



Finance & Management Faculty

Cost transformation

22 November 2016

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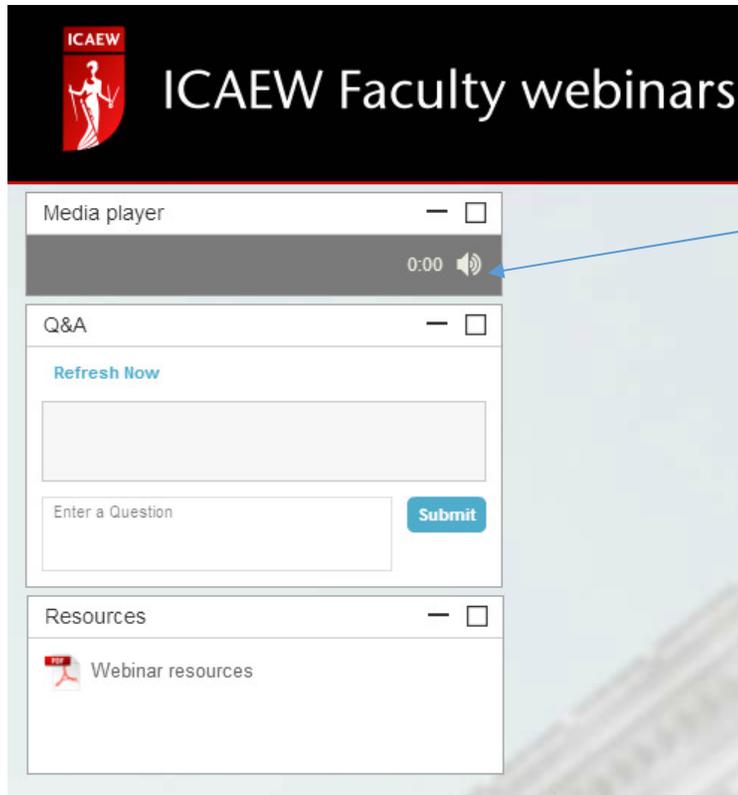


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World Class Defined and Enabled



**Finance and Management Webinar Series
2016**

Cost Transformation

**Tom Kellaway – Senior Director
Philip King – Senior Director**

Agenda



- **Introductions**
- The need for cost agility
- Balancing efficiency and effectiveness
- Determining where to move forward and how to go about it
- Top tips for cost optimisation

Introductions



Thomas Kellaway, Senior Director & EMEA Benchmark Regional Director, The Hackett Group

Tom is the Director responsible for the EMEA Benchmarking Practice at The Hackett Group, managing & executing highly complex multi-functional benchmarking projects with high-profile multi-national organisations. Tom's involvement covers the end-to-end process of benchmarking execution; from planning, data collection, executive interviews, analysis, presenting to initiating transformation projects resulting from benchmark engagements. He is responsible for providing in-depth analysis of benchmark results & providing transformational recommendations & next steps based on empirical data. Tom has worked throughout EMEA, North America, China & Japan and is recognised as one of the company's leading benchmark subject matter experts.

Tom can be reached at tkellaway@thehackettgroup.com



Philip King, Senior Director, The Hackett Group

Phil is a Senior Director providing insight and value through transformation consulting in all support functions: Finance, HR, Procurement, IT, Customer and Corporate Services. He provides solutions in Global/Enterprise Business Services, Outsourcing, Enterprise Performance Management and Functional Transformation. Expert in working in different country cultures and leading multi-national teams. FCMA with career beginnings in Finance including 4 years as Finance Director for European subsidiary of a US company. Key member of management team driving business growth supported by IT enablement. From 1994-1997 designed, implemented and ran a Shared Services Centre for North American financial operations in Baltimore, USA. During the past 19 years as a consultant has played leading roles in several global, European and country-based functional transformation and Shared Services projects, including experience in the USA, Australia, China, Asia-Pacific, South and Central America, Africa, Middle East, UK, Western and Eastern Europe.

Phil can be reached at pking@thehackettgroup.com

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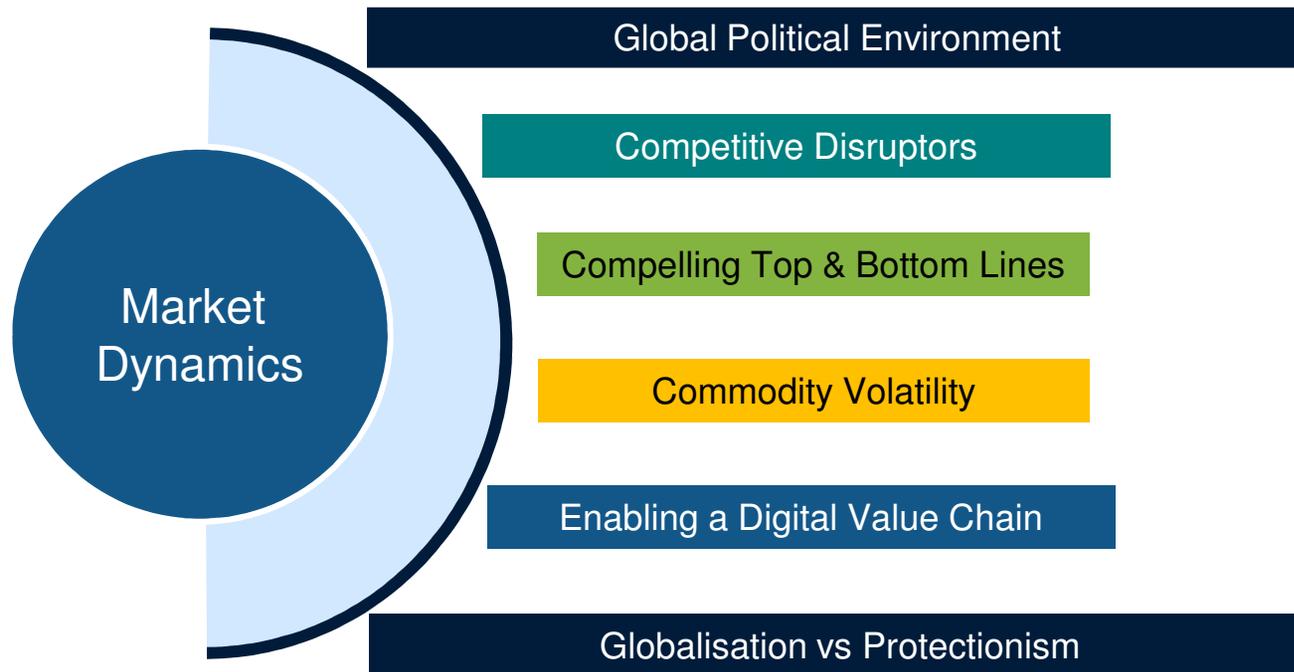
Fast
Accurate
Unbiased and
Actionable

