

Rethinking cost to drive value for your organisation



White paper series | Volume 2

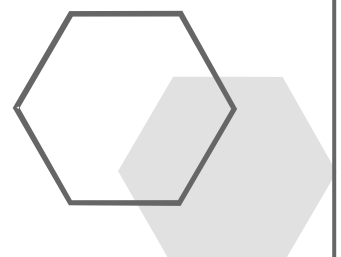
Cost is a key consideration for all businesses. During difficult times, such as the current pandemic and the accompanying economic crisis, controlling cost becomes more urgent and one of the key factors for organisations' long-term success. However, organisations need to think carefully and choose effective means that achieve desired results with minimal disruption to operations.

This white paper series consists of two volumes. It targets decision makers in the private and public sector to draw attention to available modern options for cost optimisation. The series departs from traditional methods of reducing costs and aims to present a different direction and highlight the role of innovation and the use of technology in optimising costs while immunising private and public organisations from the consequences of crises and global market shocks.

Volume 2

In this second volume, we zoom in on the remaining three trends that together incorporate the use of emerging technologies and innovative modern solutions to not only optimise cost but also provide other benefits, such as time saving, risk mitigation, efficiency improvement, and employee and customer satisfaction.

- 1 Robotic Process Automation (RPA)
- 2 Cloud Solutions
- 3 Flexible Working Model
- 4 Shared Services
- 5 Big Data Analytics
- 6 Blockchain





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Introduction

Cost optimisation is a strategic intervention that aims to create sustainable value by unlocking capacity and redirecting resources to growth areas of the business. To achieve that in today's environment, organisations must continuously review and optimise their cost structures and drive sustainability in their operations. Typically, organisations that have greater control over their costs are more agile and can scale business activities up or down in response to changes in market demand. This requires a greater understanding of the underlying cost drivers and optimisation levers including manpower rightsizing and capability alignment.

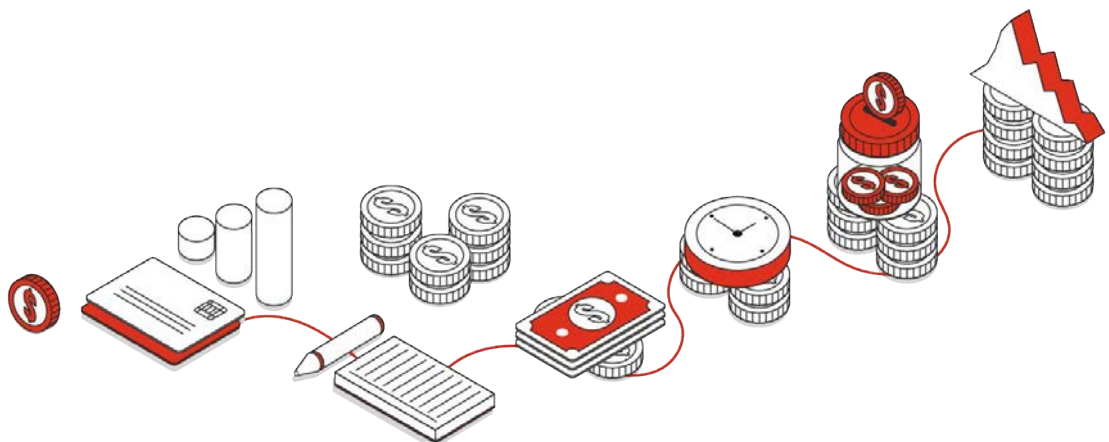
While cost optimisation can drive sustainable value for the organisation, quite often these programmes are designed and implemented in an isolation; leaving significant value untapped and more savings left on the table, and ultimately failing to achieve and sustain their intended goals. Well-designed cost optimisation programmes maximise long-term sustainable value by looking across the whole organisation and its cost base rather than at individual elements. For that, organisations must take a strategic approach to cost optimisation, analysing all the buckets of business cost and making the structural changes required to realise the best results. Before we continue our discussion on the remaining trends and technologies, let's start with a brief overview of how integrated cost optimisation programmes are designed and touch on the factors that support their success.

Cost optimisation
maximises
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Cost optimisation initiatives are often poorly designed and implemented and tend to be short-lived. Most organisations routinely undergo cost-cutting exercises, but waste and inefficiencies keep coming back, which not only harms the bottom line but can be demoralising for staff. Decision makers focus primarily on the most obvious and easiest-to-implement costs, such as headcount reduction, rather than addressing the true nature and structure of costs. To stop costs from creeping back in, organisations have to look at their root causes and apply a holistic and systemic approach which draws on its cross-functional experience to provide a comprehensive and rounded cost optimisation programme.

As part of this holistic approach, there are generally four key areas of the business to examine. These, along with a non-exhaustive list of subjects to review and initiatives to implement are illustrated in the following page.





Holistic Cost Transformation

Cash and capital efficiency

Free up cash and judiciously deploy new capital for investments



- Cash management and quality of earnings
- Working capital efficiency
- Capital expenditure rationalisation and review
- Fixed assets performance
- In-house banking and central treasury



Supply chain management

Rationalise total supply chain cost and meet high service levels

- Procurement spend
- Strategic sourcing and category management
- Operational risk assessment cost
- Network optimisation and distribution efficiencies
- Local Content (LC) and In-Country Value (ICV)

Cost base reduction

Streamline overhead expenses to what is affordable



- Discretionary expenditure reduction
- Robotic Process Automation (RPA)** 1
- ERP, CRM and EPM enablement
- Cloud solutions** 2
- Staff (furlough, entitlements, salary benchmarks)
- Shared Services** 4
- Zero based budgeting
- Business Process Outsourcing (BPO)



Operational excellence

Achieve operational and financial performance above the market

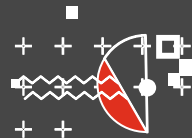
- Productivity and digital enablement
- 3 Flexible working models**
- Quality and reliability
- Business models to competency alignment
- 5 Big data analytics**
- 6 Blockchain**

● Discussed in this series

It is difficult to separate and simplify the operational complexity and inefficient operations accumulated over long periods of time. These fundamental underlying complexities often remain and efforts are often lost in vain once the organisation reverts to its old ways of doing business. Corporate bureaucracy, special interests and lack of necessary skills and access to enabling technologies are some of the factors that may limit progress and hamper the targeted results.

Effective and sustainable cost optimisation programmes require careful planning and a broader consideration of all aspects of business. By addressing cost strategically and implementing required system and behavioural changes, organisations will be better equipped to handle potential challenges and more agile in facing market changes. Supported by a simplified and consistent approach delivered by people with the right mindset, business efficiencies will grow and savings will sustain.

