7 TACTICS

FOR A COMPETITIVE COST STRUCTURE

(AND IMPROVE DECISION-MAKING AND SIMPLIFY OPERATING MODELS)

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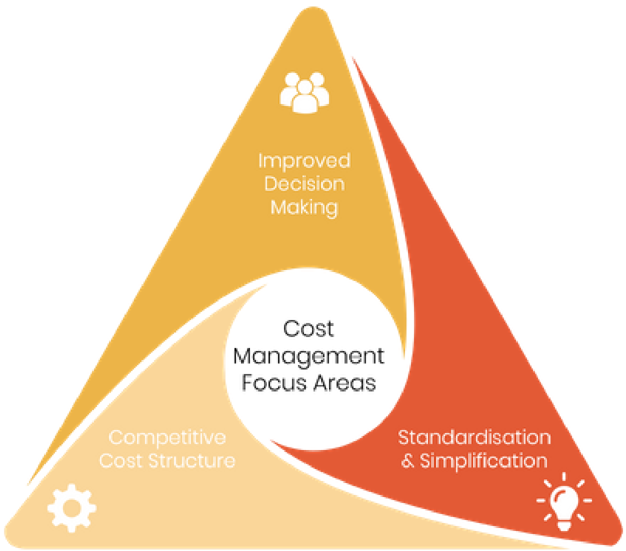
Business is difficult in this continued time of health and economic uncertainty. On top of this, new market entrants, innovative technologies and different buying patterns continue to disrupt, requiring businesses to be agile and react to (or better anticipate) change.

Whilst agility comes in many forms, common global business strategies remain in-play - innovation to disrupt or protect; expansion in new or current markets; optimising returns on existing assets: divesting of non-core and underperforming assets.

And while the CFO's overriding priority is to drive company strategy - pressure to reduce costs is a constant agenda item – with around 90% having this as a priority according to the quarterly Deloitte CFO survey.

So, how does the CFO balance these priorities?

In talking to business leaders across the globe, I repeatedly see 3 key focus areas to manage costs:



I also see, almost without exception, the CFO is expected to do more with less, but can the CFO support the strategy, still deliver their agenda and do so with less?

Anthony Snowball (Principal, Global Benchmarking Practice Leader, The Hackett Group) wrote;

"“World-class finance functions – which have embedded the principles of continuous measurement and improvement in their cultures – are 46 percent more productive than their peers, with fewer full-time-equivalents and 52 percent lower costs”.

Having worked with some of the world’s largest enterprises over the past 20 years and built programs to achieve their business and individual goals (which unsurprisingly are in-the-main very similar), I have highlighted here 7 tactics that help achieve these goals;

1. Develop a programmatic approach to cost saving
2. Generate actionable spend analytics to improve decision making
3. Provide procurement with actionable data
4. Bring all employees to the cost management game
5. Leverage technology to simplify workflow
6. Identify shadow spend - eradicate or embrace it, but manage it
7. Automate administrative tasks to steer colleagues towards value creation

Although each of these tactics can be undertaken discreetly, in my experience when co-ordinated as a program, they can deliver a powerful, sustainable process for continuous improvement and culture change within an enterprise, as follows....

1. Develop a programmatic approach to cost saving

Too many businesses approach cost saving as a necessary evil, driving projects when budgets become stretched, revenue targets are not being met or simply because 'we are in Q4' – this sets the wrong culture of cost management for the organisation.

Leading enterprises manage cost optimisation as a proactive, ongoing discipline, embedding it within the business culture.

A senior business leader (CxO) should sponsor and a direct report appointed to lead a cross-functional team that is empowered and accountable for optimising business costs. This team works in in the context of end-to-end business processes – using a framework to define the objectives and priorities of the program.

2. Generate actionable spend analytics to improve decision making

Spend visibility is critical to the success of every procurement professional – but is using spend data to buy better the only use?