Agenda



- Introductions
- **The need for cost agility**
- Balancing efficiency and effectiveness
- Determining where to move forward and how to go about it
- Top tips for cost optimisation

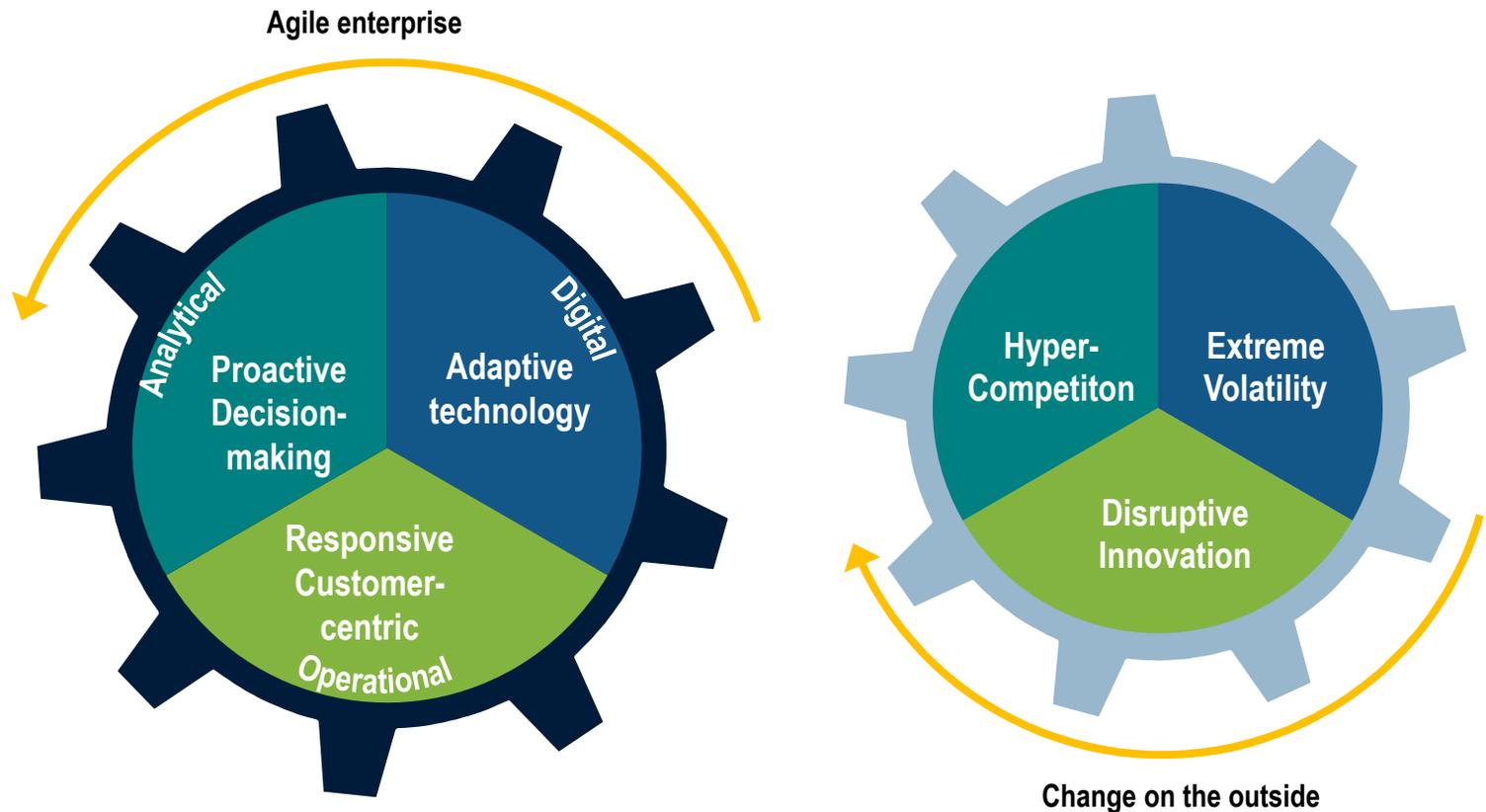
The dynamic global environment is putting intense pressure on enterprise leaders and executives to manage costs



Organisations are challenged to be increasingly agile to respond to the dynamic environment

Corporate Agility is a systemic, integrated approach to equipping people with the places, tools and practices they need, not only aligning with but enabling their organisations' strategies.

“If the rate of change on the outside exceeds the rate of change on the inside, the end is near.”
- Jack Welch



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Balancing efficiency and effectiveness: the value proposition of world class

More efficient & effective service delivery to the business...

EFFECTIVENESS

- Access to right information at the right time
- More engaged, more agile workforce
- Value-added supplier leverage
- Better alignment to the needs of the business
- Optimised use of working capital

EFFICIENCY

- Lower total costs
- Faster cycle times
- Higher productivity levels
- Better staffing utilisation
- Higher transaction automation levels

Helps deliver stronger business outcomes

OUTPERFORMANCE

| | |
|--------------------------|--------------|
| Revenue Growth | +1.3% |
| EBITA Margin | +3.3% |
| Net Income | +3.7% |
| Total Shareholder Return | +2.5% |
| Return on Assets | +1.3% |