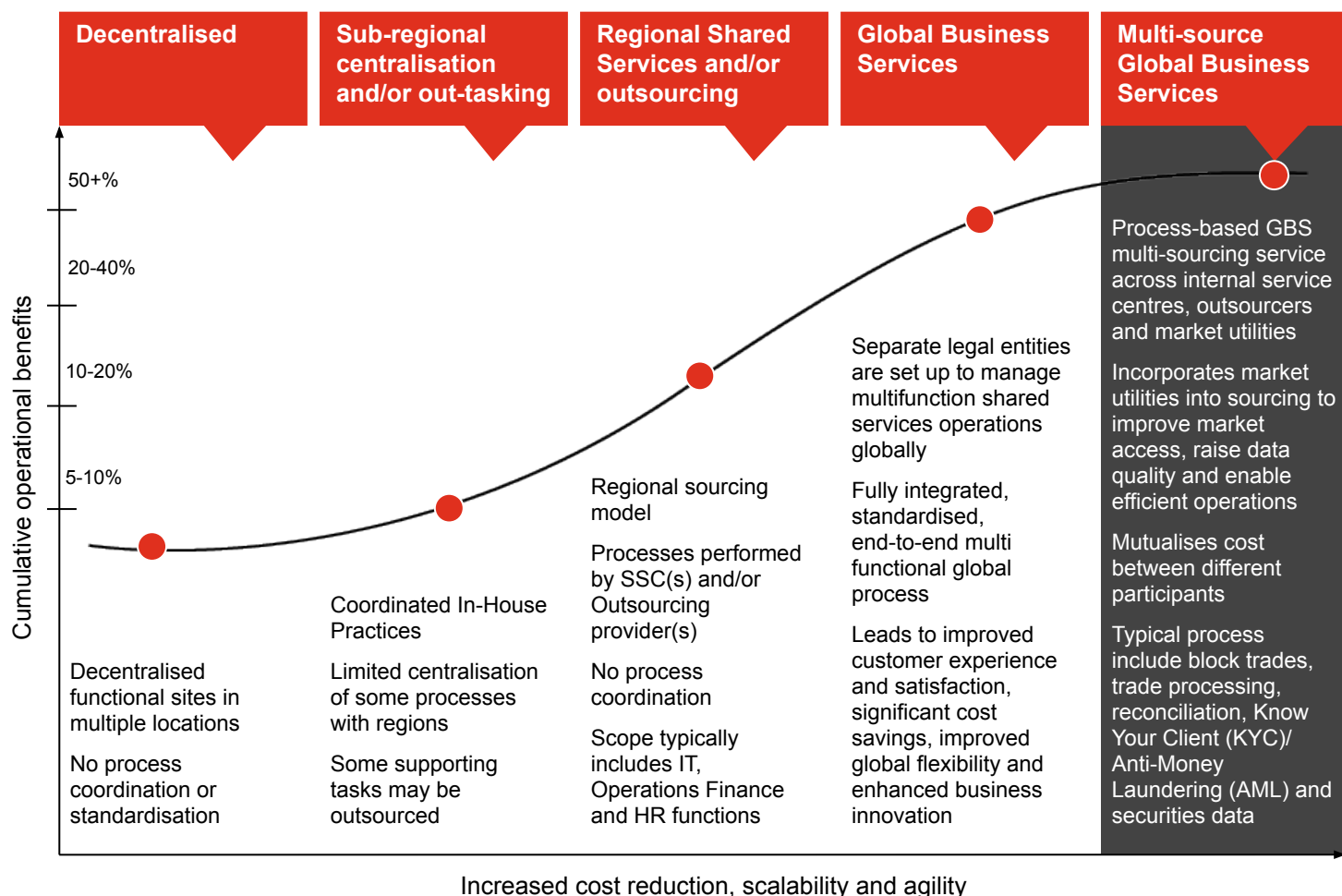
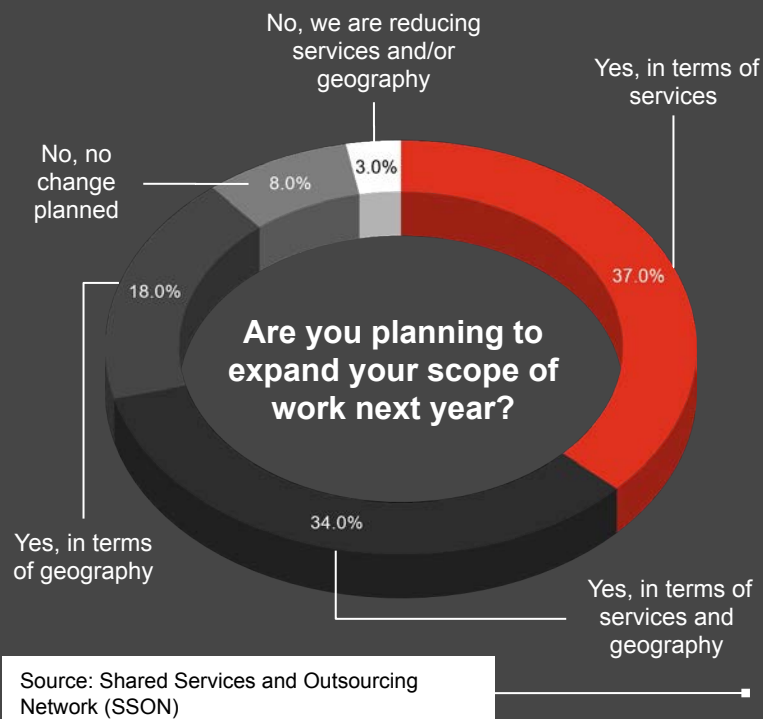




4. Shared Services

The last decades of the 20th century witnessed the peak of corporate decentralisation. Many large corporations rushed to dismantle their headquarters, which were overburdened by large numbers of employees, and assigned vital services to Shared Services Centers (SSC), which replaced the headquarters that were previously the centre of power and influence.

Four decades after their introduction, the adoption of Shared Services delivery models is still characterised by growth. As per the 2021 state of the shared services and outsourcing industry report released by the Shared Services and Outsourcing Network (SSON), nearly 80% of the surveyed organisations indicated having plans to expand their SSCs in terms of geographic reach and/or the scope of services, next year.





Establishing SSCs aims to raise efficiency and improve performance, as a large part of routine operational services are transformed to a relatively independent centre that provides its services to more than one department or subsidiary and acts as a competitor in its services to external contractors. Functions within the organisation would define their needs under this mechanism, and the centre takes care of these needs while evaluating performance at later stages.

Today, traditional Shared Services models are impacted by new trends such as automation and increased demand for value-add services. With the advent of technologies such as Robotic Process Automation (RPA), SSCs strategic focus is shifting from 'Cost' to becoming a key enabler for the 'Digital Enterprise'. When used in conjunction with Shared Services delivery models, the impact of these new trends goes beyond work efficiency improvements to bringing work back from offshore locations.



Scope

Shared services concept was primarily used by major organisations that provide services in several countries or by subsidiaries that benefit from merging support functions into a specialised unit. Today however, shared services are available in various forms and may be adapted by smaller and larger organisations alike.

While the scope of Shared Services originally revolved around Human Resources (HR) and Finance functions, others such as Procurement, Information Technology (IT), After-Sales Services are prime examples of areas that can benefit from the proper governance and performance management that Shared Services bring today. Our activity analysis shows that sales managers and staff spend between 30% to 40% of their time on routine back office tasks that can easily be executed by SSCs.

Activity split of processes covered by SSC



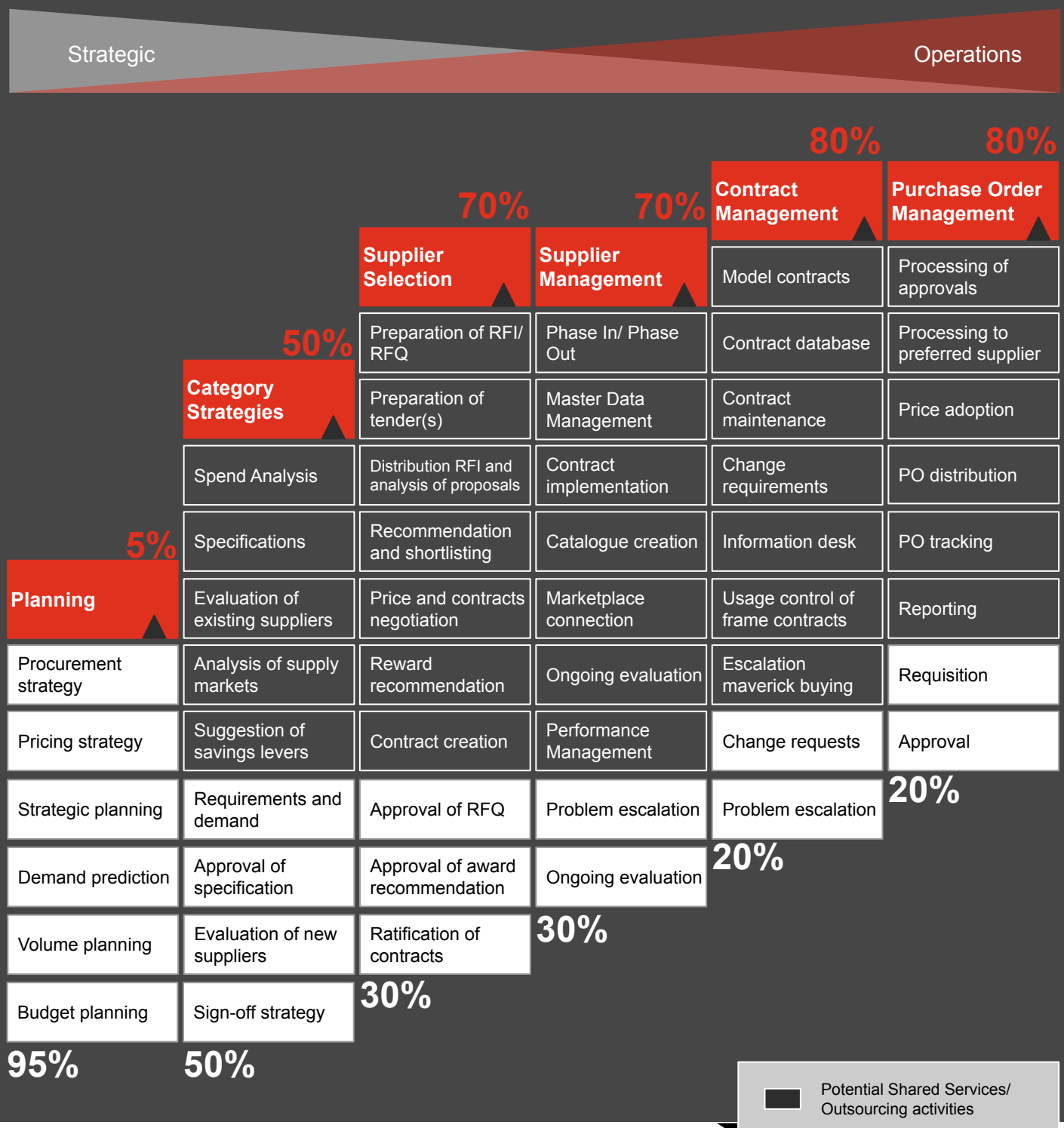
The adjacent chart illustrates the typical consolidation opportunities across the different key business processes globally. While Shared Services models are most predominant within the finance function, their adoption remain weak in the Middle East, and falls behind HR and IT. Generally, finance and procurement experts are reluctant to implement Shared Services in their operations out of fear of losing control and contact with suppliers and other stakeholders.

