

Enhancing an Organisation's Performance in Challenging Times

June 2009

Current environment and key challenges

Current Environment

- **Low consumer confidence** leading to demand pressures;
- **Enhanced price competition** to maintain market share and volume of business
- **Restricted liquidity** in the market
- **Cash flow pressures** from decreasing demand as well as increasing ageing of receivables
- **Inflexible cost structures** making it difficult for management to identify and implement cost-cutting opportunities



Key Challenges

- Have a clear view of the business' real drivers
- Evaluate the business performance in greater detail and with a more predictive insight
- Focus efforts in managing business drivers better
- Manage the cost base more effectively to maintain profitability
- Ensure the organisation is better positioned once the market rebounds

In such challenging times, senior management become more and more concerned with the following questions:

- How aligned is our **Business Plan** with our strategy?
- Does our **operating model** support the implementation of our Business Plan?
- Have we transformed our strategy into actionable **performance measures** that offer predictive insight to our front-line management?
- How able is our current **management information system** to present and evaluate business performance?
- Have we effectively aligned and reduced our **cost structure**?

Aligning Strategy with a Business Plan

Some observations

Unclear strategy or not effectively communicated

Lack of an agreed Business Plan

No linkage between strategy and business plan

Business Plan not aligned with clear performance measures

Measures used do not offer value-adding insight

Over-concentration on financial profitability measures

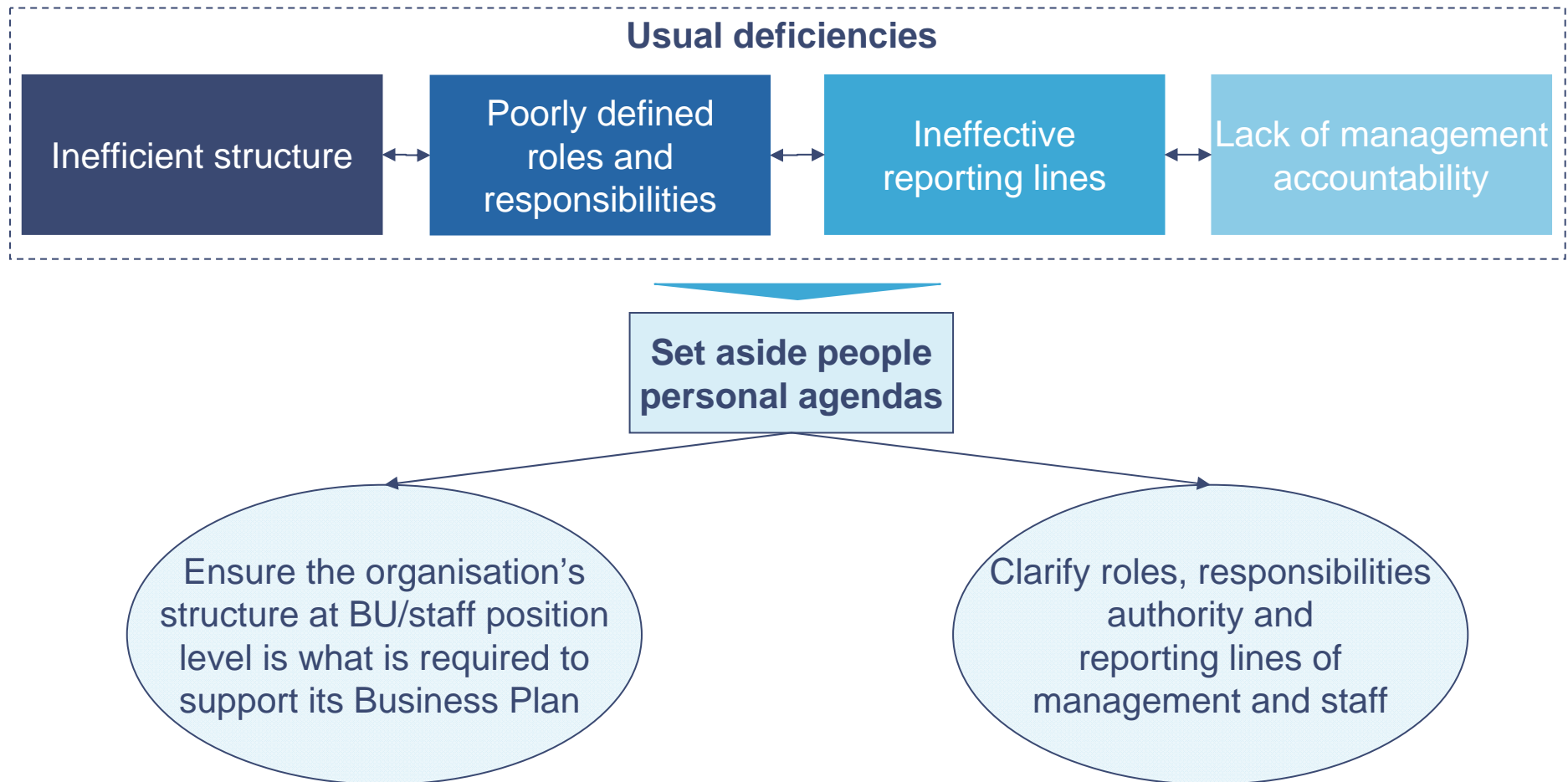
The Consequences...