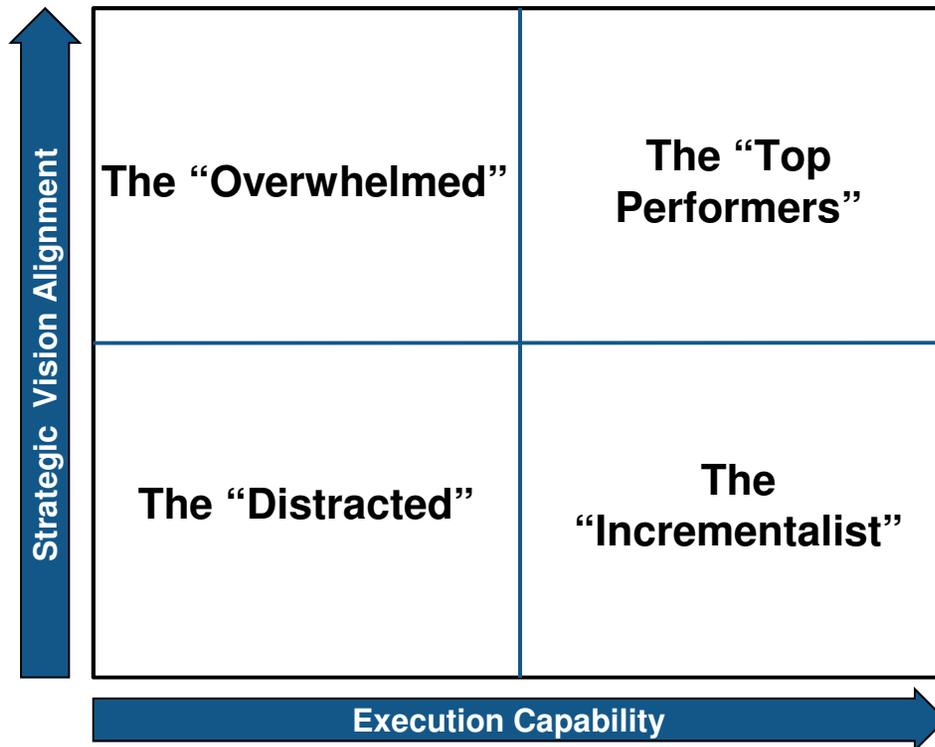
Achieving world class matters – its pursuit can liberate significant benefits

34% in annual **cost savings** **£30m**

3% in annual **sourcing savings** **£18m**

... are realised by typical £1bn company

Top Performers' cost optimisation programmes maintain a broad strategic vision, backed up by strong execution capability



- **The Distracted:** Too many overarching business issues to focus on cost optimisation
- **The Overwhelmed:** Too many improvement initiatives in play – lack prioritisation
- **The Incrementalists:** Small progress made in discreet areas of scope
- **The Top Performers:** Integrated, prioritised step change improvements achieved in line within business strategy

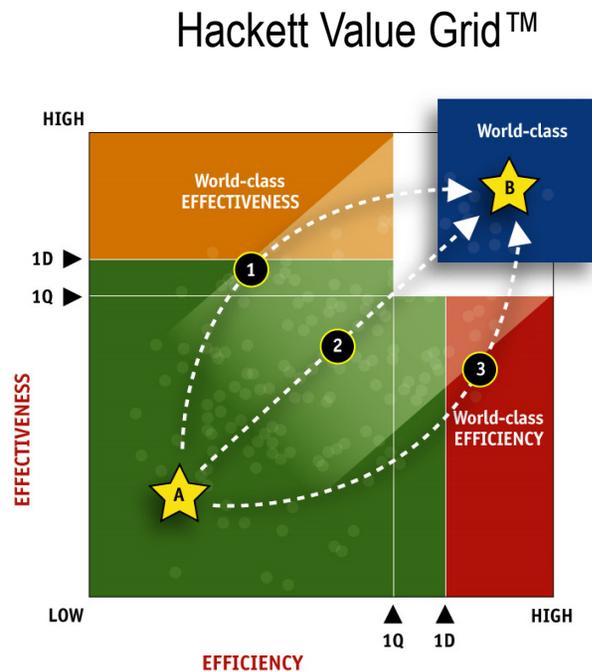
Top performers run centrally led programmes that surface ‘cross-silo’ opportunities and prioritise resources to maximise shareholder value, supported by strong leadership and change management

Agenda



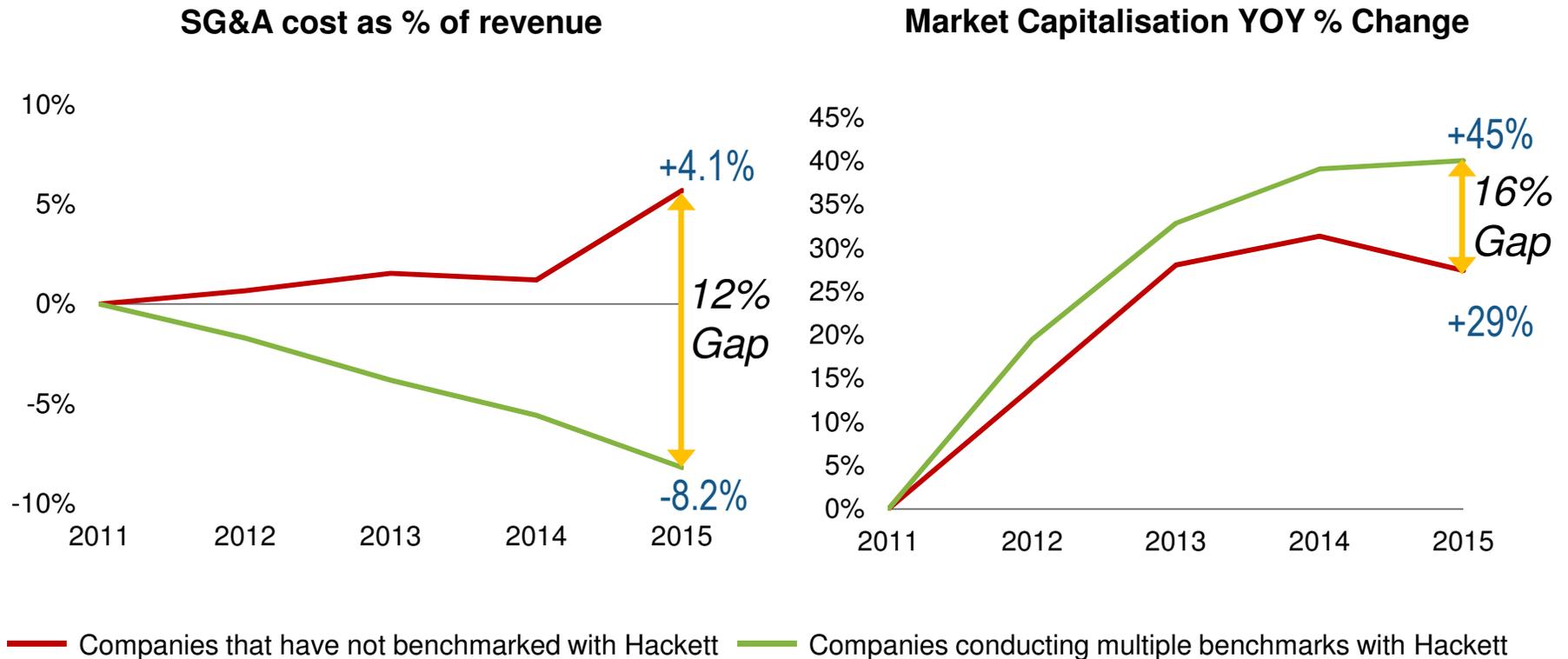
- Introductions
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- **Determining where to move forward and how to go about it**
- Top tips for cost optimisation

