

Rapid Cost Reduction*

„No time to spare – It’s the fastest companies that have the edge, not the biggest“

Declining revenues and earnings, impending loss of market share and falling share prices are causing growing business uncertainty. Disappointing results force many businesses to rethink the management of their costs. Only a structured approach, combined with goal-oriented cost analysis, benchmarking, best practice comparisons and professional project management will enable a business to identify and realise potential permanent cost reductions. For this purpose it is essential to analyse cost structures and business trends precisely.

PricewaterhouseCoopers’ Rapid Cost Reduction is a pragmatic cost reduction approach enabling permanent savings to be realised in a relatively short time. The initial analysis phase starts with a brief analysis (comparison of cost structures, benchmarking, identifying quick wins) and is followed by a design and implementation phase, during which medium and long-term measures are developed and implemented.



Why goal-oriented cost savings?

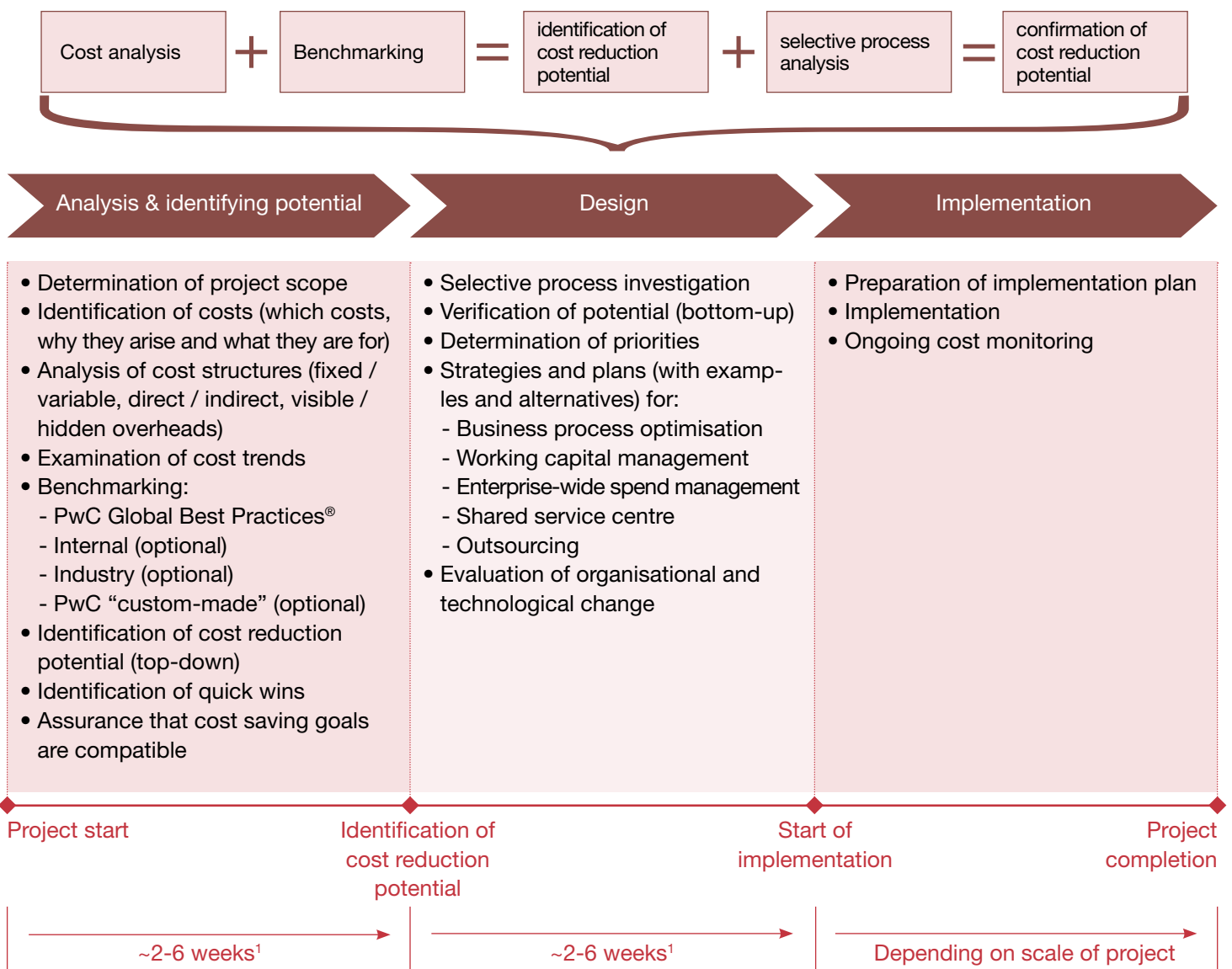
A recent survey by PricewaterhouseCoopers revealed that many businesses do not apply their resources in a goal-oriented and purposeful way, thus damaging their ability to compete. Although the majority of polled businesses claimed to be interested in investing in growth even under difficult economic conditions, the savings measures introduced in practice often result in reduced investment, hiring freezes or postponement of new projects. This of course reduces costs in the short run, but in the medium term has an adverse effect on the performance of the business.