The two functions are often responsible to intervene when things go wrong, especially when required goods and services are not delivered on time and in full. This is often used as an excuse not to move towards Shared Services models in industries that require very close communications with suppliers.



Procurement for example, through its repetitive, standardised and rules-based processes, is very suitable for implementing shared services. By setting up SSCs, highly skilled and experienced agents can handle end-to-end procurement processes, not just perform administrative support. Operations that do not require close collaboration with other business stakeholders, such as engineering, are suitable candidates for this application. In addition, data analysis tasks, screening of new suppliers, Purchase Order (PO) tracking are examples of activities that can be centralised. SSCs help unlock capabilities and enable procurement agents to focus on new projects, manage supplier relationships and provide valuable insights.

The illustration below highlights the potential activities that can benefit from shared services across the procurement process.

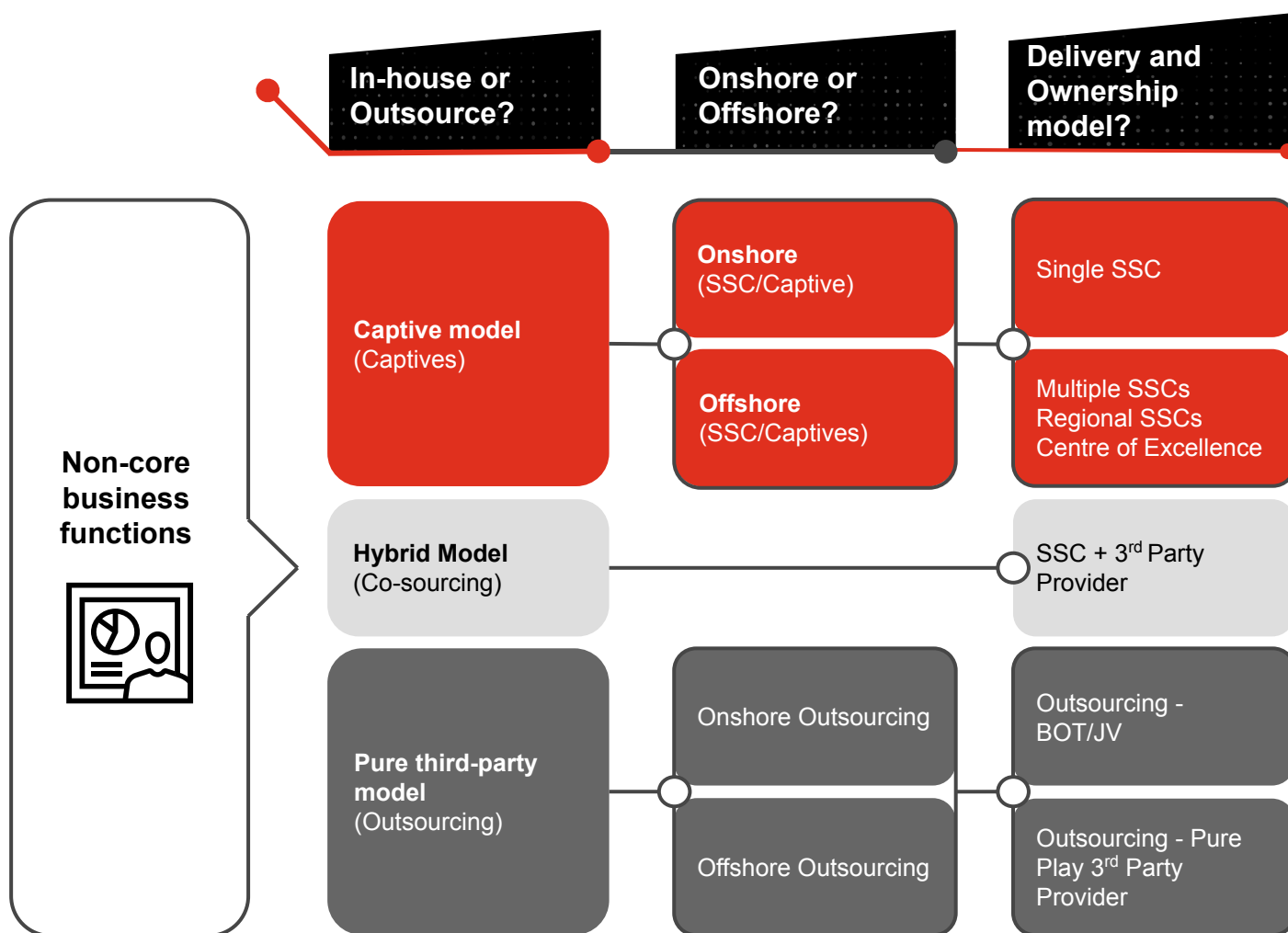
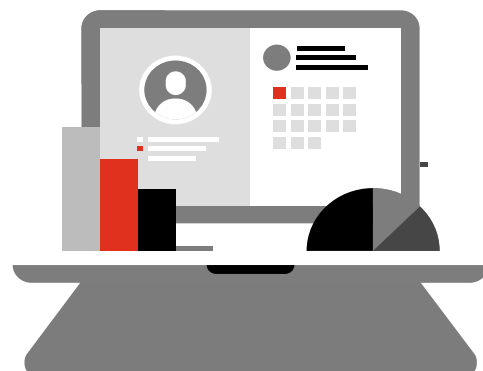




An opportunity to offshore and outsource

Shared services represent a platform to consolidate back-office functions within the organisation while also provide an opportunity to offshore, or nearshore in some cases. Offshoring provides access to low-cost countries with established infrastructure in Asia or Africa, which captures labour arbitrage, economies of scale etc. Another benefit SSC provide is the opportunity to move non-core business operations to Business Process Outsourcing (BPO) providers. BPO providers specialise in specific areas, which increases efficiency and leads to greater productivity due to superior systems, processes, and technologies.

Depending on the organisation's strategy and priorities, these are some of the models to be considered for sourcing:

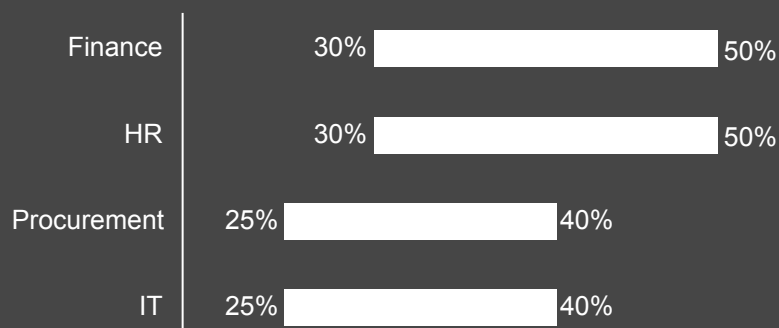


Although its benefits are clear, outsourcing is not suitable for all situations. While it makes sense for organisations in sectors such as manufacturing and oil and gas to establish SSCs onshore, or even offshore, to tighten monitoring and control, others in the services sector such as banks and insurance companies can benefit more from partnering with the right BPO providers. However, with many organisations adopting new technologies disrupting traditional business models, the perception of BPO providers is shifting. Organisations today look for more than basic transactional business support and aim to create business value partnerships with their BPO providers.



Many are the benefits of shared services, but they all converge to achieve cost reduction and increased efficiency. SSCs have the potential to not only benefit organisations with multiple dispersed locations but also drive value for organisations suffering from unnecessary local administration functions, duplication of work and rising internal costs.

Business functions saving potential



Source: PwC analysis

How can Shared Services achieve these cost savings?



