

# Cost Efficiency:

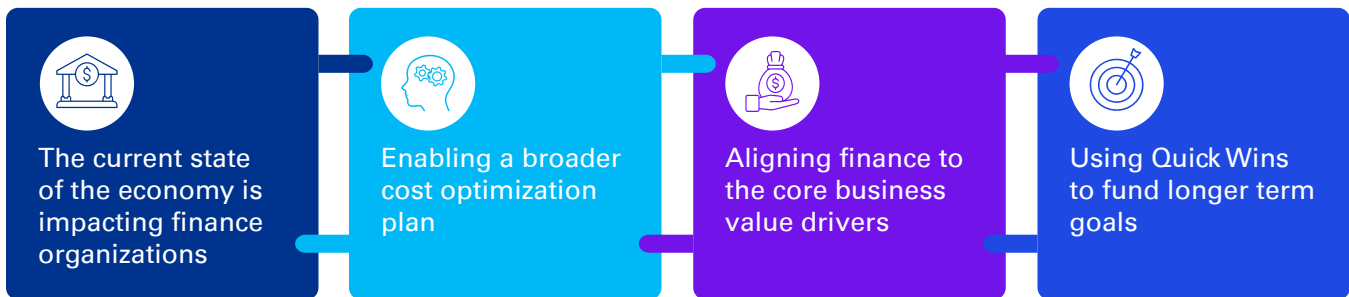
## Definition and Strategies for CFOs

December 08, 2022

Cost efficiency—the ability to maximize profit while minimizing expenditures—is a key component of productivity. As we enter a potential recession, CFOs are striving to build resilience into their organizations through improvements in their cost structure that support long-term strategic goals.

The webcast discussed different strategies CFOs should employ for cost effectiveness.

The panelists addressed the following topics:



### The current state of the economy is impacting finance organizations

Geopolitical uncertainty and high inflationary pressures are taking a toll on the global economic growth projections. Continued supply chain disruptions and declining consumer purchasing power fueled by the Russia-Ukraine war have quickened the pace of monetary tightening while clouding the business outlook.

In the face of disruption, agility and resilience are key to breed opportunity and mitigate risks. To tackle shifting economic cycle, finance leaders must elevate their finance function while creating value and optimizing costs to survive, sustain, and grow the business.

### “Playing offense” against an economic downturn

Chief Financial Officers (CFOs) needs to take a proactive role as the leader of business sustainability and transformation efforts to deliver competitive advantage. Facing the prospects of a significant downturn, CFOs needs to ‘play offense’ —focus on building a leaner, more cost-efficient finance function through process, technology, and workforce efficiencies. Building resilience through cost optimization is critical, including clearly defined goals and individual assignments to help ensure accountability, while supporting long-term strategies for future growth that align the company’s core value drivers with business processes.

While developing an effective response to today's economic challenges, CFOs can consider actions in six areas that can help support a leaner, more cost-efficient finance function without sacrificing capabilities:

- 1. A Real understanding of the business:** One of the key components of “playing offense” is ensuring leadership is aligned on the state of the business and having proper planning to prepare and respond to future uncertainties.
- 2. Clarity and knowledge:** Organizations must have in-depth knowledge to identify root causes to gain good, clear visibility for realizing cost savings.
- 3. Clear leadership and communication:** A clearly articulated and communicated vision from the leadership to the employees can help drive the tone and commitment throughout the organization to really buy into the cost efficiency programs.
- 4. Changing behavior:** Organizations must focus on a cultural reset by embedding new ways of thinking and working into day-to-day behaviors. This will help align control around costs.
- 5. Fresh thinking:** Bring a fresh set of thinking. Having a growth mindset across the organization enables your organization to think boldly and holistically across the decisions and activities and ultimately, succeed.
- 6. Rigorous implementation:** A relentless focus and dedication on delivery is critical. In addition to placing the cost efficiency program under central administration, it is crucial to set up project management and KPIs to have strict controls over that program.