Benchmarking will define the opportunity and path for cost transformation by establishing where you are & where you want to go



- A benchmark establishes a fact-based baseline of costs, staffing and effectiveness
- It provides granular visibility of duplication and inefficiency between business units and countries
- It helps align bottom-up detail with top-down strategy
- It quantifies the cost opportunity of achieving improved performance
- It takes the emotion out of decision-making and allowing facts to rule over feelings
- It enables executives to discuss ambition levels
 - What targets can we achieve by when?
 - What path should we take?
- It allows organisations to rapidly transition through to initiative, business case & roadmap development
- It provides targets to achieve and supports continuous improvement through a repeatable and consistent process

The proof is in the data - benefit realisation fails if there isn't accountability through continuous benchmarking



63% of top performers start with a firm baseline for better outcomes

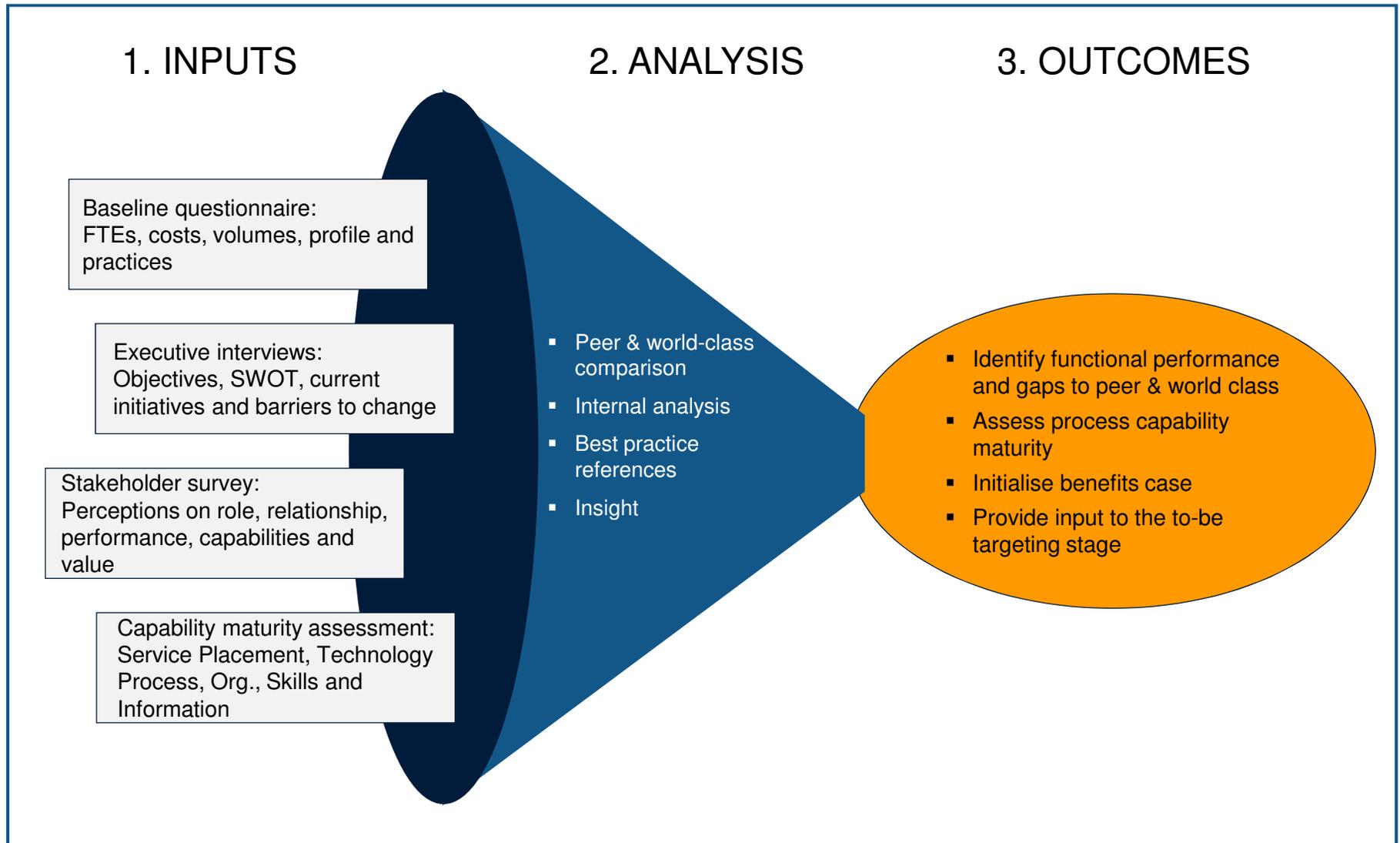
64% of top performers design accountability into goals and incentives

Targeted improvements can be identified and justified based on realistic and achievable productivity gains