An essential prerequisite for effective and efficient cost reduction is a clear understanding of the cost structure, resulting in the selection of a carefully considered set of measures to ensure that permanent savings are achieved quickly.

Our approach

Rapid Cost Reduction is an approach developed by PricewaterhouseCoopers that is characterised by short project duration and flexible structures. To achieve this we use techniques and methods with various time horizons, consider different cost management approaches and adapt them to your specific requirements.

Rapid Cost Reduction combines short, medium and long-term instruments, facilitating efficient implementation and producing measurable results quickly. The time needed to collect and analyse actual costs is thus reduced to a minimum.



¹) The project duration shown is illustrative only: actual duration will depend on availability of relevant employees and information.

Measures

- In the short term it is important to identify savings opportunities (quick wins) – using, e.g., benchmarking and cost structure analysis – and to take advantage of them quickly.
- Medium-term measures, such as enterprise-wide spend management, business process optimisation and working capital management develop out of the short-term measures.
- In the long term, cross-company structural changes such as shared service centres and outsourcing can contribute additional cost savings.

Successful implementation depends on project and change management involving all the various stakeholders.

Rapid Cost Reduction

Depending on the length of the project, our approach to Rapid Cost Reduction relies initially on non-time-consuming methods such as cost analysis and benchmarking. These are used to identify quick wins, which make a decisive contribution to the successful implementation of optimisation projects and quickly work their way through to the bottom line. Quick wins also motivate employees and make it easier to implement long-term changes that generate sustainable, structural improvements.

Short-term measures

| | Cost analysis | Benchmarking |
|--------------------|---|--|
| Example activities | <ul style="list-style-type: none"> • Analysis of costs in terms of their relevance to the enterprise’s entire value-added process and to its growth: <ul style="list-style-type: none"> - AVACs (added value activity costs): e.g., R&D, continuing education and marketing - NAVACs (non added value activity costs): e.g., redundant processes, inefficient procurement, uncoordinated expenditures | <ul style="list-style-type: none"> • Qualitative and quantitative benchmarking: <ul style="list-style-type: none"> - Global Best Practices® database - Internally - Industry comparisons - PwC “custom-made” |
| Your benefits | <ul style="list-style-type: none"> • Identification of costs that are necessary to support current and future growth • Identification of costs that can be reduced without adversely affecting the enterprise’s growth | <ul style="list-style-type: none"> • Improved performance and cost reduction in areas such as finance, procurement, human resources, IT, sales, etc. • Quality improvements in processes • Risk reduction • Identification of quick wins |

Continuous Improvement

Short-term changes alone are often not enough to effect a decisive and long-lasting improvement in profits. Systematic cost management can also entail the optimisation of business processes and consequent changes in business structures. Options may include shared service centres or the outsourcing of certain functions. Industry comparisons often reveal additional scope for improvements, and can also help identify possible opportunities for strategic alliances or collaboration with competitors.

Medium-term measures

| | Business process optimisation | Working capital management | Enterprise-wide spend management |
|--------------------|--|--|---|
| Example activities | <ul style="list-style-type: none"> • Analysis of weaknesses • Adaptation / changing of processes and deployment of human resources • Improvements in process quality • Shortening of cycle times | <ul style="list-style-type: none"> • Structural improvements in receivables, liabilities and inventories management • Definition and implementation of appropriate improvements • Monitoring using ratios and other indicators • Active management of taxes and duties using PwC applications such as Safer Tax™ and Cashfinder® | <ul style="list-style-type: none"> • Consolidation of suppliers • Reduction of inventories through better integration of suppliers into the supply chain • Increased acceptance of long-term contracts |
| Your benefits | <ul style="list-style-type: none"> • Rapid situation analysis • Permanent reduction in costs • Protection of competitive advantages | <ul style="list-style-type: none"> • Unlocking of 20-30% (typical figures) of the tied-up capital, with a payback period of a few months • Additional capital available for investment • Permanent reduction in core working capital requirements | <ul style="list-style-type: none"> • Typical savings of 5-15% of applicable procurement costs • Typical costs are frequently only 10-20% of the savings achieved |

Long-term measures

| | Shared service centre | Outsourcing |
|--------------------|--|---|
| Example activities | <ul style="list-style-type: none"> • Situation analysis • Definition of services provided by shared service centre • Standardisation / harmonisation of business functions • Establishment of control mechanisms | <ul style="list-style-type: none"> • Development of business scenario • Selection of an appropriate supplier • Stakeholder management • Completion of transaction • Risk appraisal • Continuous improvement |
| Your benefits | <ul style="list-style-type: none"> • Improved resource utilisation • Standardisation and process optimisation • Reduction in overhead costs • Increased services efficiency | <ul style="list-style-type: none"> • Enhanced efficiency of outsourced processes • Release of resources • Intensified concentration on core processes |