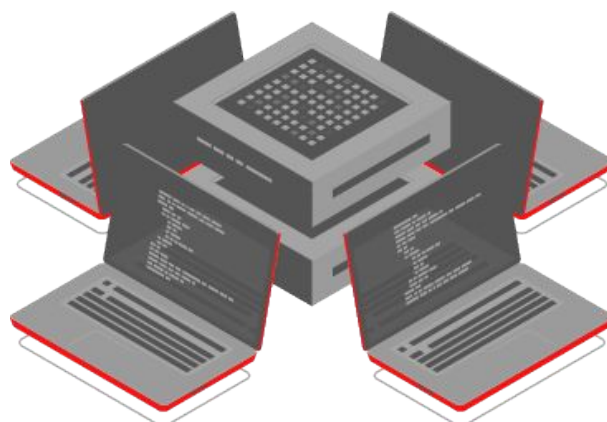
Infrastructure downsizing

By creating economies of scale and driving efficiencies, SSCs contribute to reducing infrastructure costs such as technology, utilities, services, and various general administrative items. More saving opportunities can be found by moving SSCs to low-cost markets that cut real estate and labour costs.

Workforce rationalisation

Workforce rationalisation through SSCs can be achieved with two key factors. First is the labour arbitrage stemming from establishing SSCs in cheaper labour markets, which cuts spending per employee. Furthermore, by shifting repetitive activities to SSC, employees' productivity improves as they focus on more value-add tasks.

Second, SSCs provide access to a wider talent pool, with greater expertise, which cuts training cost and improves efficiency. Furthermore, organisations can earn additional savings by centralising training and creating specialised skills in areas such as legal and accounting. The creation of a high-performance organisation will increase returns over time and foster a culture of continuous improvement.



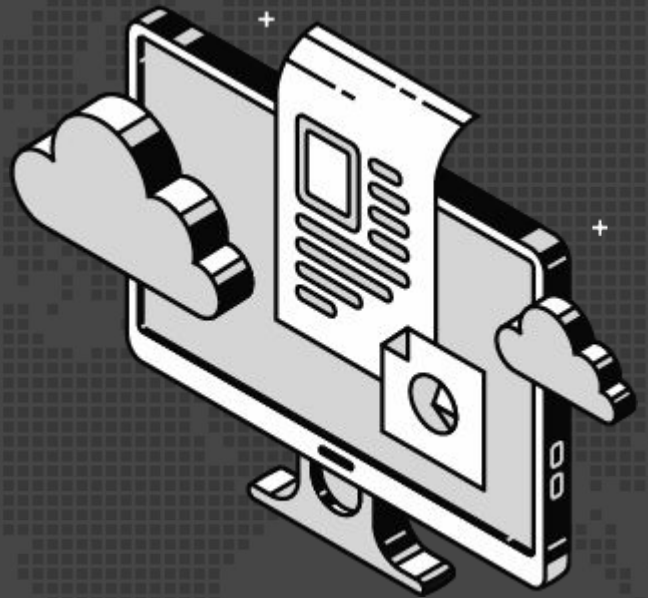


Process improvement

Shared services unify and standardise the way business is done. Standardising and streamlining processes supports compliance and control, and drives improvement initiatives across the organisation. For example optimising processes such as invoicing and collection can have a big impact on cash flows and working capital management. Additionally, SSCs reduce process duplications and integrate service functions into a single unit. For example, different branches, or business units, at an organisation can have their own IT teams, leading to discrepancies in policies and wasted efforts. SSCs prevent these silos and ensure that knowledge generated centrally can benefit the entire organisation.

Technology standardisation

Shared services provide an opportunity to eliminate ineffective technologies. Ongoing maintenance is one of the biggest components of most IT budgets, which can be greatly reduced through consolidation. Furthermore, by grouping services together, SSCs can accelerate the adoption of technologies such as Enterprise Resource Planning (ERP) systems and enable the introduction of automated processes such as RPA and artificial intelligence (AI). These applications aid in the elimination of non-core transactional work and provide reliable business insights through centres of excellence, cutting errors and recovery costs and freeing local teams to focus on value-adding tasks.

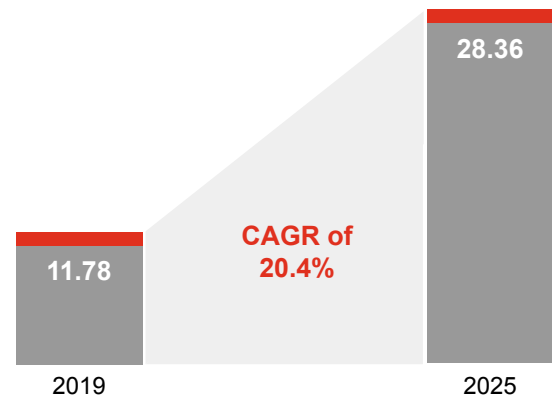




5. Big Data Analytics

Organisations nowadays are operating in volatile and fast changing environments that require swift, educated and proactive decision making. Organisations often utilise only 5-10% of the data they record or track. Finding ways to benefit from big data have become a common factor among large and small organisations, as well as universities, research institutes and government agencies. This emerging industry has also provided many opportunities for entrepreneurs to help governments and large organisations that store massive digital content to extract, analyse and utilise their data in improving their operations and optimising cost.

The Middle East and Africa AI, cybersecurity and big data analytics market - USD'bn



Source: Reportlinker

What is Big Data?

There is no single agreed definition for the term "Big Data". Gartner defines it as 'high-volume, high-velocity and/or high-variety information assets that demand cost-effective, innovative forms of information processing that enable enhanced insight, decision making, and process automation.' Modern organisations produce large amounts of data that are too complex for traditional methods of analysis to handle.

This challenge includes not only analysing this data, but also collecting and searching through it, sharing, storing, displaying and securing its privacy. To be able to carry out these tasks, there must be tools organisations can invest in and new approaches to adapt that produce a high enough return on investment to justify their cost.



The answer is Data Analytics. Analytics is a set of technologies and tools that extract data from multiple sources, prepare them for analysis, and provide reporting and visualisation capabilities to drive valuable insights. Through aggregating data across the organisation and presenting information in a visually appealing way, analytics support executives and managers at senior levels with decision making and in monetisation of their data assets. More importantly, through analytics executives will be more informed and enabled to optimise cost effectively, improve profitability and competitive edge and drive new business models.



Case study

Supermarket chain Tesco



Tesco, the largest retailer in the UK and Ireland, has teamed up with IBM Dublin's research laboratories to find ways to save on energy costs. By analysing refrigerator data, the supermarket chain found that refrigerators were colder than necessary which led to energy waste. Tesco utilised new sensors to measure the temperature and optimise the performance of its in-store refrigerators. Tesco also applied predictive data analytics to analyse trends and weather data and forecast product sales.



USD 25 million a year in savings, as a result of 20% drop in energy costs



USD 9+ million less food wastage



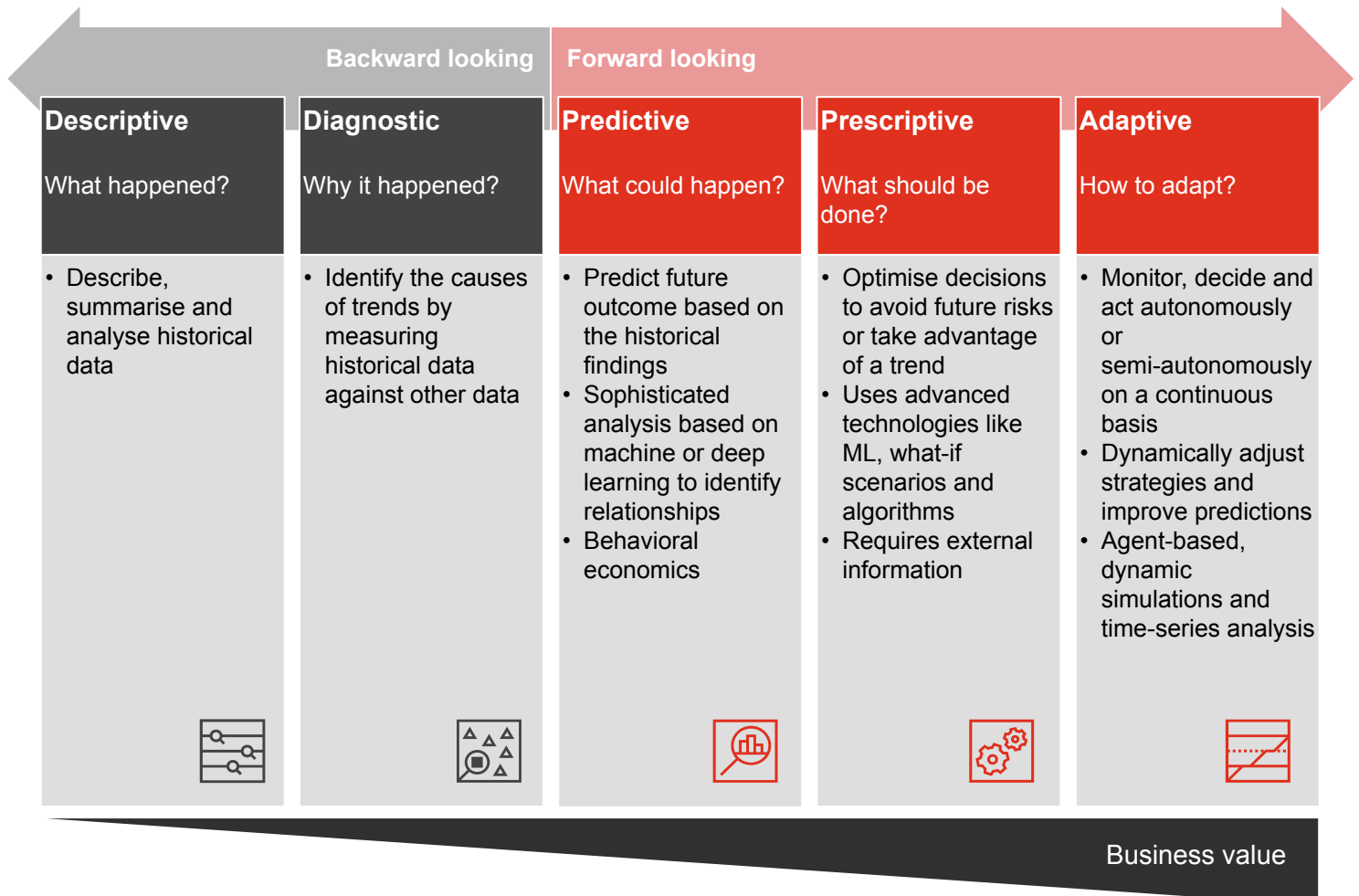
USD 47 million less wastage due to optimised store operations