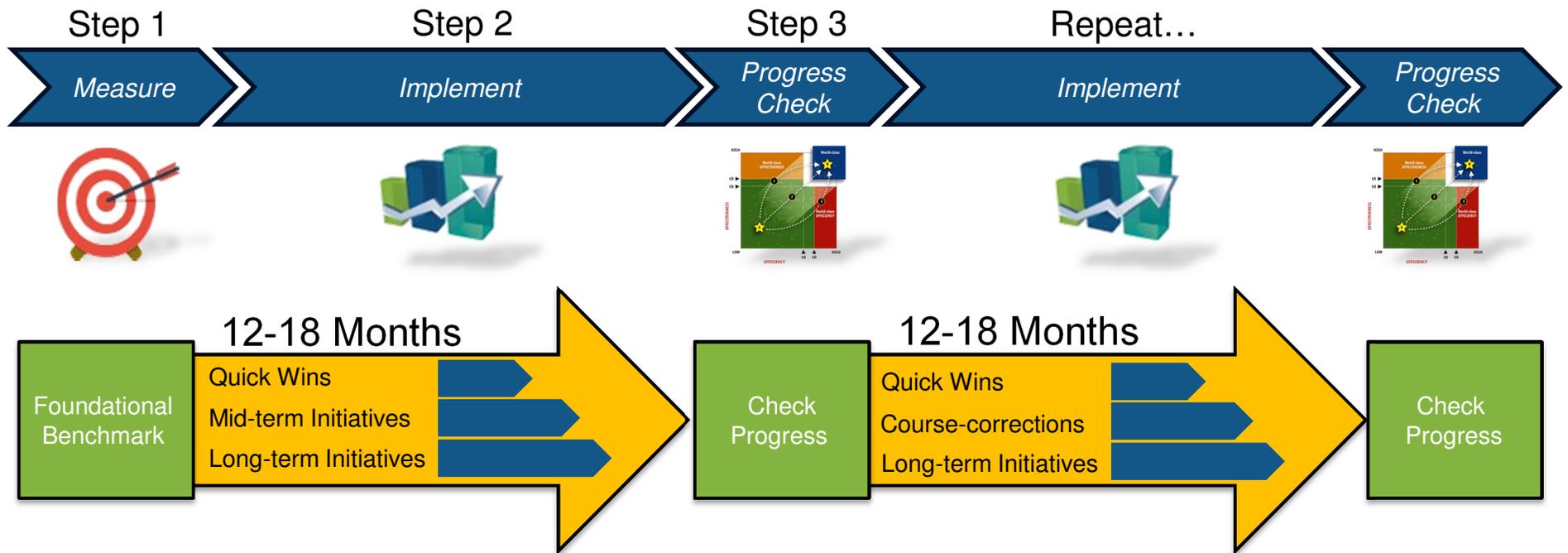
Sample Output

| | FTE | Cost £ | Cost/FTE | Productivity | Productivity definition | Peer Median Productivity | Target Productivity | Target FTE | Cost £ | 1Prize £ | Prize % | Portio of FTEs in Market |
|---|------------|------------------|---------------|--------------|--|--------------------------|---------------------|------------|------------------|------------------|------------|--------------------------|
| Requisition & PO Processing | 39 | 1,010,001 | 26,159 | 968 | No. of PO processed per FTE | 5,572 | 3,000 | 12 | 325,809 | 684,192 | 68% | 29% |
| Accounts Payable | 45 | 1,069,478 | 24,044 | 1,618 | No. of invoices processed per FTE | 13,919 | 10,000 | 7 | 173,119 | 896,359 | 84% | 6% |
| Travel & Expense | 4 | 97,117 | 24,158 | 7,376 | No. of T&E Reports processed per FTE | 10,062 | 10,000 | 3 | 71,630 | 25,487 | 26% | 0% |
| Credit | 7 | 214,510 | 29,145 | 677 | No. of credit reviews processed per FTE | 825 | 800 | 6 | 181,539 | 32,971 | 15% | 58% |
| Cash Application | 17 | 342,033 | 20,580 | 4,658 | No. of remittances processed per FTE | 20,293 | 12,000 | 6 | 132,606 | 209,427 | 61% | 13% |
| Collections | 12 | 301,888 | 25,220 | 8 | FTEs/£bn. revenue | 4 | 6 | 8 | 211,848 | 90,040 | 30% | 13% |
| Dispute Management | 11 | 552,846 | 49,986 | 388 | No. of Disputes per FTE | 3,271 | 1,500 | 3 | 143,003 | 409,843 | 74% | 39% |
| Intercompany | 9 | 289,628 | 32,967 | 2,776 | No. of Intercompany transactions per FTE | 14,444 | 8,000 | 3 | 100,668 | 188,960 | 65% | 1% |
| TOTAL | 143 | 3,877,501 | 27,132 | | | | | 50 | 1,340,222 | 2,537,279 | | |
| Potential savings opportunity in achieving Target levels | | | | | | | | | | 2,537,279 | 65% | |

But the benchmark isn't just about data – additional information should be used to gain a 360 degree review of performance



A benchmark is not a one-off exercise; it should be viewed as an inherent component of creating a performance management culture



Lastly...tips & tricks for successful benchmarking

The below are applicable whether you run your own benchmark or use a third party

Use it as a change management tool, not a tactical quick fix

Start with the end in mind; define the issue / problem and configure the benchmark to fit

Invest the time to get it right; clarity of scope, objectives and definitions minimise 'noise' around data quality and supports repeatability

Balance the effort vs. time equation – focus on what you need to know

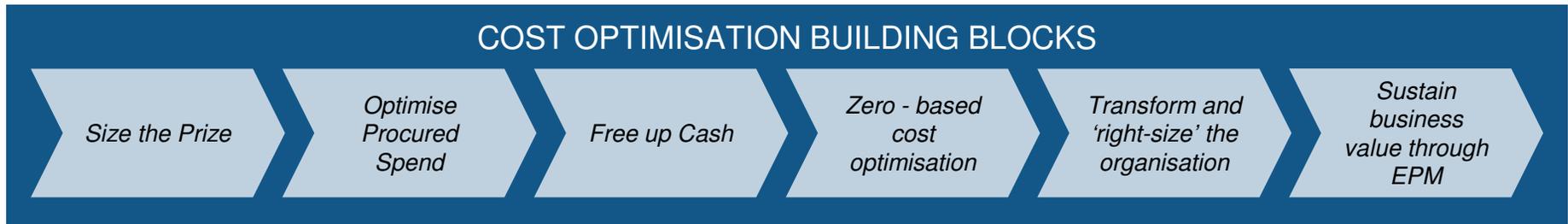
Ensure the external benchmark is relevant and the data is reliable