- Confusion amongst senior and middle management
- Lack of focused and concentrated efforts
- Lack of clear objectives and management accountability
- Organisation is 'following' instead of 'leading' the market
- More alert competitors get stronger and gradually get a market advantage

- **Challenge the strategy** - Revise the content of the organisation's **Business Plan** to ensure it is **aligned** and able to drive strategy achievement
- Identify the most relevant **financial and non-financial performance measures** (KPIs) and **communicate** these effectively to front-line management

Get the organisation's operating model right

Despite the presence of a clear strategy and focused Business Plan, the organisation's operating model may not allow the implementation of the Plan and the achievement of the desired results



Give the right information to the right people at the right time to make the right decisions

Some usual management complaints:

- Use of different reporting and planning tools across the organisation
- Provision of limited, delayed, incomplete and non-meaningful information
- Surprises in actual financial results

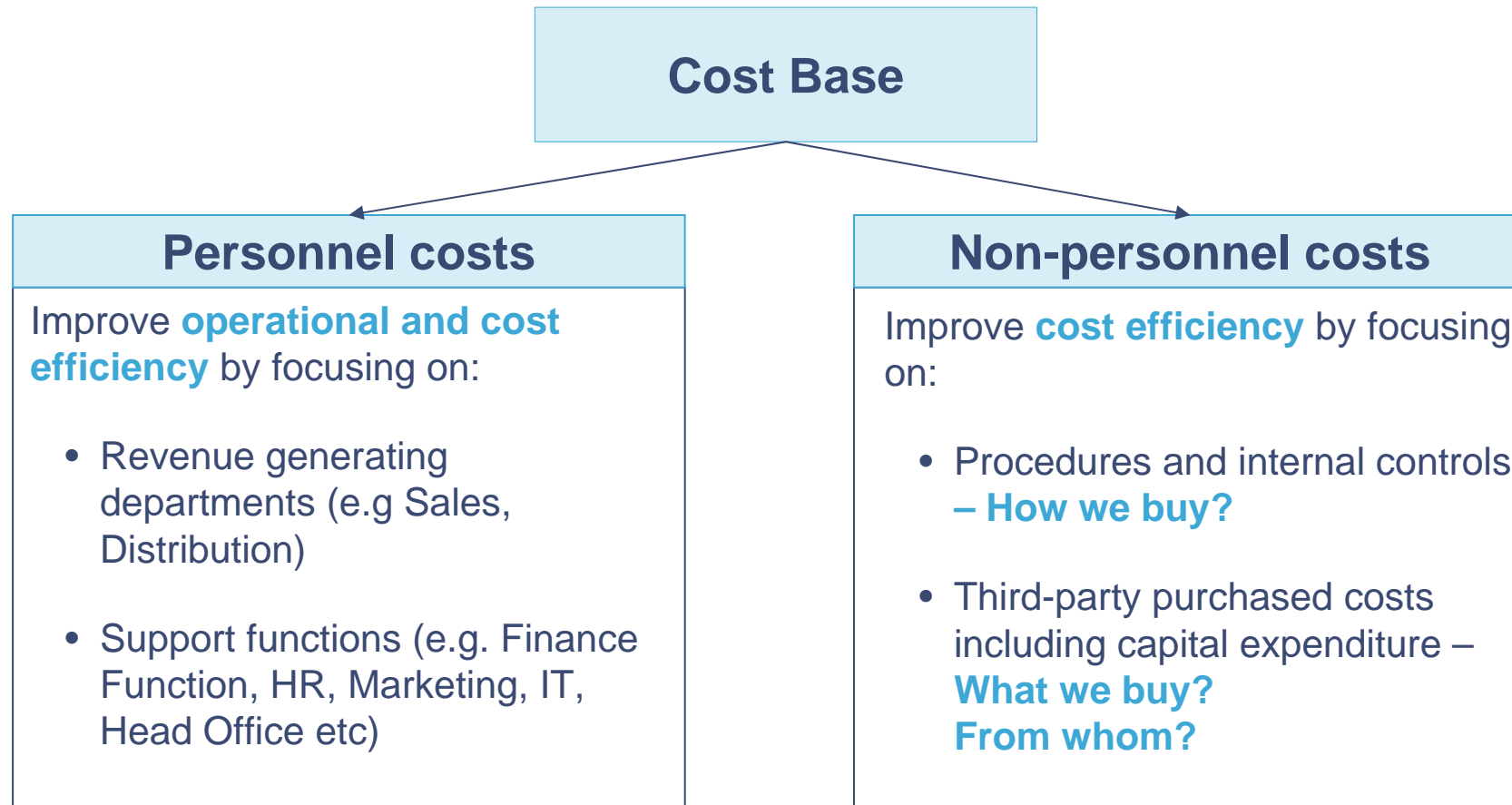
Mistaken or delayed response, and loss of confidence and credibility from business partners