## Enabling a broader cost optimization plan

Cost optimization has become a strategic priority for enterprises. However, achieving cost efficiency in today's riskier and more complex business environments is an enormous challenge across all functions and organizational areas, including overhead, customer-facing programs, operations, supply chain, procurement and working capital. It is essential for organizations to target the right areas to maximize key outcomes.

### KPMG guiding principles for cost efficiencies

KPMG can help set up cost efficiency program— assess potential earnings improvement, define functional cost-saving strategies, and develop an execution plan tailored to your organization. Truly effective cost optimization must:

- **Be sustainable** over the long term and enable current and future business performance.
- **Prioritize quick wins** and digital agility that can fund larger transformations later in the business cycle.
- Consider areas of growth and opportunity that also help the organization **become future ready**.
- Create a “**cost culture**” that enables the organization to optimize cash and find new ways to reduce costs in the future.
- Provide a **monitoring program** that allows the organization to track and measure its performance over time and adjust as needed.

### Speed to insights and quick wins

Organizations place a high value on quick wins because they can help them build credibility, momentum, and organizational alignment. Additionally, establishing quick wins—that are self-funded—can assist in enabling a more comprehensive cost optimization plan and can create opportunities for changes in the upcoming business cycles.

The major components of rapid assessment that have been alluded to delivering quick wins and generating actionable insights include:

- Quantifying the value:
  - Rapid assessment of transaction level data to quantify EBITDA value of various opportunities across a series of levers to transform performance.



- A thorough, up-to-date understanding of finance processes, technologies, and operating capabilities is required based on detailed analysis and data-driven insights.
- Finance leaders are engaged to identify opportunities to plan and pursue larger transformative initiatives that are time- and resource-intensive.
- Key KPIs and metrics can help track the value of cost reductions, with quantified performance gaps assigned to each discrete opportunity.
- Capturing the value:
  - Implementation of quick wins to generate immediate EBITDA value and help fund long term transformative sustainable changes to the business.
  - Establishing an inbuilt feedback mechanism is critical to enable timely interventions and response to changes in underlying assumptions of cost savings program.
  - Continuous tracking and management of value identified and communicated to leadership to manage program costs and ensure transparency in transformative efforts.



## Aligning finance to the core business value drivers

A global financial downturn appears to be imminent driven by high inflation, stalled employment rates, volatile energy markets, and supply chain bottlenecks. To plan for a recession, CFOs must prepare for an expanded oversight by analyzing cost structures, designing cost-efficient programs, and quantifying the level of effort.

### Leveraging KPMG Target Operating Model (TOM) to prioritize cost saving levers

KPMG TOM offers a thorough, solution-based approach to cost optimization through leading technology and outcome-driven transformation that enhances the value of finance. 'Traditional' TOMs are often not comprehensive enough in scope and only cover three layers of people-process-technology relationship while missing out aspects of governance, control, and reporting.

KPMG can help overcome this challenge by offering six layers, not three, to show a more complete view of the function, including:

- Governance: risk and internal controls for every process
- People: span of control, job definitions, skills mix and skills prioritization
- Functional process: process re-design and standardization
- Technology: integrations and automation
- Performance insights and data: standardizing KPIs and reporting
- Service delivery model: optimizing offshoring/outsourcing models

It is important to begin by evaluating each layer across the TOM and delving deeper into the associated cost saving levers. Since this is not a one-size-fits-all solution, and the levers are highly dependent on individual organization and its maturity level.

### Critical cost saving levers to manage labor cost

- The KPMG Economic Insights suggest investing in and adopting labor-saving technologies has been one of the most highly regarded cost-saving levers for companies. Implementing labor-saving technologies allows organizations to focus on more value-added tasks, particularly if there is a surplus of non-value-added labor. New capabilities require strategic skill sets and clearly defined career paths for the future workforce, as well as transparent and consistent communication to employees.
- Adopting remote work and hiring talent from lower cost-of-living areas can help lower labor costs. This is because employees are not restricted to a physical location, and it also offers several benefits from a low infrastructural footprint perspective.
- Outsourcing personnel from third parties is also a suitable cost-saving lever, although it brings different set of risks and costs associated with it.