Agenda



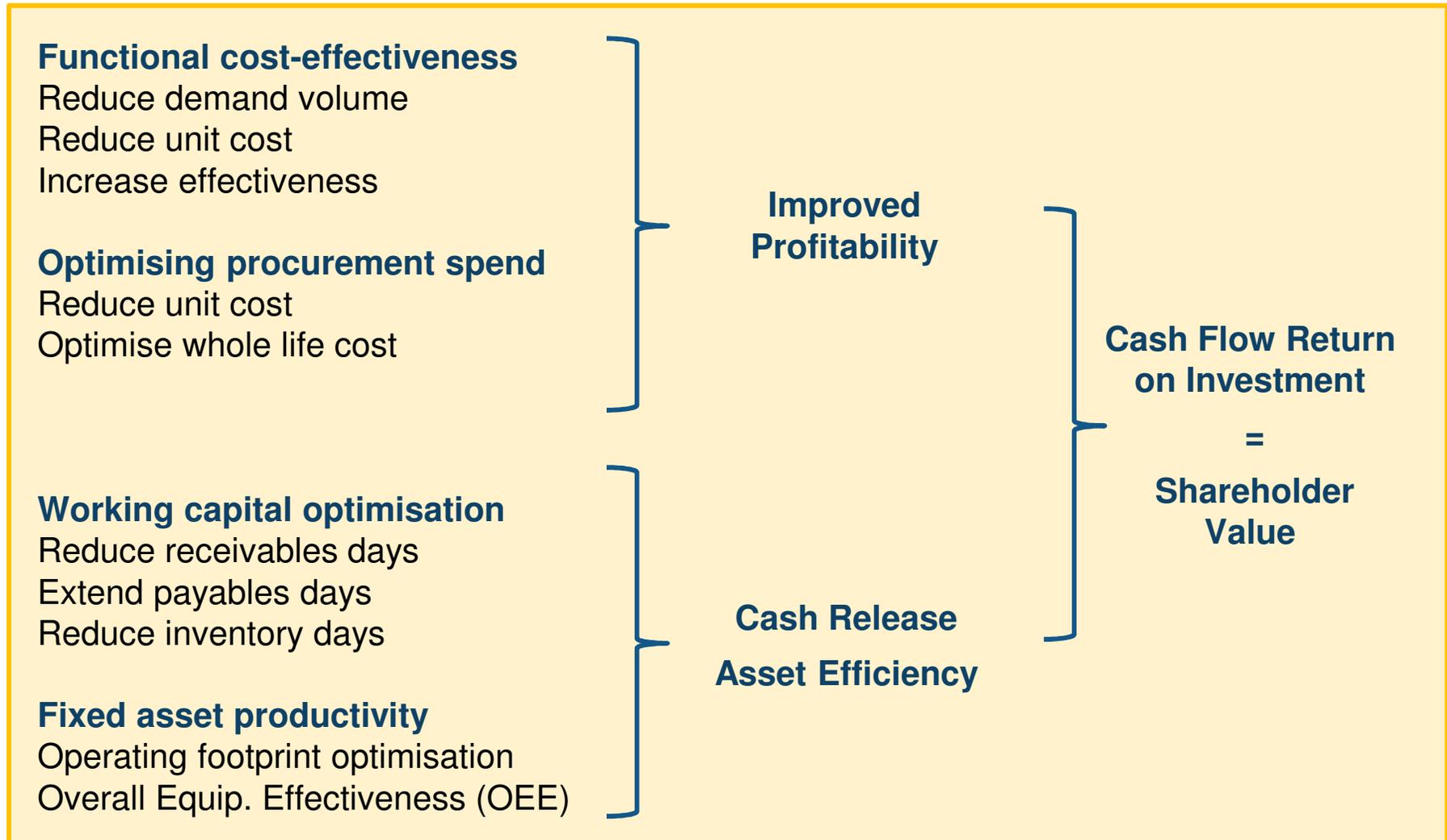
- Introductions
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- **Top tips for cost optimisation**

Top tip 1: develop an overall programme which sustains cost optimisation



| | | | | | |
|---|---|---|--|--|---|
| <p>Assessment of priority areas:</p> <ul style="list-style-type: none"> ▪ Efficiency & effectiveness process comparison and gap-analysis to peer & world class ▪ Internal cost review and comparisons ▪ Capability profiling and cost driver identification ▪ Executive interviews for contextualization | <p>Opportunity Assessment:</p> <ul style="list-style-type: none"> ▪ Spend analysis & opportunity diagnostic ▪ Strategic sourcing <p>Capability Development</p> <ul style="list-style-type: none"> ▪ Procurement process development and training ▪ Supplier relationship management | <p>Working capital cash flow, cost & service optimisation:</p> <ul style="list-style-type: none"> ▪ Procure-to-Pay (Payables) ▪ Customer-to-Cash (Receivables) ▪ Forecast-to-Fulfil (Inventory) | <p>Impact 'in-year' profitability:</p> <ul style="list-style-type: none"> ▪ Review discretionary spend ▪ Targeted service level optimisation ▪ Focused activity cost analysis ▪ Incremental process improvement | <p>Sustainable step-change improvements:</p> <ul style="list-style-type: none"> ▪ Best practice process redesign and implementation ▪ Shared Services / CoEs ▪ Offshoring & outsourcing strategies ▪ ERP technology architecture / strategy & cloud services ▪ Organisation and governance | <p>Cost transparency and insight:</p> <ul style="list-style-type: none"> ▪ KPI driver tree ▪ Integrated planning and forecasting processes ▪ Standardised and self-serve reporting ▪ Finance business partnering ▪ Analytics ▪ EPM / BI technology ▪ Cloud services |
|---|---|---|--|--|---|

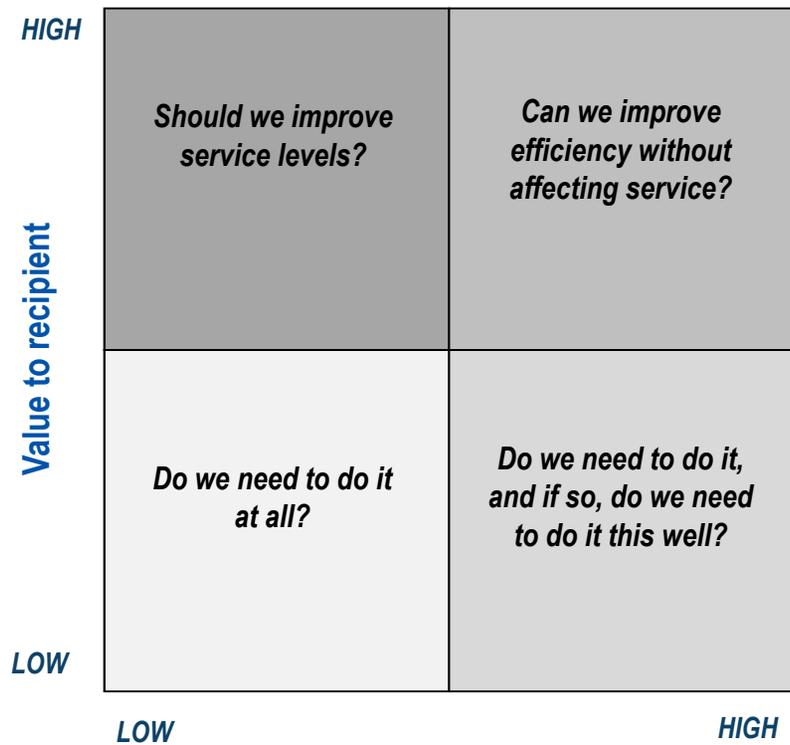
Top tip 2: demonstrate how the initiatives are aligned to the end goals – and measure progress



