



Rapid Cost Reduction: Managing in a downturn by effective and sustainable cost reduction

In today's economic climate, many companies are struggling with cost-cutting pressures, shrinking margins, rapidly changing business models, and inadequate acquisition strategies. Frequently, companies turn to short-term cost cutting or place big bets to transform the business. Often companies respond by reducing headcount, selling, general and administrative spend, and operating expenses.

But the trouble with many of these measures is that they can be put into practice without considering their sustainability. Often any short term cost savings can leak away with the result of damaging corporate infrastructure and culture, leaving companies struggling well after the recession ends.

Know your starting point

- Do you have a cost-focused culture?
- Have you recently announced (internally or publicly) cost reduction targets?
- Have current or past cost reduction efforts taken a long time?
- Has a past cost reduction initiative failed to deliver savings?
- Is there a gap in operating profit that may be attributable to declining revenues or rising costs?
- Has your company ever experienced a failed or incomplete acquisition integration?
- Is there a pattern of the company consistently failing to deliver against the operating plan?
- How effective are your governance processes?
- Do you use one or more of the traditional cost reduction approaches?

Traditional approaches to cost reduction

Approach	Focus	Why it fails
Top Down:	Focuses on finding and betting on transformational "silver bullets," such as shared services or outsourcing	Can deliver significant benefit however, the underlying cost complexities of reducing costs and existing behaviours are not changed
Slash and Burn:	Business as usual but with operating plans reduced by an arbitrary target (e.g. 10%)	Can deliver cost reduction quickly however it is reactive, short-term, and focuses on one-off elimination or deferral of spend (e.g. travel)
Boil the Ocean:	A bottom-up, detailed analysis across all departments to identify cost reduction opportunities	Can generate a list of opportunities, but requires greater investment and often loses momentum through "death by analysis" and fails to change any underlying cost drivers or behaviours

Establish an effective approach to cost reduction

PricewaterhouseCoopers has developed a simple framework designed to support and challenge conventional thinking of how companies can manage operational costs to secure a long-term competitive advantage. It takes a holistic approach and is driven through transparent management information and accountability.

It is a parallel process that includes both cost reduction and cost management so that companies can strategically position themselves to seize opportunities in a downturn.

Cost reduction:

- Focus on quickly delivering tangible savings opportunities
- Immediate discretionary and third party cost reductions

Cost management and control:

- Focus on improving and stabilizing the way costs are managed to drive continuous improvement and sustainability
- Drives a cost-conscious culture with governance and measurement

Rapid & Sustainable Cost Reduction

Typical project life cycle & resulting benefits

Our proven cost reduction methodology will enable you to:

- Identify the potential cost reduction opportunities;
- Design the appropriate solutions; and
- Successfully deliver the planned benefits.

	Rapid Cost Reduction Analysis	100 Day implementation
	10 - 15 days (Est.)	100 days
Objective	<ul style="list-style-type: none"> • Review budget/cost • Identify large cost "buckets" • Analyze high cost areas for cost reduction opportunities • Develop business case • Develop a rapid cost reduction plan 	<ul style="list-style-type: none"> • Deliver the rapid cost reduction by apply rigid project management • Rapidly reduce the high cost areas through focused teams • Measure the reduction against the business case • Deliver the annualized savings
Deliverables	<ul style="list-style-type: none"> • Fact based cost reduction analysis • Revenue enhancement opportunities identified • Business case • Rapid cost reduction plan 	<ul style="list-style-type: none"> • Rapid Cost Reduction

Rapid Cost Reduction in practice

Opportunities include:

Focus on operating cost drivers and financial plans – Defining business cost drivers and linking operating and financial plans improves transparency which enables better budget owner accountability.

Reviewing the business end to end and eliminate non-value added activities.

Contracts and third party spend reduction – This goes beyond better supply chain leverage to executing sound agreements and decisions.

Financial Benefit

Our experience with clients shows on average, \$5 - \$10 savings gained per \$1 in fees.

How can PwC help?

- We work closely with your team to create the right buy-in and ownership, whilst challenging and pushing a little further to achieve the required cost reduction.
- We bring strong project management capability required to deliver rapid cost reduction.
- We bring a deep understanding and experience of finance and a sustainable cost reduction culture.
- The capability to bring a multiple disciplinary approach e.g. regulatory, finance, operational, tax, SAP and IT experts, to solve complex inter-related cost reduction challenges.
- We are independent of organizations' sacred cows.
- We will not only help you manage through the downturn, but will help you position for the upturn in order to achieve profit margins that are superior to your margins before the downturn.

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