USD 78 million less stock in warehouses

Data Analytics approach

There are five different types of data analytics strategies with varying degrees of sophistication, starting with retrospective approaches to forward-looking ones that focus on predicting future outcomes and adapting to unexpected changes.





Most organisations today utilise descriptive and diagnostic tools to analyse their data and drive insights. However, more sophisticated, forward looking Data Analytic tools allow modern organisations, with unparalleled amounts of data, to move into more complex and lucrative areas of analysis, enabling them a better understanding of their data which results in better cost management and enhanced profitability.

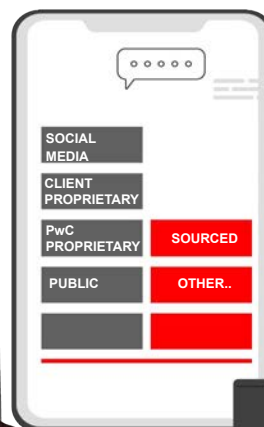
How can analytics cut costs?

The role of Data Analytics solutions is expanding in many fields due to the various benefits they bring. These benefits range from improving operations, enhancing the distribution and utilisation of resources, to boosting efficiency in decision-making and optimising costs.

Some of the means by which Data Analytics can optimise cost and improve efficiencies are presented in the following page.

Manage data

Collecting, consolidating and cleaning relevant data



Increasing amounts of data from new and existing sources

Perform analytics

Applying intelligent techniques to uncover insight from the relevant data

Predictive, descriptive and prescriptive analytics

Create visualisation

Converting the data into a more comprehensible and user-friendly format.



Harness insight

Applying the insight into more effective decision-making



Improved risk, compliance, margins, productivity, growth and innovation

“

Companies that inject big data and analytics into their operations outperform their peers by **5%** in productivity and **6%** in profitability.

Source: Big Data: The Management Revolution, Harvard Business Review

”



Effective decision making

Faster reporting and analytics leads to more accurate planning and effective decision making based on real-time business insights. Issues such as inventory shortages can be identified in advance and replenishment can be sorted quickly to avoid production constraints. In addition, analytics can help the organisation quickly identify the red-flags within the operating model across different markets and customer groups to be in a position to address and proactively solve potential business risks.



Optimised supply chain

Predictive analysis of supply chain data supports improved inventory, better service delivery, and reduced product life cycle. For example, materials can be proactively sourced based on consideration of historical customer orders and demand, thus cutting waiting periods, improving inventory management and reducing cost. It is also possible to predict the impact of various factors on sales, such as weather, annual seasons, and economic situation, which helps companies manage to better manage supply and demand requirements.



Advanced spend analytics

Data analytics are effective in collecting, cleansing, categorising and analysing real-time spend data to gain useful insights. For example, modern applications are able to cleanse multiple versions of vendors with separate IDs, material descriptions and PO numbers and categorise the spend into multiple categories. Furthermore, These solutions are used to visualise procurement data with an aim to make better sourcing and vendor selection decisions. Spend analysis opens the doors to identify opportunities to aggregate spend, reduce non-compliant maverick spend, and transfer procurement operations from a technical process to strategic sourcing.



Data-driven marketing

Moving away from mass marketing toward interactive marketing has the potential of cutting cost and boosting sales. This requires investing in systems that rely on data analytics, such as Customer Relationship Management (CRM), to obtain customer data and understand their behavior and intentions. Data sources include historical transactions, online channels etc. As a result companies are able to cluster consumer behaviours, create products that meet their customer desires, and in turn reduce waste and associated cost.

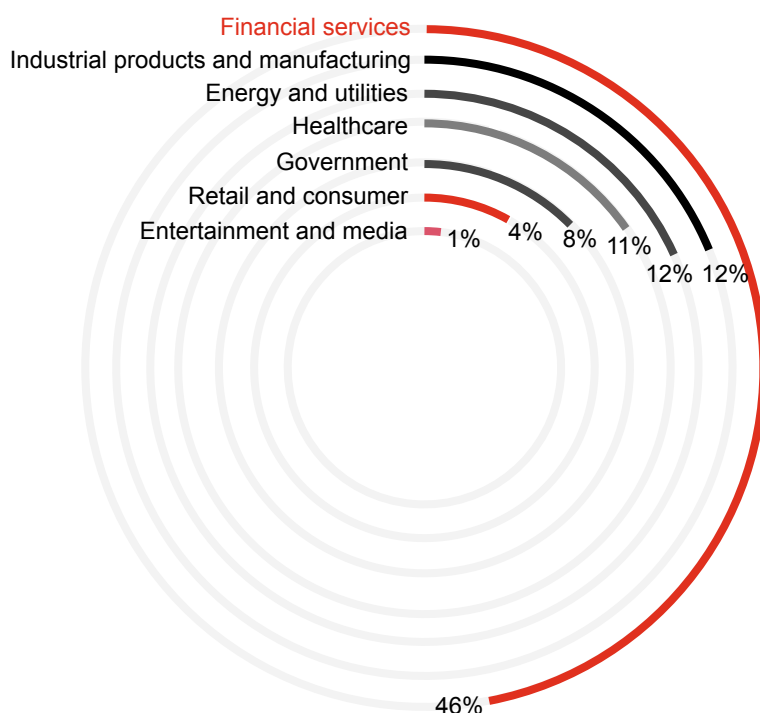


6. Blockchain

Blockchain appeared in 2008 as a technology that underpins the boom in the digital economy. A Blockchain is an electronic record that stores transactions and deals, and manages them in a decentralised manner. Each transaction is called a block, and each block contains some information that refers to the previous block, and the result is a series of successive blocks that are not modified by either party. When data is entered and registered, it does not require the presence of a third party, so it is faster in processing and storing data.

Blockchain technology has evolved during the past ten years or so. And although it was initially popular as a supportive infrastructure for trading crypto assets, most notably the Bitcoin currency, the technology today has promising uses in many areas. Blockchain works to improve the performance of banking services, and is booming in the world of digital economics. In addition, its uses are becoming more visible in various sectors such as e-commerce and financial transfers, smart city infrastructure, real estate and commercial exchanges, education and health sector and others.

There are many reasons behind the growing global interest in blockchain. Among of which is that the wider use of the technology will contribute, according to Gartner's estimates, to achieving global economic gains of about USD 3.1 trillion by 2030. In the region, a report issued by the Centre for the Fourth Industrial Revolution (C4IR) confirmed that the adoption of blockchain technology in the UAE will contribute to achieving savings in excess of USD 3 billion, in addition to limiting the use of 398 million printed papers, and cutting 77 million hours of work annually by employing the technology in handling daily transactions.



Source: PwC Global Blockchain Survey





Blockchain cost benefits

Blockchain is a promising technology with the potential to change the global business environment, in both the private and public sectors. Blockchain has a substantial impact on many business and financial transactions, from increasing efficiency to enhancing security and reducing costs. Here are some of the key benefits of the technology:

Eliminated intermediaries



Unlike traditional systems, with Blockchain there is no need for an intermediary or central registration system to follow the movement of information exchange and control it. The technology allows all linked parties in the network to deal directly with each other without barriers or obstacles. Peer-to-peer transactions eliminate the need for a middleman along with the associated costs and delays. Near immediate value transfers can also significantly reduce or eliminate the need for settlements and cut on their costs.