It's crucial to remember that any short-term strategy and immediate decisions for cost optimization must ultimately align with value generation to the business.



## Using quick wins to fund longer term goals

While developing an effective response to today's economic and political challenges, CFOs must consider actions in three areas to support a leaner, more cost-efficient finance function without sacrificing capabilities:

**Process and technology efficiency:** Building and adhering to global process standards, leveraging off-the-shelf technology, and applying rigorous performance management—all enabled by data intelligence—can significantly reduce cost. This includes eliminating redundant processes and policies that are not critical for finance operations and identifying efficiency losses due to process variability. Data-driven insights act as the foundation for rapid cost optimization. Latest technologies can enable finance teams to triage short- and long-term actions and help identify new automation opportunities.

**Organization and labor scaling:** Optimizing the distribution of your workforce can also lead to significant cost savings. This includes rationalizing management layers and reducing corresponding office space. Finance leaders must review the skills and personnel demand critical to achieving business goals and reset performance expectations at both the individual- and department-level. Roles and reporting lines can be redesigned and streamlined based on spans and layers analysis. In addition, leveraging offshore resources and outsource operational activities, wherever possible, can also help gain efficiency.

**Spend Management:** Clear and detailed visibility of spend data is the starting point for understanding spending decisions and behaviors. Analyzing essential versus non-essential third party spend and promoting a culture of cost management can enable in operational efficiency and improve cost savings.

### How can KPMG help?

The KPMG framework is a tactical program that prioritizes data and analysis for a targeted cost efficiency program which leads into opportunities and initiatives that emphasize business needs and quick wins. We can help:

- Analyze the cost structure by:
  - Collecting and normalizing various data types, including organization headcounts and costs, financial data, volumetrics, and indirect spend.

- Merging and analyzing data with external insights and benchmarks (such as cost, financial, FTE, and volume).
- Design cost efficiency program by:
  - Developing a baseline of performance to quantify opportunities.
  - Evaluating opportunities using a series of levers—process, technology, and organization—to uncover savings.
- Realize cost targets:
  - Prioritizing opportunities based on “quick wins”.

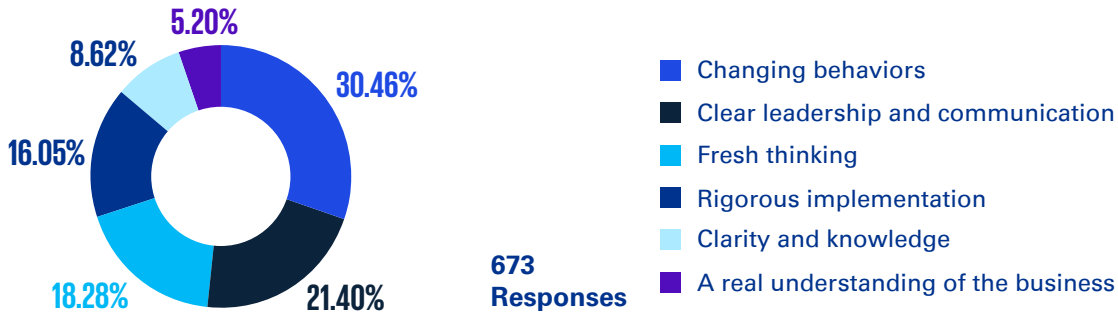


## Closing comments

As the world grapples with economic downturn, CFOs need proactive cost reduction initiatives that support long-term strategic goals and near-term operational outcomes. These strategies require cross-functional alignment with other areas of the business to ensure that cost reduction activities and goals are appropriately communicated. CFOs and their teams need to focus on targeted cost reductions based on detailed analysis and data-driven insights while enabling organizational agility and prioritization of talent. By leveraging KPMG TOM, organizations can adopt a comprehensive, future-focused approach that focuses on business goals and quick wins, and in turn, helps drive cost efficiency.



