting in enhancing customer or consumer experience, and 25 percent of the C-suite vs. 37 percent of VPs say their company is reinvesting in paying dividends to shareholders.

The C-suite believes more strongly than VPs that the results of cost reduction programs appear on the P&L statement. These disparities are also apparent between CEOs and CFOs—see graphic.

C-SUITE

C-levels are more confident (31%) than VPs (16%) regarding the company being able to execute on activities that drive value.

The C-suite is more likely to believe (36%) their reinvestment priorities are aligned to business strategy than VPs (25%).

The C-Suite is more likely (48%) than VPs (36%) to state their company is reinvesting cost savings in enhancing customer or consumer experience.

VPs

VPs are less confident (76%) than the C-suite (84%) regarding eliminating activities that do not drive value for the organization.

VPs are less confident (16%) than the C-suite (26%) that leadership has the right cost reduction initiatives in place.

VPs are more likely (37%) than the C-suite (25%) to say their company is reinvesting to pay dividends to shareholders.
Definitively digital.

Executives across levels may be grappling with where to invest in growth, yet investment in digital has become a clear priority, with 54 percent citing digital technologies as the most common direction for reinvesting cost savings. Digital is followed by launching new products and services (46 percent) and expanding into new product/service lines or customer segments (45 percent). Digital is a primary area for reinvestment as it can be an accelerator for the second and third priorities, and it is seen as a growth enabler—see Figure 3.

Digital delivers results

Now is a prime time for businesses to use digital to boost competitiveness. Digital investments enable new business models that allow unprecedented speed, agility and scale. Digital enables companies to get ahead of industry disruption, accelerate innovation, fuel more efficient operations and deliver personalized experiences.

Many businesses are digitizing the front office—using analytics, the cloud and other Internet of Things-enabled innovations—to get closer to the customer, among other benefits. Companies are also taking non-traditional functions and digitizing them to reduce costs and improve efficiency and scale. These include:

**Talent.**

Digitizing human resources will allow “knowledge workers” to become “judgment workers.” Information will be more available to employees to enable predictive, not reactive, decisions. Work will be done more collaboratively across organizations and new skills and roles will be required to support operations (e.g. analytics, mobile). The organization will need to upskill employees or hire from the outside—places such as startups—that can quickly deepen the bench of digital talent.

**Procurement.**

Digital can revolutionize procurement. App-based advanced technologies will give teams real-time visibility into demand, supply and pricing. Technology could manage strategic suppliers, allowing them to work as one with the company through virtual collaboration. Employees could access a wider range of products through a cloud-based virtual mall that offers the most competitive rates from suppliers. Automation tools and analytics will help businesses to gain insights into what actions they need to take to drive business outcomes.
"If forced to operate at half your base cost, what would you do?"

The most frequently selected response (61 percent) was increase technology. When pressed to make a choice, executives view technology as the most impactful way to reduce operating costs and ensure that an organization is positioned properly for the future.

**FIGURE 3. DIGITAL SEEN AS A TOP GROWTH ENABLER.**

*To what extent do you agree or disagree with the following statements?*

- Technology is an enabler of sustainable cost reduction
  - 44% strongly agree
  - 40% somewhat agree
  - 13% neither agree nor disagree
- Digital business is an enabler of strategic growth
  - 42% strongly agree
  - 42% somewhat agree
  - 13% neither agree nor disagree
- Digital strategies (e.g. insights-based, real-time, customized, scalable) are an enabler of advanced operating models (e.g. global business services)
  - 41% strongly agree
  - 41% somewhat agree
  - 15% neither agree nor disagree
- Advanced operating models (e.g. global business services) are an enabler of strategic growth
  - 39% strongly agree
  - 41% somewhat agree
  - 18% neither agree nor disagree
- Reinvestment of cost reductions can fuel growth
  - 37% strongly agree
  - 45% somewhat agree
  - 16% neither agree nor disagree
- End to end cost management, versus a functional orientation to cost management, is critical to sustainable cost reduction
  - 37% strongly agree
  - 46% somewhat agree
  - 15% neither agree nor disagree
- Advanced operating models (e.g. global business services) are an enabler of sustainable cost reduction
  - 37% strongly agree
  - 46% somewhat agree
  - 14% neither agree nor disagree
- Managing ecosystem of partners spend (sourcing and procurement) is an enabler of sustainable cost reduction
  - 35% strongly agree
  - 46% somewhat agree
  - 16% neither agree nor disagree
- Complexity reduction is an enabler of sustainable cost reduction
  - 34% strongly agree
  - 47% somewhat agree
  - 16% neither agree nor disagree
Three actions to fuel profitable growth.