Advanced analytics



Blockchain offers advanced solutions for analysing uploaded data, helps generate forecasts based on historical data, and allows users to identify bottlenecks in the supply chain. This data analytics has proven that the advantages of Blockchain are invaluable for organisations that want to grow their operations and reduce supply chain expenditures. Furthermore, ERP platforms are beginning to integrate Blockchain, which will enable organisations to streamline processes, facilitate data sharing, and improve data integrity.

Improved security



Security is at the core of the Blockchain design. The technology is based on extremely secure blocks. Each block represents a copy of the stored document and is linked to all other blocks, making it virtually impossible to penetrate. Confidential information and payments are secured by the technology and are encrypted in a fraud-protected ledger. This makes Blockchain cheaper and inherently more secure than other hosting technologies such as cloud storage.





While Blockchain current and future uses are expanding quickly, the financial sector is better equipped to benefit from the applications of this technology. Here are some examples:

Banking



In the banking sector, Blockchain can contribute to a wide reduction in the costs of operations, such as operations, compliance, disclosure, and the Know Your Customer (KYC) systems, ranging from 30% to 70%. Payment and settlement systems are also considered one of the most key areas to benefit from Blockchain, with the technology increasing the efficiency of operations and cutting costs by reducing transactions time from days to minutes.

Gulf Cooperation Council (GCC) countries began paying attention to these benefits. For example in 2018, Abu Dhabi Global Market began to develop an electronic platform that supports the KYC system through close cooperation with financial institutions in the United Arab Emirates (UAE) using Blockchain technology in order to support the efficiency of the banking sector and increase financial inclusion.

Stock exchange



Global stock exchanges also seek to take advantage of Blockchain technology to execute and archive market trades, reduce costs, simplify procedures, and increase the speed of trading and settlement operations safely. For example, the Nasdaq Stock Exchange, the largest exchange in the world, adopted Blockchain technology in 2015 to enhance its performance, and recently tested a Blockchain-based platform designed to accelerate and simplify trading operations. Likewise, other global exchanges, such as the London Stock Exchange, have plans to develop Blockchain-backed platforms through which digital issuance of stocks for Small and Medium-sized Enterprises (SMEs) can be made. Blockchain technology can help global exchanges save between USD 50 and 60 billion annually in operating expenses and information systems costs.

Fund transfer

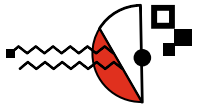


Money transfers are among the most prominent financial services that have already started to benefit from Blockchain technology on a large scale. The technology removes intermediaries as funds are transferred directly from Account A to Account B, eliminating the need to go through other correspondent banks. As it became possible to transfer money instantly across borders at a relatively low cost and in no more than minutes, Blockchain will contribute to increasing the volume of global transfers, which is estimated at about USD 500 billion annually using conventional remittance channels.

Trade



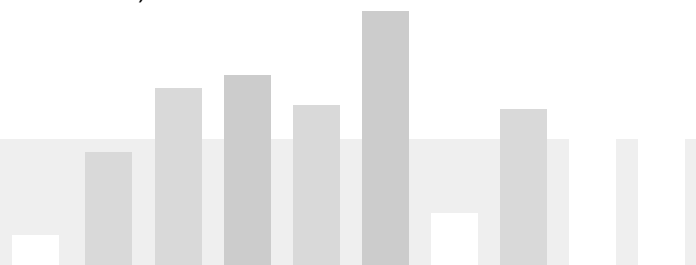
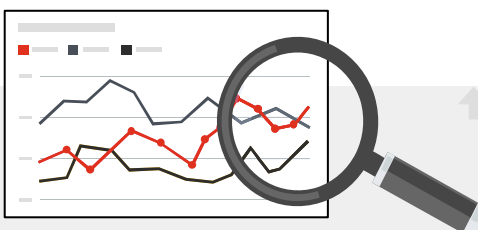
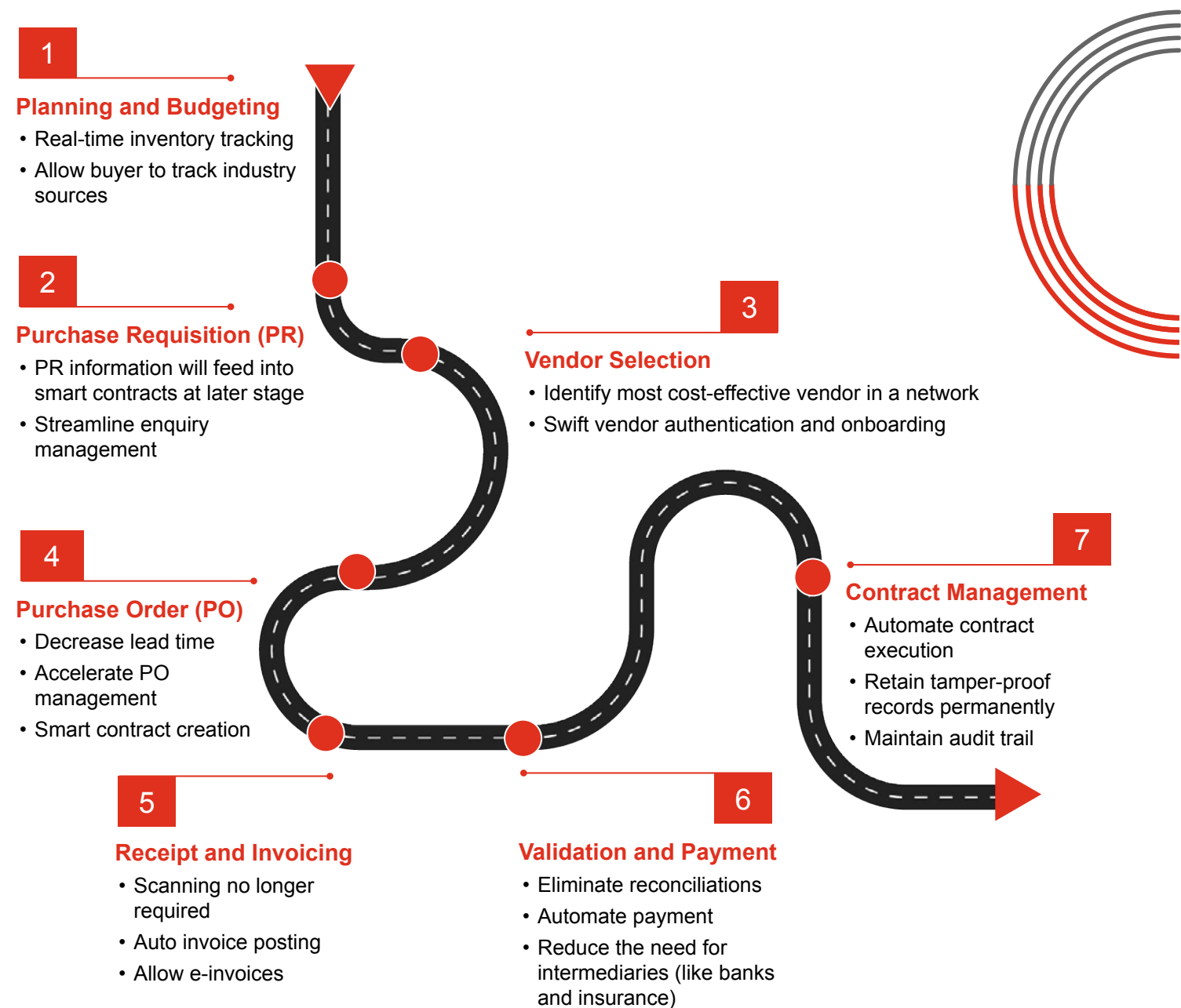
Blockchain is also used to facilitate trade services, to speed up the pace of work compared to traditional paper-based procedures. The technology enables trade and finance institutions to store, secure and exchange contract details and financial terms automatically and coordinate commercial logistics services and payments within the framework of a simultaneous and integrated network of transactions. All of this will help support trade operations and bridge part of the trade financing gaps, especially in developing countries, and achieve savings estimated at USD 30 to 40 billion annually.



Procure-to-Pay application

Supply chains can sometimes span hundreds of phases and span a wide geographical area, making tracking or verifying their steps a daunting task. Because Blockchain is a ledger that ensures transparency and security, it can be a promising solution to fix current problems of the supply chain and bring about a major transformation in the way goods are shipped, monitored, bought and consumed.

Using a Blockchain platform, it is possible to trace every commodity to its origin and source, all the way down to the raw materials used in its production. The decentralised nature of Blockchain makes it impossible for anyone to take over the records or manipulate the data in them to their advantage, as well as their crypto-based transactions make them nearly impossible to hack.





