

# In Brief\*

Building a sustainable cost-effective culture through operational efficiency

When the economic recovery starts to happen, it could speed up relatively quickly. Companies need to set themselves up right now, so they will be well-positioned for the upturn. PricewaterhouseCoopers (PwC) has the experience and expertise to help companies do just that.

## Challenges facing the Alberta economy

- Increasing costs and decreasing production
- Rising global demand for scarce resources
- Aging assets
- Tight capital markets limiting spend

During a downturn, everyone is keenly aware that in order for companies to survive, they have to make tough decisions and sacrifices. For this reason, a downturn offers a tremendous opportunity for Albertan companies to get buy-in not only for rapid, effective cost reduction but also for the necessary restructuring to achieve the highest possible level of operational efficiencies for the long term. Companies that take advantage of this opportunity now will face the downturn strong and fit. More importantly, they will have a sustainable cost-reduction culture and an infrastructure that continuously revitalizes and improves operational efficiencies. When the upturn arrives, Albertan companies that have seized this opportunity will be poised to be the first to leap forward—knowing that this time around, whether it's a boom or bust economy, their companies are structured to remain lean, resilient and agile.

## No better time to change than a downturn

- It's easier to get buy-in: everyone understands the need for cost cutting and improved efficiencies.
- In boom times, companies getting rid of deadwood can feel a backlash. In a downturn, this need is understood by everyone from the public to employees.
- You can build on the understanding and buy-in of a downturn to establish the cost-cutting culture, infrastructure and key performance indicators (KPIs) that will maintain operational efficiencies in the long term.
- By scaling effectively in a downturn with all the right processes in place, companies can deliver high-quality operations and be in a position to scale back up in a hurry when things turn around.

---

## How to trim the fat without cutting muscle

- A business overhaul to create operational efficiencies and a sustainable cost-cutting culture requires a holistic approach with precision financial tuning of the entire enterprise
- It requires complete objectivity—a new, fresh assessment and review of all operations, uninfluenced by emotional attachment, internal dynamics and politics.
- It requires the capability to bring a multiple disciplinary approach, e.g. regulatory, finance, operational, tax, SAP and IT experienced practitioners, to solve complex inter-related cost reduction challenges.

---

## The benefits for the long term and upturn

- This is not about change for the sake of change or short-term survival. This is change that will stick for long-term profitability and resilience.
- Consistent and disciplined adoption of standardized processes across your company.
- Clear understanding of KPIs and associated areas for attention.
- Improved workplace culture that is more supportive of change and owns the solutions towards improvement.
- Company strategy is embraced at all levels because everyone clearly understands how operations deliver value, company strategy is embraced at all levels.

# Building a culture of sustainable cost reduction

- **Set an environment for cost reduction:** Confirm the cost reduction targets and process, agree on the in-scope cost base, and complete a preliminary reduction analysis. Agree on cost ownership. Agree up front on who is responsible for challenging which costs. Working from a pre-allocation cost basis will prevent any costs from falling through the cracks.
- **Challenge the financial plan:** Have operating managers clarify cost drivers, challenge operating cost assumptions, and reduce discretionary spend.
- **Look for contract leakage:** A forensic review of suppliers may uncover recoverable claims, cost avoidance areas, and off-contract savings opportunities.
- **Gauge performance by measuring results:** Do so by monitoring activities, capturing related spend results, and producing robust reports for senior management. At the same time, focus on cost management and control activities.
- **Rigorously control spending:** Immediately establish a tighter span of control for spend approval.
- **Stabilize cost controls:** Complete a gap analysis of critical cost management and controls to identify immediate actions required to stop the bleeding and create a culture of cost awareness and ownership.

## The PwC advantage: We know how to build value

| Value builders  | PwC perspective   |
|---|---|
| <b>Strong direction and support from the C-suite for cost reduction initiatives, with clear scope and objectives.</b>           | PwC brings an understanding of finance, financial discipline and cost management that allows us to bring a sustainable cost culture to the organizations we work with.<br><br>“We see companies cutting costs now without improving efficiency. They are stopping up the gaps but when things start ramping up the pressures on organizations that are inefficient won’t deliver the growth needed in the future. If you reduce costs you have to improve efficiency at the same time. It’s not just about reducing costs.” Ian Kane, Director, Advisory, PwC Calgary |
| <b>A strong foundation on which to build transformational initiatives.</b>  | PwC knows how to use key performance indicators to optimize operational effectiveness.<br><br>“We can give you the tools to monitor your company’s performance so you can navigate and succeed—even during a market downturn. PwC knows how to optimize organizational performance so you can do more with fewer resources.” says Karen Watson, Director, Advisory, PwC Edmonton  |
| <b>Ability to assess and challenge the company’s spend culture.</b>   | PwC brings cross-sectoral expertise and an open mind to each business challenge in order to achieve innovative and effective solutions.<br><br>“When we come in we are not tied to one solution in particular which makes us more objective.” says James McLean, Director, Advisory PwC Calgary   |
| <b>Frequent interaction between finance and operating managers for better cost reduction decisions and tracking of results.</b> | PwC brings a thorough understanding of all aspects of a business and how they work together in order to ensure alignment from the top down.<br><br>“We understand from an organization’s perspective, how the financial costs build up but with our operational brain power we also understand the link between the dollars and the operations; how the work happens. This is our value proposition,” says Randy Watt, Associate Partner, Advisory, PwC Calgary   |
| <b>Effective communication that will lessen resistance and create more buy-in to enable sustainable cost reduction.</b>         | PwC knows how to communicate strategy to all departments.<br><br>“Cost containment is not simply about pulling a bunch of money out of operations or warehouses. We bring operational thinking as well as the financial discipline to improving overall efficiency to make the link to the dollars. We can speak to the CFO as strongly as we can speak to the VP of the business operation unit.” Kevin Peterson, Director, Advisory, PwC Edmonton   |
| <b>A third party, objective point of view. If the spend culture isn’t addressed now, long-term success is at risk.</b>          | PwC can draw on a global team of practitioners in all industries and all areas of business.<br><br>“An objective third party is key. You don’t have time to waste and you need people who have done this before. Our experience reduces your risk. We can help you make the changes you need and improve the speed of delivery.” says Penny Rae, Director, Advisory, PwC Calgary  |

## Our team

In Alberta, PwC has assembled a team with global hands-on experience in driving performance improvement through finance and operations transformations for companies around the world. Call one of our practitioners below to talk about how we can help you make change stick.

Randy Watt  
Associate Partner  
403 509 6651  
randy.d.watt@ca.pwc.com

Ian Kane  
Director  
403 509 7344  
ian.j.kane@ca.pwc.com

James McLean  
Director  
403 509 7535  
james.mclean@ca.pwc.com

Penny Rae  
Director  
403 509 6371  
penny.rae@ca.pwc.com

Kevin Peterson  
Vice President  
780 441 6762  
kevin.s.peterson@ca.pwc.com

Karen Watson  
Director  
780 441 6883  
karen.watson@ca.pwc.com

[www.pwc.com/ca/doingbusinessinalberta](http://www.pwc.com/ca/doingbusinessinalberta)