Spend is constantly changing within an enterprise, real-time visibility of this spend and the detailed usage patterns that drive it can provide key decision-making data.
Technology is readily available that delivers;

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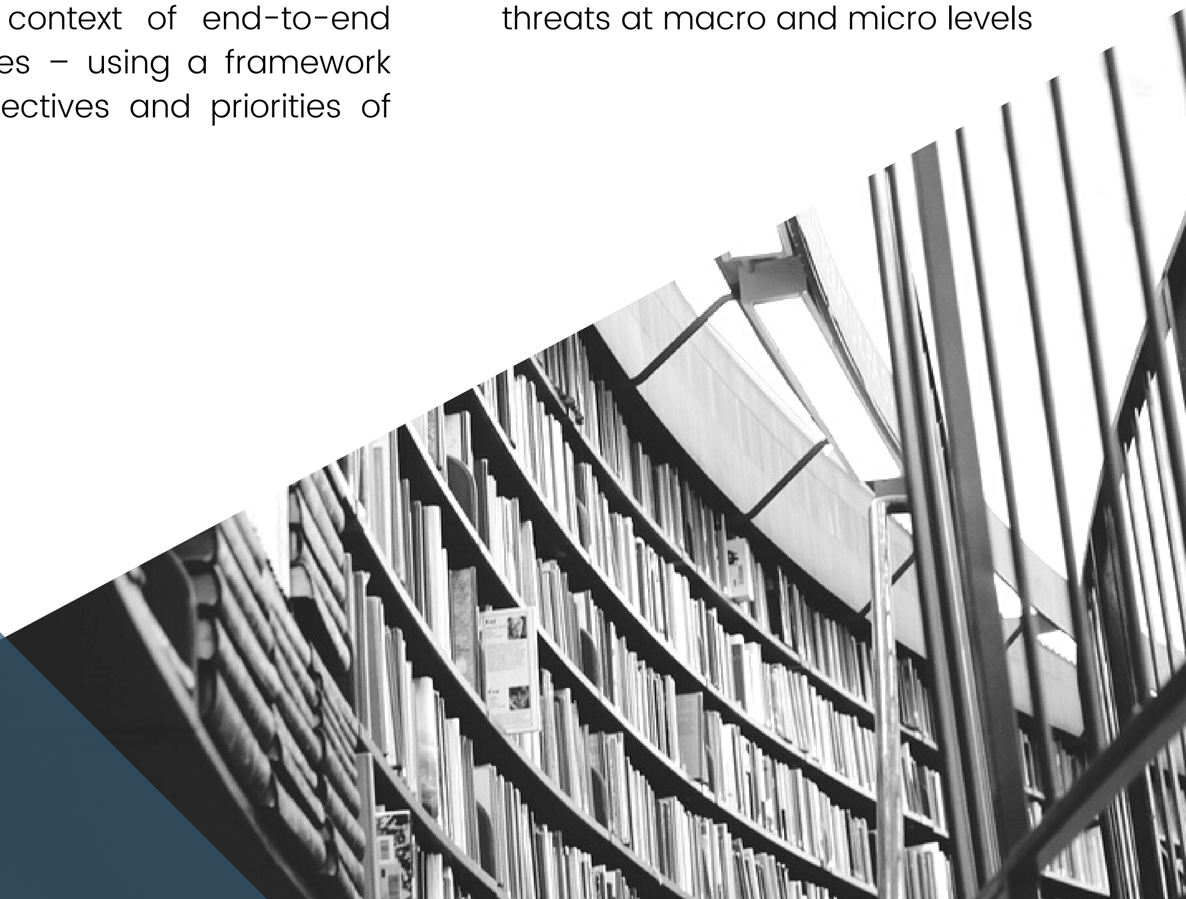
- Business unit spend performance and benchmarking – helps drive a best practice and continuous improvement culture
- Usage and spend trends – bringing early visibility of opportunities and threats at macro and micro levels



- Project spend data – track costs real-time to monitor performance of projects and product initiatives
- Live data – helps forecasting and prevents 'bill-shock'
- Inventory information to optimise assets – use what you already have before you buy more

Too often technology is implemented on a category-by-category or business-unit basis with no centralised management, process or governance.

This approach does not maximise the value of the investment, nor does it support best-practice and continuous improvement across the business.

