

Transform the way
you cut costs.*



*connectedthinking

PRICEWATERHOUSECOOPERS 

Transform your future: Decide now

PricewaterhouseCoopers (PwC) is the world's leading professional services organisation. Drawing on the talents of 146,000 people in 150 countries, we bring unmatched professional knowledge and practical experience.

In Central and Eastern Europe (CEE) we operate in 25 countries, providing advisory, assurance and tax and legal services. We are committed to solving our clients' most complex issues.

Generating value from cost reduction and optimisation is an important challenge facing our clients across CEE today and is the focus of this document.

Cost cutting: A strength

The economic slow down is impacting the CEE region, prompting businesses to address a set of new challenges. Smart companies will emerge stronger from this period and will be in a position to leverage the undoubted opportunities that will arrive in the coming times.

Ensuring that your business sustains its position of strength may demand a change in approach and tone.

- You may need to re-examine and change the operating model of your business

Your business model may need to be refined to address the challenge of operating in an era of scarce capital and no leverage. The best companies are anticipating this and are examining their cost structure in great detail now.

- Focus on the true profitability of your businesses

This is of vital importance to emerging stronger. Many organisations grew their product lines and geographic markets in times gone by without truly understanding the costs involved. Now is the moment to focus energies on core and profitable assets.

- Do not confuse cost postponement with total cost management

Many businesses stop investing in new projects and people during difficult times or reduce support teams without

- 1 Transform the way you cut costs

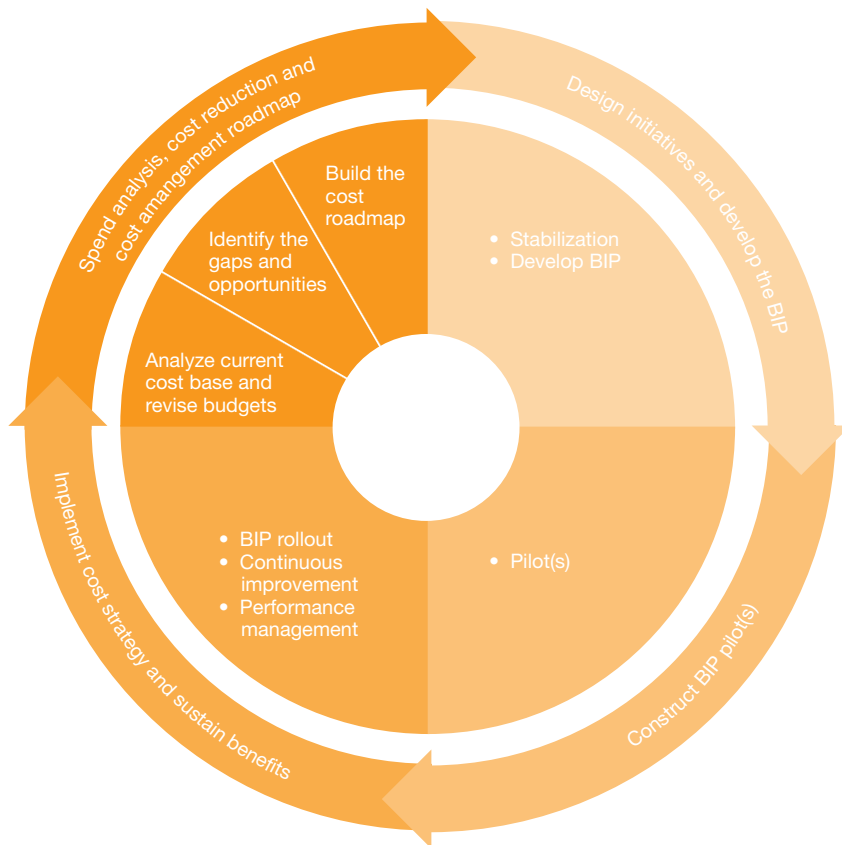


thinking through the implications. There is often a price to pay in terms of customer loyalty, heightened risk and future profitability. Companies still need to analyse the long-term impact before making short-term cuts.

- Decisions taken by the senior management today, drive tomorrow's success or failure

The best executives appreciate the uniqueness of this time and are preparing accordingly. Making decisions is what leadership is about. The tone set by the management team and its ability to communicate its objectives, targets and decisions clearly, is key to gaining the necessary support to successfully drive change.

The PwC approach to cost cutting



How much value will be delivered for the effort that is required? On average PwC finds \$5-\$20 of cost savings for every \$1 spent in fees.

Our approach is structured but practical and focuses on delivering tangible benefits early in the process.

It starts with a quick and independent review of the current business – markets, products, operations, supply chain and back office operations. Identifying key cost drivers and benchmarking them against best industry practices provides initial ideas about potential cost cutting initiatives and where to focus future efforts. Results of the review are presented to management and/or stakeholders of the company.

Jointly, PwC and the company team then focuses on specific cost cutting opportunities. These may include but are not limited to:

- optimisation of core and non-core spend,
- creation of shared service centers,
- process optimisation,
- production reorganisation,
- supply chain restructuring,
- working capital management,

- back office staff optimisation,
- efficient asset utilisation,
- and change of product mix.

A clear business case and high-level implementation plan is developed for each of the initiatives identified. Some of these initiatives may have significant tax and/or accounting implications, which must be considered.

Implementation of selected initiatives is driven by individual business units with support from the transformation office. While the transformation office supports individual projects and monitors achievement of cost cutting targets, individual business units integrate cost cutting goals into their financial plans. This ensures the cost reduction is sustainable and fully owned by the business and integrated with other company initiatives and efforts.