Senior management needs to **assess and redesign its Management Information System** to:

- Enhance the **quality** of its Management Information System
- Ensure the **consistency** of financial and non-financial KPIs used across the organisation
- Track timely and efficiently **actual performance against business targets**
- Enhance its **forecasting and business analysis capabilities**

Optimise the organisation's cost structure

To optimise the organisation's cost structure, we need to target the various cost drivers, affecting both personnel and non-personnel costs.



Personnel Costs

In enhancing the operational and cost efficiency of the organisation's departments (revenue generating and support functions), key focus areas need to include the following:

Department structure and staffing	Staff roles and responsibilities	Staff activities	Other areas
<ul style="list-style-type: none">• Review of structure and reporting lines• Assessment of current staffing levels• Identification of necessary skills, knowledge and experience	<ul style="list-style-type: none">• Consistency and clarity of staff responsibilities• Responsibility vs authority• Work ownership• Reward plans (alignment of reward packages to the parameters that really matter)	<ul style="list-style-type: none">• Performance of low value activities, duplication• Identification of non-value adding tasks• Time spent on administration tasks• True time spent on revenue-generating activities• Critical assessment and improvement of procedures	<ul style="list-style-type: none">• Management Information Systems• Leverage of IT and need for automation• Excessive or inefficient use of reports• Identification of new Performance Indicators