Blockchain technology has many benefits and opportunities for procurement professionals. From invoice validation and payments to asset and inventory tracking, Blockchain in the procurement space has the potential to improve business relationships, enhance trust and operational performance, and make procurement even more powerful. Some of these potential benefits include:

Smart contracts enablement



Blockchain-based smart contracts enable organisations to enter into tamper-proof agreements that can be automatically executed based on pre-defined terms and conditions. Smart contracts are able to self-verify that these terms have been met and can automatically release payments to related parties upon completion of the contract.

Transparency and traceability



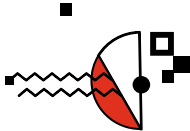
Blockchain is a shared database that ensures a reliable level of transparency and improves accountability and trust between partners. All partners are responsible for uploading data for their products and goods, and updates to the product can be immediately shown. All those involved are able to know the location of a product, its delivery time and other vital information in real time.

Process streamlining



Blockchain can be very useful in improving purchase order management, as transactions are completely visible to all parties. Currently many of the processes such as purchase requisitions, verification and approval, in addition to billing, payment and multi-way matching, are manual heavily paper-based. Blockchain can radically simplify the Procure-to-Pay process, from a multi-step process of documenting every single piece of information to a simplified ledger.





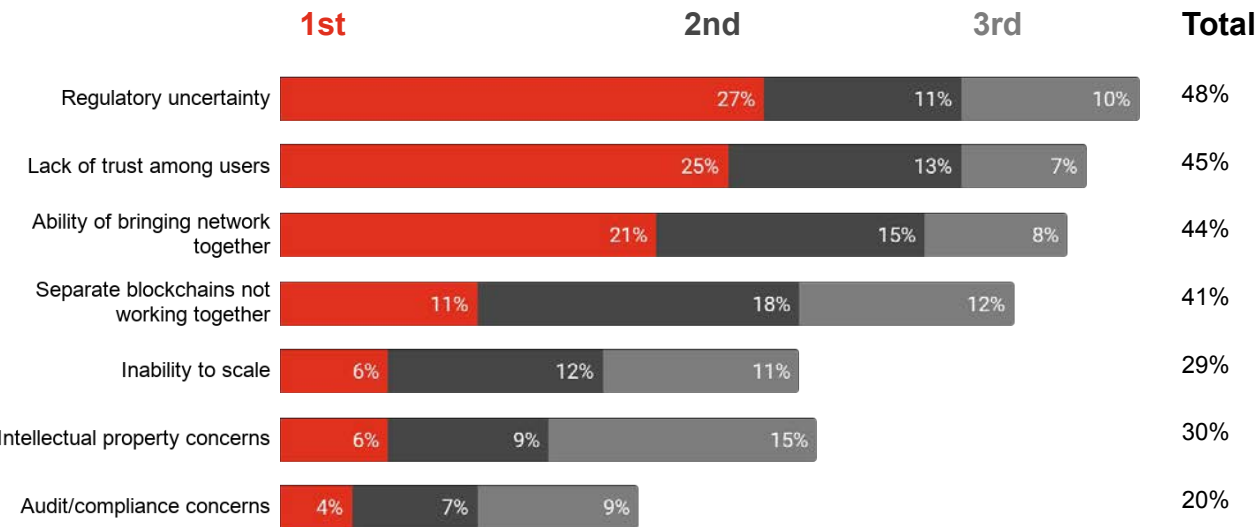
Regulatory concerns

Despite the growing global interest in Blockchain, the scope for technology is still limited. This is mainly due to the lack of understanding and the uncertainty regarding the legal and regulatory status of the technology and its variability from one country to another. In our recent PwC Global Blockchain Survey, the respondents put regulatory concerns at the top of the biggest barrier to Blockchain adoption at their businesses.

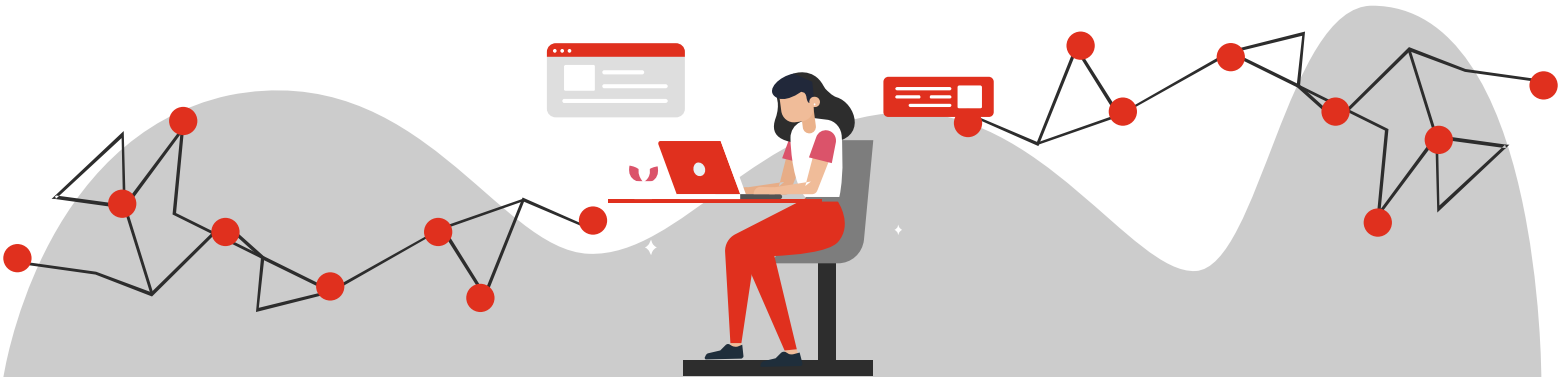
Thus far, regulators have had mixed reactions to Blockchain technologies. While some territories, such as Singapore, Switzerland and Malta, have been moving toward regulating tokens to speed Blockchain growth, others in the Middle East have banned the circulation of digital currencies. However, there remains to be some openness and desire to explore Blockchain applications in some countries in the region such as UAE.

In the absence of legal controls and regulations, concerns include fraud, piracy and uses in organised crime, terrorist financing and money laundering. Given this current climate, organisations should anticipate and keep abreast of how regulators might respond to Blockchain developments. In some cases, organisations can set up pilots in more Blockchain friendly territories where they can test and adapt with fewer restrictions.

Percentage of respondents ranking top three barriers to Blockchain adoption



Source: PwC Global Blockchain Survey





Key considerations

Like any change, the application of cost optimisation initiatives in the region is not without obstacles that may hinder the achievement of its goals. The following lines highlight some of the key challenges to be considered by decision makers when embarking on these initiatives and ways around them.

Internal resistance

A corporate culture rooted in complicated policies and old ways of working, especially in large and long-lasting organisations, presents a real challenge when trying to implement improvements and new solutions that challenge the accepted norms. Many public and private organisations typically face a lot of internal resistance, which prolongs transitional periods and delays potential savings.

When embarking on cost optimisation, it is important to establish a change management strategy and get executive leadership buy-in early on. Senior leadership can be very effective in providing directives to stakeholders, reducing scepticism and setting cost optimisation as a strategic priority. Educating employees on the new ways of working is key for a successful transition as well.

Priority changes

GCC countries, like many oil producing nations, depend on its exports for most of their state income. As the oil prices drop and demand decreased due to crises such COVID-19 pandemic, regional governments shifted their priorities to short-term OpEx and CapEx cost reduction solutions instead of long-term focus on sustainable spend efficiency measures.

To leave this vicious circle, effective long term capital efficiency planning must be put in place. This will enable the appropriate prioritisation of essential spend items and key projects and achieve sustainable spending, regardless of the current fiscal conditions.

Technology requirements

Technology is at the heart of transformation programmes and promises benefits beyond cost optimisation. However, the emerging nature of these technologies and the lack of understanding and widespread testing remains a big challenge for implementation. Other risks include data protection and privacy, cyber attacks and the potential incompatibility between different systems. In addition, the high capital costs associated with some technologies plays a role in organisations' resistance.

Technological solutions often offset their cost through raising efficiency, increasing productivity and reducing the need for large number of resources. However, these solutions require an ongoing effort to equip employees with the necessary and up-to-date tools and knowledge to ensure that leading practices are adopted. Acquiring external expertise can also be a short-term solution and an opportunity for knowledge transfer.



Internal resistance

Ill-considered cost cutting initiatives at the government level often reflect negatively on the national economy, introducing risks such as diminishing growth, shortage of qualified workers, etc. The impact is even more magnified when implemented at vital sectors to a country such as oil and gas and may have a serious impact on the operations. Any unexpected shortage of resources due to layoffs or disposal of necessary spare parts as part of inventory management can disrupt operations in the crucial sector.