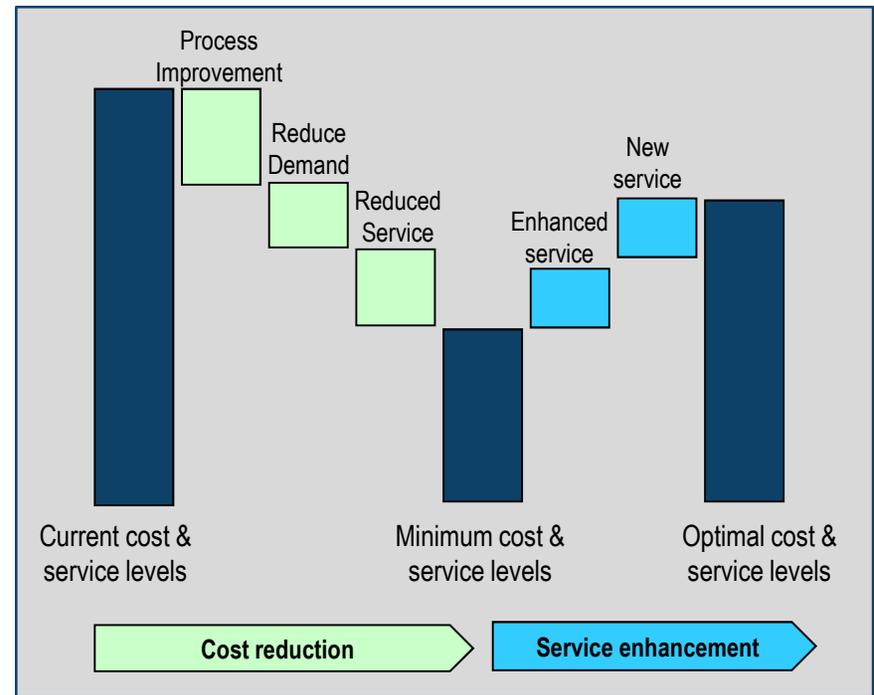
Top tip 3: start from a zero-base

- All proposed activities and expenditures to be justified from a 'zero-base'
- Determine 'decision packages' – cost, purpose and value of a particular output or service
- Present options for differing levels of service or output
- Model impacts of process improvements and / or alternative sourcing models
- Decision packages prioritised and ranked
- Funding decisions taken by senior management, and resources allocated

With a zero-based approach, the business value of the service received should determine the right service level

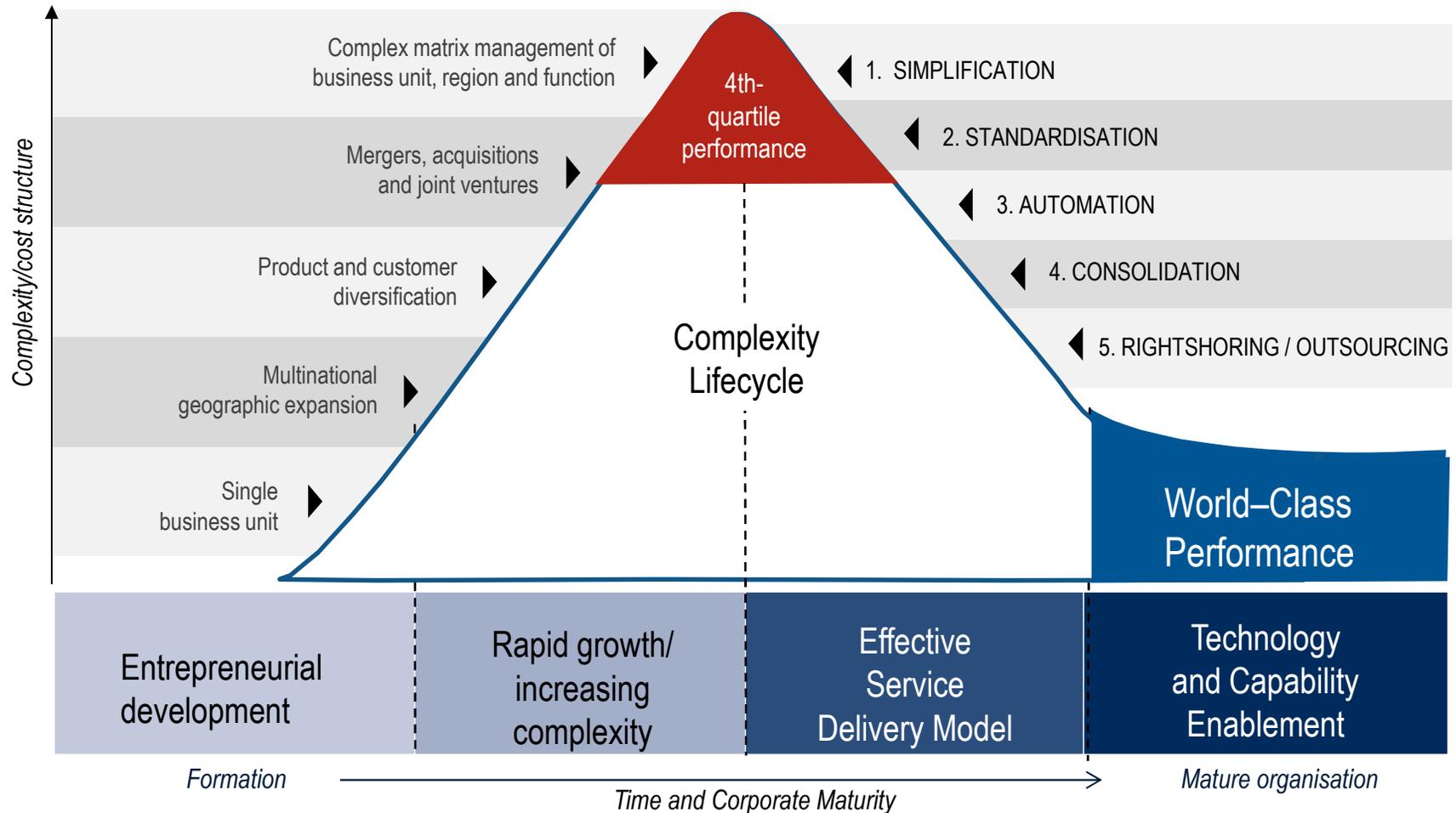


Service level (e.g. accuracy, timeliness, completeness)