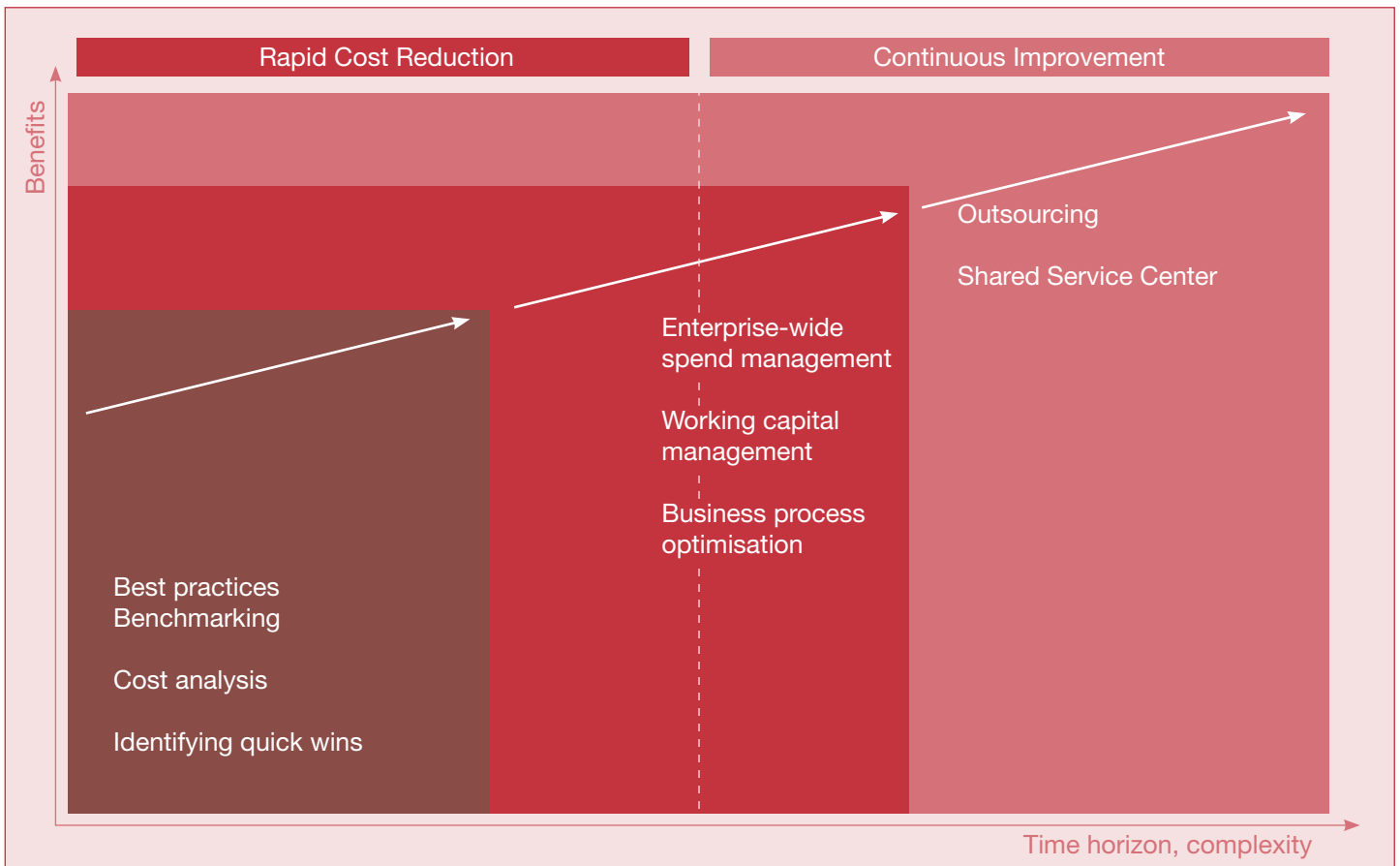
Your benefits

Using Rapid Cost Reduction, the short-term cost reductions lead to the development of medium to long-term strategies for further reductions from, for example, process optimisation, enterprise-wide spend management, working capital management, shared service centres or outsourcing.

Rapid Cost Reduction at a glance

- Classification of savings potential in terms of implementation times
- Optimisation of processes
- Rapid and significant cost reductions
- Permanent improvement in competitive position
- Low investment costs
- Release of unutilised reserves and cash
- High return on investment (ROI) on project costs
- Integration of short, medium and long-term measures
- Transfer of best practices knowledge

The longer the time horizons, the greater the complexity and the potential benefits.



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