3. Provide procurement with actionable data

Procurement teams often rely upon supplier-provided data to negotiate, or at best high-level spend data provided by finance. Enriching the data with usage and trends, making it simple to analyse and manipulate, bringing real-time visibility and providing actionable recommendations allows the procurement team to add more value to the business. Technologies are available that allow procurement (indeed anyone with access) to;

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- Measure both spend patterns and usage behaviours
- Analyse the spend for opportunities to spend more efficiently
- Perform 'what-if' scenarios

- Measure total spend with suppliers – across business units, geographies and supplier brands

- Analyse the performance of suppliers across meaningful KPI's

- Identify and deliver process savings

- Realise the benefits negotiated

To maximise value, technology should be implemented covering broad expense categories, rather than discreet single-vendor or category products. It may be this is phased to address the more complex spend first, but the goal should be to manage the majority of the spend-value.

4. Bring all employees to the cost management game

How many of your employees care about managing cost? REALLY care?

The procurement team, as that's how they are targeted. The finance team....all of them? Budget holders – if they have full budget responsibility and can save a bit here to spend a bit there.

What if everyone cared?

One business managed to reduce their mobile spend by 38% through employees changing their behaviour. How....?

If every employee has visibility of their individual usage and/or costs (direct or apportioned) to the business, it changes behaviour. SaaS licenses not used would be terminated. Documents printed would be reduced or made black and white. Energy consumption would be impacted. Less cleaning would be required. Wifi used instead of roaming.

Technology can bring this visibility to the whole business and build workflows (see 5) into the process. Enterprises can make it 'fun' - league tables, reward for best performers... plus the benefits of a cultural change and best practices that are driven into the organisation.

5. Leverage technology to simplify workflow

There are many options for enterprises to manage workflow – from localised/single service solutions pertaining to individual processes and/or assets – for example Telecom Expense Management or IT Asset Management software. Through to whole ERP systems and the high levels of automation, integration and visibility they bring – unfortunately alongside high levels of complexity, cost and underuse they derive.

I recommend a targeted and phased approach. After identifying the key objectives and focus areas of the program, determine which processes should be driven through the technology – examples of this include;

From here, identify which supplier(s) have the technology and services to manage the workflow across your relevant spend categories, geographies and business units and partner with them to build and drive your program.

6. Identify shadow spend and eradicate or embrace it – but manage it

According to a report, Gartner estimates as much of 40% of IT expenditure is outside the IT budget – meaning there is no visibility, governance or leverage of this spend.

It must be recognised, some of this spend keeps the enterprise agile (process just sometimes gets in the way). Some will be just error in the process or coding, but some will certainly be just plain wrong. But whatever it is, it needs to be managed.

How does enterprise manage this now – well, in the main they don't. It is simply invisible at the macro-level. Accounts Payable audits and spend analytics do not go to that level of detail.

Special projects can be undertaken, but this is generally a one off exercise – I don't consider this as managing it.

Incorporating spend visibility and authorisation processes as key deliverables in the overall program, means the technology and process I refer to in tactic 5, includes the shadow-spend risk areas (identified by the business) with the process to manage, govern and leverage without impacting agility.

7. Automate administrative tasks to steer colleagues towards value creation

How many FTE's do you have working on admin? Requesting products and services, authorising the same products and services, ordering them, distributing them, managing their lifecycle. Who checks the goods ordered are delivered on-time and accurately, where is this data stored and can you report on it?

Do you know what IT assets you have at any given time? Maybe. Do you know what applications are on your enterprise-wide lap-tops? What about the security on them?

Do you know the same for your new connection-types (tablets and smart-phones)? Do you have a process for re-allocation or at end-of-life?

tWhat about checking invoices – are they accurate, do they match your inventory, are the charges correct, who can approve them? Or do you take the 'if it's similar to last month lets just pay-it' approach.

How often do you ask for KPI reports – daily, weekly, monthly, quarterly – all of these? How often do these reports provide actionable intelligence, or is it just a snapshot?

Once again, the business should embed these workflow and reporting requirements in the program. Your partners' technology and services can deliver these, allowing your FTE's to focus on value creation. Not only does this add value to your business, it will improve your employee engagement scores, with all the benefits associated with this.

To summarise, in my experience, most businesses have historically adopted some of these tactics, but used them as just that....tactics.

Today, more and more businesses are recognising the need for a more programmatic approach to their cost-management, which, if applied through a mix of technology, process and crucially the right partnerships, can deliver a broad range of benefits and meet the key focus areas of the CFO.

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