PwC's approach is not designed to deliver reports – we utilise our consulting, industry, tax, finance and accounting expertise and experience to deliver sustainable and tangible benefits that are owned by the company.

Proven cost reduction ideas and initiatives

PwC has identified a bank of over *100 Cost Reduction Initiatives and Techniques*. These provide clients with a number of suggestions that contribute to making effective decisions about cost reductions. The following is a small sample of ideas that might be appropriate to your organisation:

1. Analyse all strategic investments and joint ventures: Make a decision about the inherent value they generate versus the costs of managing.
2. Identify unprofitable or marginally profitable products in a portfolio: Make a decision about divesting or accelerating profitable growth through acquisition.
3. Review your management structures and client coverage models with a view to reducing duplication.
4. Analyse the most profitable customers in each portfolio: Make a decision about the cost of focusing your marketing spend on directly targeting them.
5. Overhaul incentive compensation structures to better link pay with business performance.
6. Conduct a strategic review of all suppliers. Opportunities for contract renegotiations and appropriate use of substitutes will be possible.
7. Analyse the supply chain. Focus on optimising spend on both inbound and outbound.
8. Review the appropriateness and effectiveness of the administrative, operations and technology functions.
9. Review the merits of insourcing versus outsourcing with a goal of identifying the best options for the long-term health of the business.
10. Significant opportunities for cost cutting will probably lie in areas including legal, tax structuring, corporate real estate, travel and entertainment.

This is just an initial sample of suggestions for how PwC can help you cut costs in your organisation. We welcome the opportunity to talk through our other 90-plus suggestions in much greater depth with you.



Three examples of cost cutting in action

The client accepted initiatives proposed by PwC that will save \$23m in the first year

01 A regional telecoms business had decided to cut five per cent of its work force from three departments – technical; marketing and sales; and finance – that would lead to a reduction of approximately 1,000 salaries from its cost base. The business appointed PwC to determine the most effective way of implementing the decision and to examine whether there were other approaches to reducing its cost base.

PwC applied a two-sided approach to the challenge. Firstly, a number of its experts examined all aspects of the firm's processes to hunt for inefficiencies and to identify opportunities to make reductions. In parallel PwC conducted a value analysis of each of the three functions that were under review.

Specifically, this involved examining the activities the marketing and sales function performs to see if each activity truly adds real value. The review assessed the results of each activity to see how much time and effort was actually required to complete each one. Once this was completed, the analysis focused on activities that could be eliminated without any deterioration of value.

Following a detailed review by PwC, over 40 cost-cutting initiatives were identified.

The organisation ultimately decided to reduce almost 900 individuals from the marketing and sales and finance functions. It chose not to reduce headcount in the technical department, as this was seen as instrumental to the long-term success of the firm. The client ultimately accepted initiatives proposed by PwC that will save \$23m in the first year of implementation.

02

A recent example of an effective cost reduction programme focused on helping a regional industrial manufacturing business with nine factories throughout the region.

It had invested in boom time hires and projects and had a head office packed with members of a sales and marketing, procurement and finance team that were not all critical to the long-term future of the business.

The first task PwC was given by the owner of the business was to help decide how employee numbers could be downsized without reducing the quality of its operations.

Our expertise in this area enabled us to look at the issue from a variety of perspectives, with particular emphasis given to examining their processes to see where effective cuts could be made.

Once completed, we realised the business was spending a fortune on energy costs – that truly were not necessary. PwC recommended the business begin to use off-peak energy and led a re-negotiation of the company's contracts with its energy suppliers.

In addition, the business did reduce its headcount by nearly 1,000 people, saving an estimated \$3.5m and \$6m in the first two years, respectively.

Bottom line, the surprise of this initiative was the non-headcount related cost reductions that were achieved – an estimated \$5m in 2009, rising to \$8m in 2010.

03

A multi-national fast moving consumer goods manufacturer had a cash flow problem in one of its regional subsidiaries, despite being a profitable business with a strong track record and excellent client base.

PwC was appointed to help address the issue by the company's regional headquarters. Following a short but intensive review, in which we examined all aspects of the business, we quickly effected changes in how customers paid and how suppliers' invoices were dealt with.

Many suppliers to this business were in the fortunate position of being paid within 15 days of issuing their invoices while the client company was often having to wait over 100 days to be paid by its customers.

PwC transformed the way the business addressed this. New terms were negotiated to align suppliers more closely with the client business. Those who wanted to continue being paid quickly recognised the need to give something back to the client company. This led to a reduction in the size of some invoices or, alternatively, a change in the payment terms to reduce the pressure on the firm's cash flow.

PwC was able to introduce new processes in the group's credit control department to actively measure and track the effectiveness of getting its own invoices paid quicker. The implementation of a new debtor's management system has led to a significant reduction in the amount of time taken for the client company's bills to be paid, thus further reducing pressure on the firm's cash flow. A simple example, but one focusing on real-time benefits on both sides of the supply chain.

How can we help you?

PwC brings a strategic approach to cost cutting. We aim to deliver sustainable benefits through our operations, process and financial experience and knowledge, developed and tested over many years in multiple industries. We will identify short-term quick win savings as well as longer-term changes that will create a leaner and more operationally efficient organisation.

PwC does not believe in making *slash and burn cuts*. We differentiate between good costs that are necessary for the current and future growth of your business and bad costs, which are superfluous. Costs that do not support the growth of the company or are not part of the infrastructure will be rooted out.

PwC is deeply analytical, but practical, in its approach. We use benchmarking tools and techniques to analyse and review our recommendations.

PwC is both pragmatic and supportive. We make recommendations that can be implemented swiftly and we will stay around to help ensure they are made successfully.



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