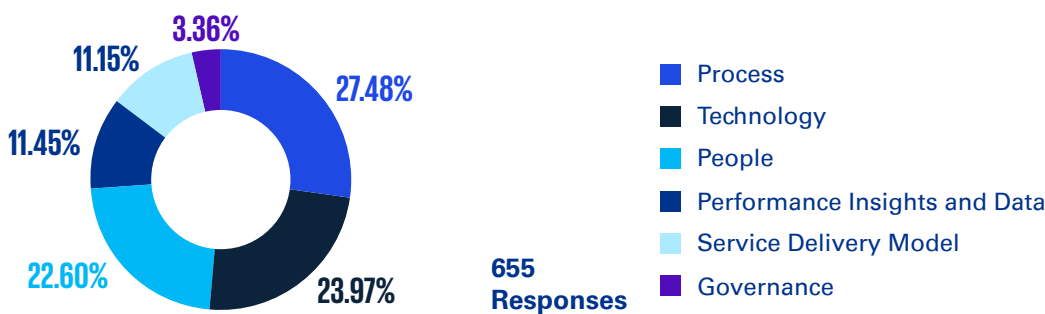
## Which cost efficiency mindset does your organization struggle with the most?



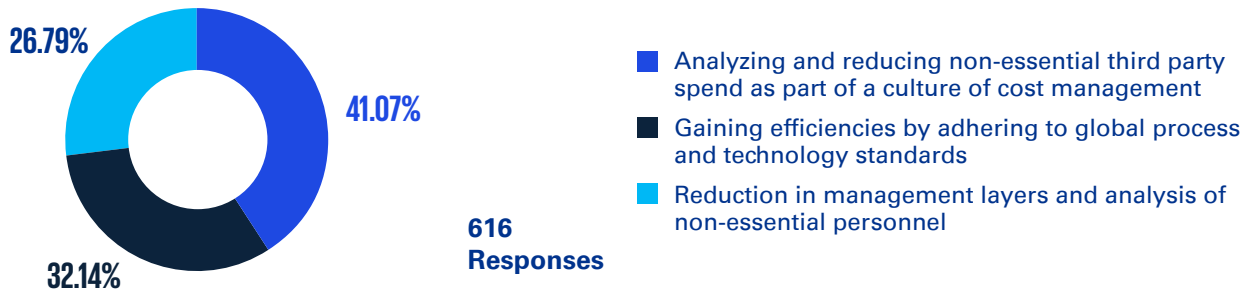
## What is your greatest concern with implementing a cost efficiency program?



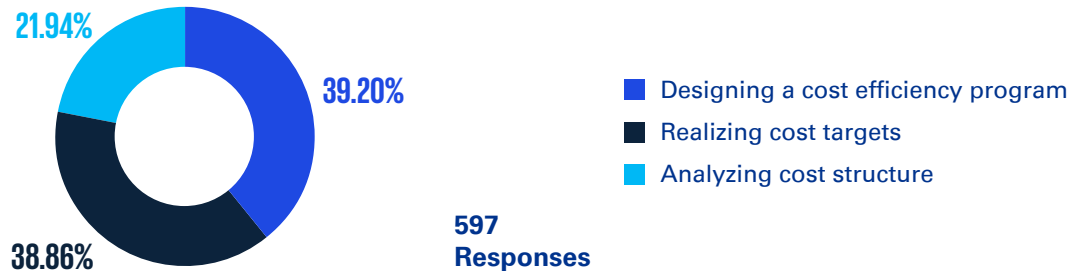
## Which area of the KPMG Target Operating Model do you see your company focusing on the most for cost efficiencies?



## What do you see as the easiest or quickest win for a cost efficiency program?



## Which step in the KPMG framework do you see your organization struggling with the most to execute?



**Note:** Percentages may not total 100 percent due to rounding.

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