Executing cost reduction strategies to fuel growth is challenging, but it is critical for a business to be competitive. Companies should take bold steps to get their growth strategy right, overcome misalignment and make digital a top priority. These three actions illuminate the path forward.

1. Organize for growth

To successfully execute for growth, you must first know where growth is coming from in your business and what your long-term growth strategy is. Once the critical path to growth is determined, cost reduction activities and decisions on where to reinvest savings need to be aligned to it.

But how do you shape a growth strategy? These questions can help:

**Know your goals and aspirations**

- What is our company’s role in our industry today, and how is industry convergence going to change that role tomorrow?
- What are our core values, and how can we live them in a way that will support our growth agenda?
- What is our company’s purpose? Why do we exist? How will our success make the world different?
- What is our long-term vision in response to disruption?

**Define where to play**

- Who are our target customers and through which channels can we reach them?
- What products and services do we need to offer in order to respond to rapidly changing customer demands?
- In which geographies do we place our bets and how do we best go to market?

**Develop the game plan**

In the face of fast commoditization, what is the value proposition that will differentiate us from old and new competitors?

- How can we drive organic growth through understanding and meeting customers' unmet needs? How can we drive inorganic growth through mergers and acquisitions?
- Who are our strategic partners in the ecosystem, and how can collaboration across the ecosystem support the growth agenda?
- Plan for performance by defining goals and objectives throughout the organization and measuring and incentivizing performance.
2. Manage the journey

Businesses must overcome misalignment among leadership, build buy-in across the organization and organize for growth through:

**Leadership support.**

Leaders must align on the path forward to achieving cost management and growth objectives. Businesses should use data to support the directional decision and conduct a series of alignment meetings to build buy-in across executives. Use a data-driven approach to identify resistance early and create a tailored intervention plan for overcoming issues or finding viable alternatives. Then, map out the journey to growth. Prioritizing the scope of the effort, and splitting it into manageable phases, makes it easier for the business to realize value quickly—and it will make subsequent rollouts go smoother and faster.

**Change management.**

Achieving buy-in is not a one-time exercise; so communicate to all stakeholders the strategy, the value drivers of change, the phases of the journey and the expected outcomes. Demonstrate success through validation points along the journey. Long-term and ongoing culture change activities and interventions will help to shape a culture centered on cost management to fuel growth.

**Governance.**

Proper governance will help to sustain growth and guide all future cost takeout initiatives. Leaders should calculate each move strategically, examining how it will (or will not) contribute to growth—and they should quickly abandon the moves that do not add value. There also should be a dedicated team assigned to the full duration of the business’ transformation to ensure its ongoing success.
3. Digitize to fuel sustainable growth

Digital business models and strategies help increase organizational agility, flexibility and sustainable growth—but there are complexities in shaping a digital future. Businesses that commit to building capabilities in these areas, and digitizing traditional processes, are most likely to manage disruption and grow.

**Build digital intelligence.**

Evolve your capabilities and enterprise to be more digital. Try pairing senior leaders with younger “digital mentors” to share expertise or acquire the right skills through technology startups.

**Prepare for disruption.**

Use digital to interpret signals of disruption and determine which disruptions will impact the business, and when. If your business doesn't have or cannot build the capabilities to respond fast enough to disruption, partner with others.

**Organize for speed.**

Be a digital leader that can withstand change. Build CEO-level support and drive new digital growth through a team of digital “leaders” who are laser-focused on digital—and digital “fixers” who can draw on the right skills at the right time.

**Digitize your front and back office.**

Strongly consider digitizing traditional functions and capabilities to increase speed and agility, and work across your partner ecosystem and invest to acquire “missing” digital capabilities or digitize your company’s non-core activities.

**Accelerate innovation.**

Use digital to cost-effectively experiment at speed and scale to solve customers’ problems and bring new products and services to market faster.

**Maximize your data.**

Make full use of and monetize the overwhelming amounts of data you have. Turn data from useful information into new products, services or improved customer experiences.
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