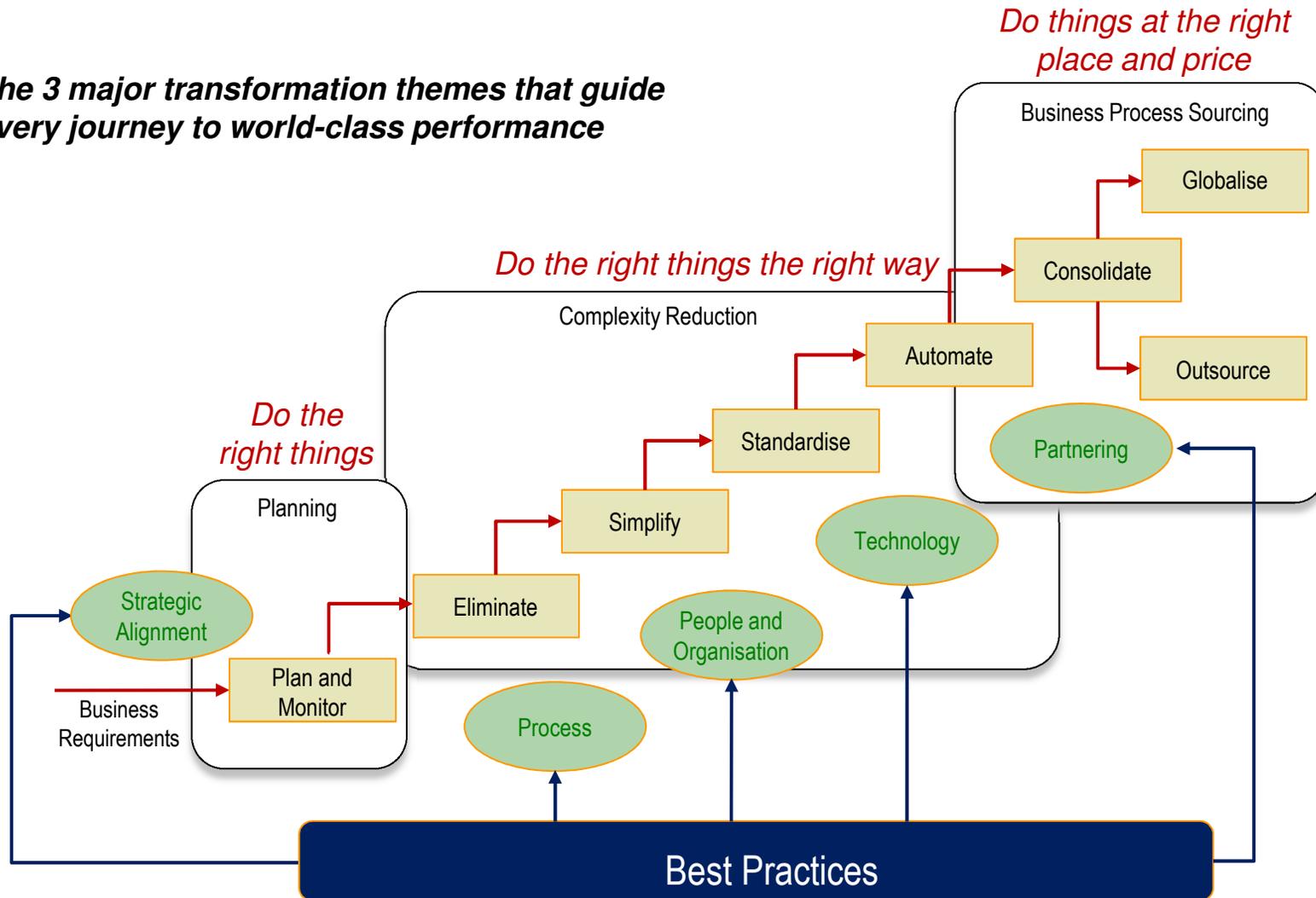
Rebalance costs and services

Top tip 4: address business complexity – it's key to optimising costs



Top tip 5: use a holistic approach to develop the best target operating model - simplify, standardise, automate, consolidate, right-shore

The 3 major transformation themes that guide every journey to world-class performance



Top tip 6: manage change: success requires leadership, fresh thinking, consistent process, behaviour change, and knowledge

Clear leadership and communication

- A clear vision needs to be articulated and communicated from the top.
- Company leadership needs to show unambiguous commitment to the programme.

Fresh thinking

- Organisations achieve cost leadership by being bold and thinking holistically.
- Those companies setting the pace have gained an understanding of how their overall business model impacts costs – by making changes at the strategic level.

Clarity and knowledge

- 'You can't attack costs without in-depth knowledge. You have got to know the root causes.'
- 'Good, clear visibility is really key' for cost reduction.
- 'Information is a major tool to sensitize people.'

A real understanding of value drivers

- Cost optimisation requires a deep understanding of what drives shareholder value, with decisions taken focused on value enhancement.
- There is a need to balance short term “quick wins” with longer term returns.

Rigorous implementation

- A relentless focus on delivery is critical to success.
- Close, regular monitoring, and tracking the benefits to help ensure they are preserved.
- Contingency alternatives if core plans need to change as a result of unpredictable events.

Changing behaviours

- A “cultural reset” aligned with the drive to control cost.
- Embedding the new way of doing things into the day-to-day behaviors within the organisation.
- Empowering those with operational responsibilities to achieve results

Top tip 7: be pragmatic

Be pragmatic

- A cost optimisation programme is essentially a rebalancing of resources to meet strategic objectives
 - Fewer resources (cost), enabled by less waste, better method and systems, improved processes, reduced service levels
 - Increase resources (cost), to deliver better customer service and new business opportunities / investments
- Identify the big opportunities that will deliver significant results, and blending them with quick wins to generate enthusiasm and momentum

Align to the strategic positioning of the organisation

- Organisation need to compete in terms of superior differentiation or superior low-cost advantage, or ideally, both
- Avoid ‘across the board’ cost reductions (e.g. eliminate 10% from every department) – because these firms do not reduce costs strategically, these efforts usually fail
- Cost reduction must not put the business at risk

Change behaviours

- A “cultural reset” aligned with the drive to control cost.
- Embedding the new way of doing things into the day-to-day behaviours within the organization.
- Empowering those with operational responsibilities to achieve results

Embed effective Enterprise Performance Management to provide the insight and accountabilities to sustain the change

- Close, regular monitoring, and tracking the benefits to help ensure they are preserved.
- Visibility and transparency over cost drivers
- Driver based planning, forecasting and reporting

Contact information

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