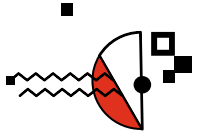
When considering the billions of dollars impact of potential oil production disruptions on the economies of the GCC countries, it becomes obvious why decision makers are reluctant to accept initiatives that directly affect operations. Technologies such as Warehouse Management System (WMS) and robotics can go a long way in evaluating and managing inventory levels and driving business intelligence decisions.

Popular opposition

Cutting costs has a political dimension in addition to the economic one, especially in public sector organisations that employ thousands of citizens. Initiatives such as employee layoffs or salary cuts may cause social distress. Furthermore, solutions such as automation and outsourcing of jobs to other countries are linked with many issues like minimum wages, unemployment, immigration, education policies, skill gaps, etc.

Cost optimisation initiatives need to be studied carefully when done at a governmental level. To avoid public scrutiny, the design of these initiatives requires caution and taking into consideration social and political aspects.



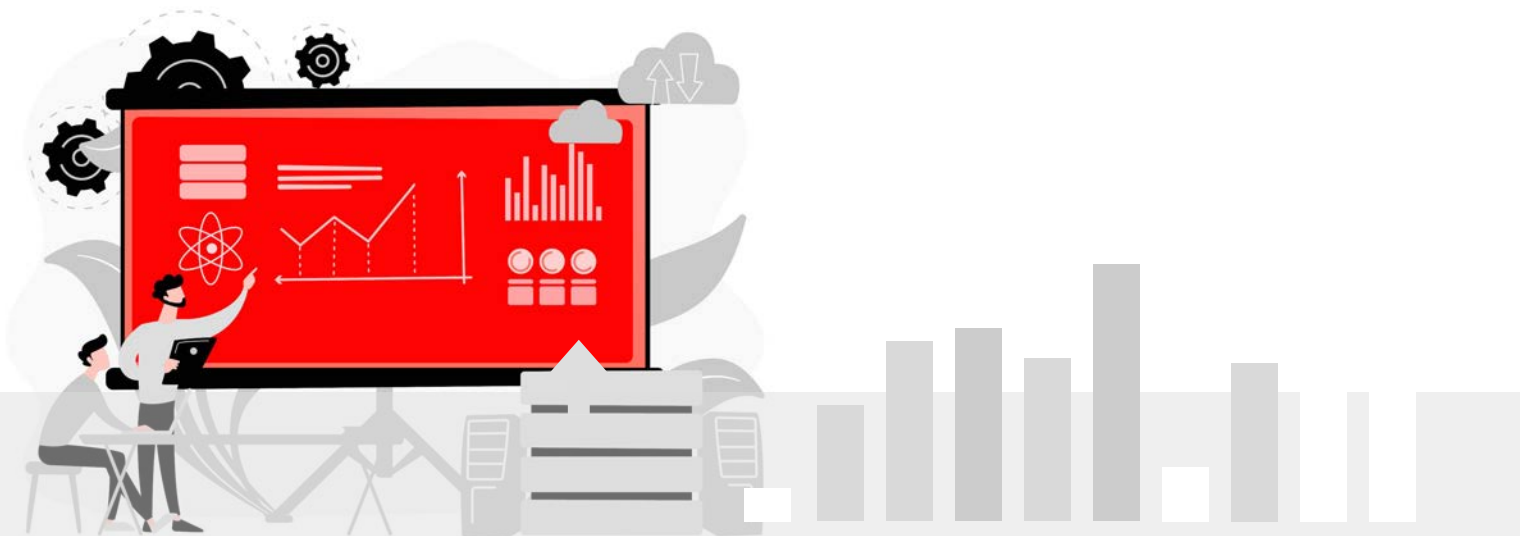


Conclusion

Organisations in the public and private sectors are always battling against operational cost challenges. But in this economically volatile atmosphere, budget pressures increase and organisations often turn to solutions that are harmful in the long term. As explained in the beginning of the series, the need for these programmes lies in their ability not only to reduce waste, but also to improve efficiency and productivity. Thus, ensuring sustainability and creating value for all stakeholders.

In this series, we have aimed to shed light on a group of carefully selected and time-appropriate solutions for controlling costs and bringing many other benefits to organisations operating in various sectors. We have deliberately moved away from traditional cost cutting solutions, that are still essential as part of the wider cost optimisation agenda, in favor of innovative solutions that are based on modern trends and cutting-edge technologies.

Although these six solutions and others have proven effective, they cannot be taken unilaterally and in isolation from a broader programme to improve operational efficiency and optimise cost. This includes looking at many elements of the operating model, implementing required improvements, and designing broader initiatives on top of these solutions. Doing so will help organisations overcome some of the challenges mentioned here and spare them some of the pitfalls that many go through when implementing such programmes.

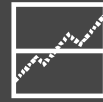




PwC Cost Optimisation Service Offerings



Strategy and target operating model



Process automation and deployment



Spend analytics



RPA governance setup



Lean back office



Centre of excellence setup



Shared service centre (SSC)



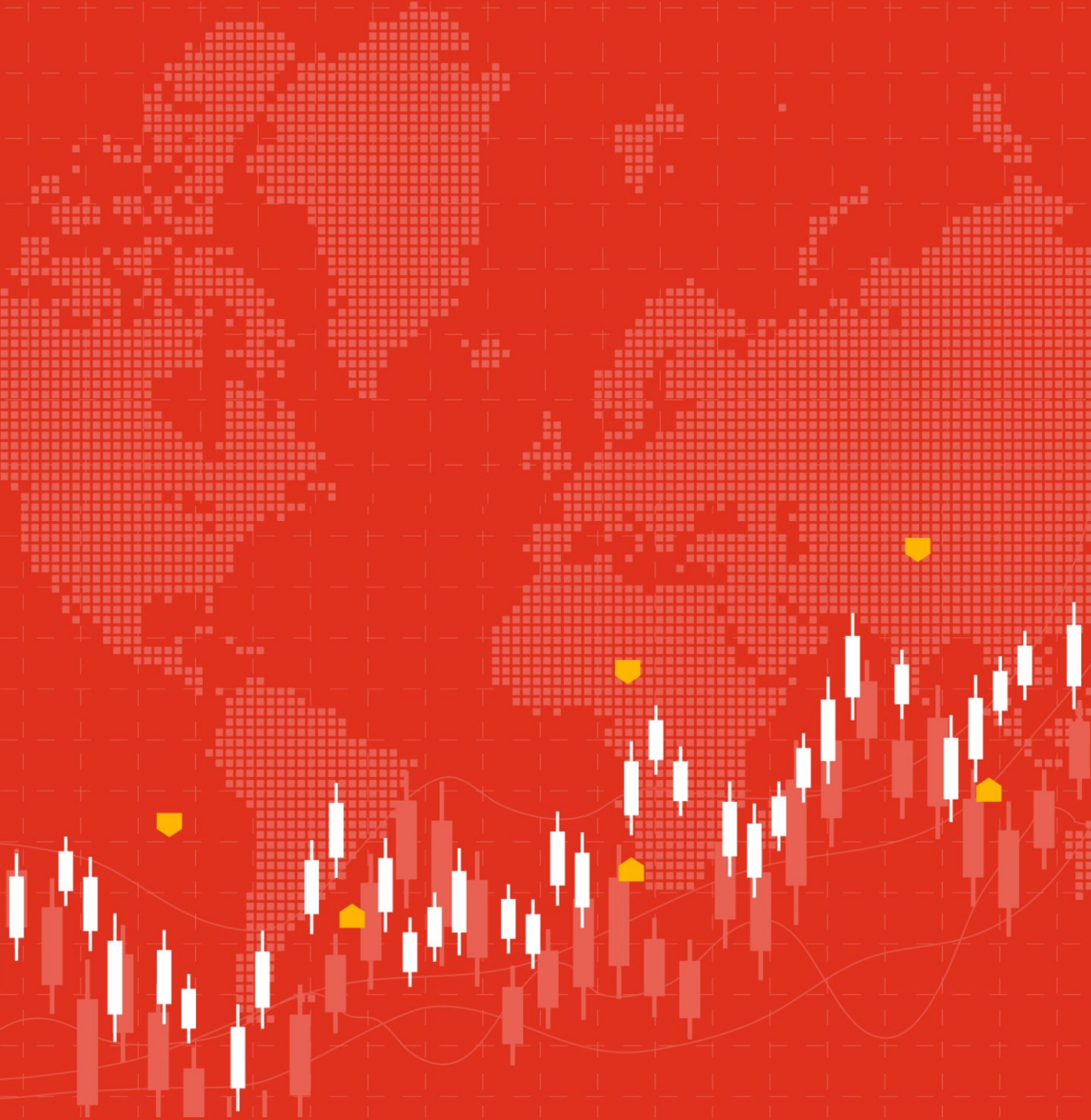
Cloud implementation



Automation feasibility and tool selection



Treasury transformation



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