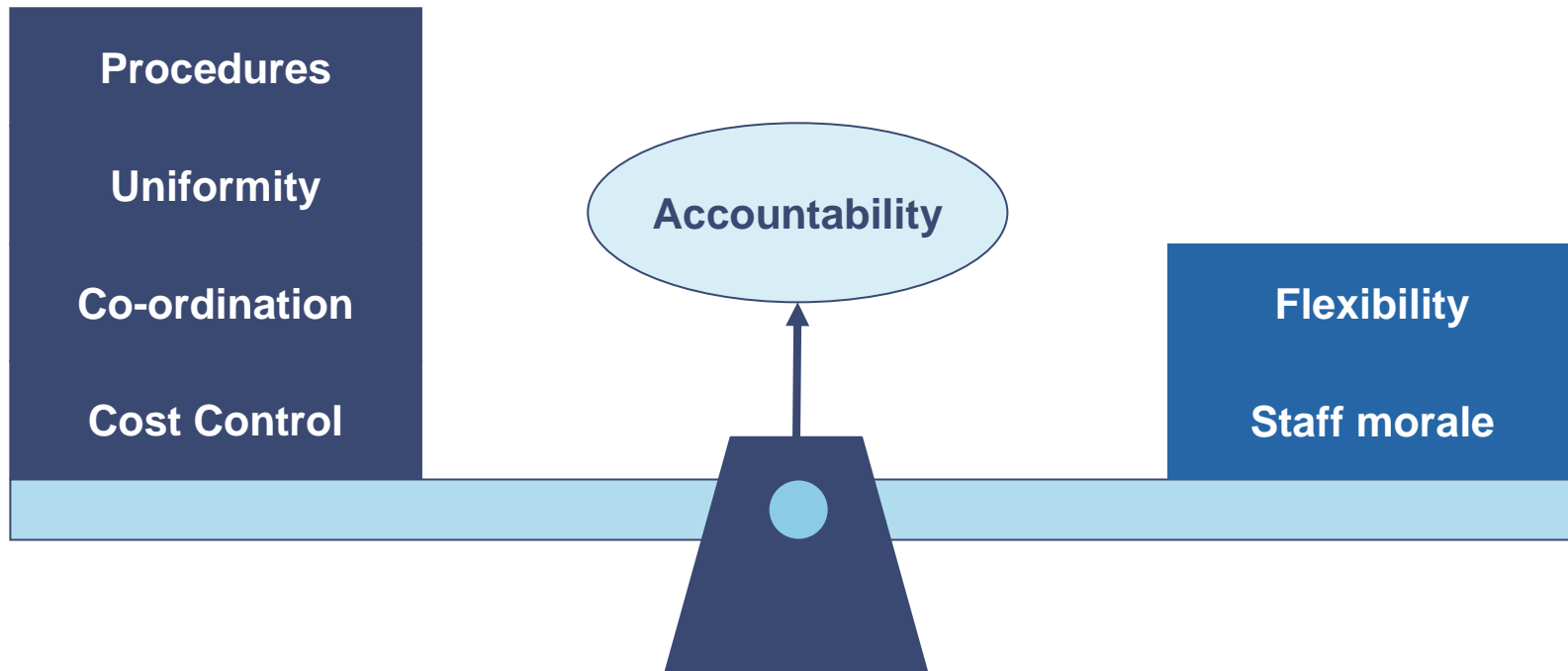
Non-personnel costs – some usual findings...

- **Lack of clearly defined Purchasing Procedures** thus relying to some extent on buyers' 'good faith' and 'cost consciousness'.
- Purchasing teams are mainly involved with **supply management** and not much in **demand management** i.e. consolidating spending and questioning demands from users
- Lists of **approved suppliers** or **approved 'ratecards'** do not in many cases exist, thus not taking advantage of the organisation's purchasing power
- Lack of defined **purchasing authorisation limits**
- **No Purchasing Committee** to approve and ensure implementation of procedures
- **Fragmented purchasing**

*Whose responsibility is it to reduce the cost base?
What tools does he/she have?
How is success assessed?*

Non-personnel costs - Key principles

In the process of identifying ways to improve the organisation's cost structure, it is important to maintain a balance between the following principles/parameters:



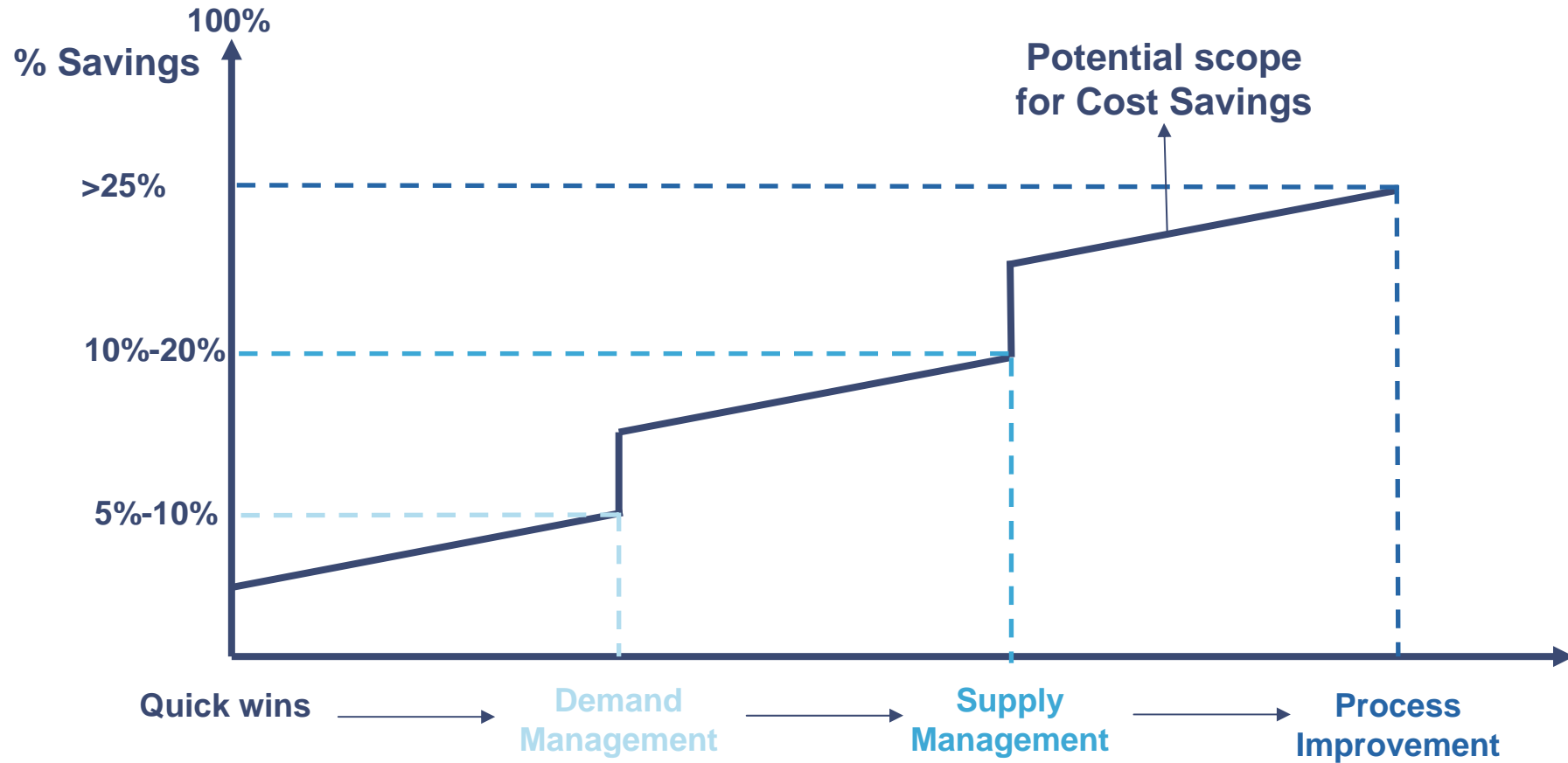
Purchasing procedures – Objectives

Any changes made to the way purchasing is done today, should aim at achieving the following objectives:



Potential Cost Savings

Illustrative



No Sacred Cows!

Enhancing an Organisation's Performance in challenging times – key messages

- Clarify and communicate effectively our strategy
- **Align** the organisation's strategy with a focused Business Plan
- Identify the most relevant **financial and non-financial performance measures** (KPIs) and **communicate** these effectively to front-line management
- Set aside people personal agendas and get the organisation's **operating structure right**
- Assess and redesign its **Management Information System** to enhance quality, timeliness, relevance and **predictive insight** of information received
- **Optimise the organisation's cost structure** by looking at personnel costs at both revenue-generating departments and support functions
- Identify savings from establishing and following **better procedures and controls**
- Enhance current levels of **process efficiency**

Conclusion

It can be done! Organisations can reduce cost and increase their operational efficiency and effectiveness.

In the past, in periods of strong growth and high profitability, an organisation could potentially get away with inefficiencies and high costs. In the future however, the organisations that will survive are the operationally and cost efficient and effective ones.

Thank you!

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