Cutting costs to grow stronger

A global software business unlocked tremendous value by transforming its cost structure and operating model to enable growth.
Executive summary

Client challenge:
Transform its cost structure and operating model to position itself for future growth by:

- Addressing the organizational and operating model challenges resulting from recent acquisitions and industry shifts (license to more of a ‘software-as-a-service’ position).
- Identifying cost savings and process and operating model streamline opportunities.
- Planning for investment in the most promising growth areas of the business to enable future growth.

PwC’s solution:
Define and help implement turnaround initiatives by:

- Applying our Fit for Growth* methodology to analyze and target specific areas for cost reduction, operating model transformation, and investments.
- Collaborating with company leaders across the business, HR, Finance, and Operations to help design the new operating model to improve efficiency and reinvigorate growth.
- Transforming the organization by improving its global workforce.

Impact on client’s business:

Successful repositioning and $100 million in uplift in year one:

- The company achieved $100 million in EBIT uplift in the first year and identified an additional $150 million in year two.
- It has the potential to find a total of $378 million in uplift.
- The operating model transformation enabled the fundamental repositioning of the business and its right to win.

Technology
- May 2016
- Aligning costs with business strategy
- Growing and creating a competitive advantage
- Transforming human capital
Client’s challenge: Transform its cost structure and position itself for future growth

Following a series of acquisitions, the CEO of the software business unit of a multi-billion-dollar global technology company with more than 10,000 employees faced a big project: restructuring his business from top to bottom so the operating model, sales force, and support functions would be better integrated and positioned for growth.

The challenge was made even more complex by the fact that the company was in the process of changing its entire business model, evolving from a traditional licensing model to more of a software-as-a-service (SaaS) position.

The path to growth would involve building the capabilities to deliver against strategy, creating the right cost structure and operating model, and finding opportunities to provide more investment capacity in growth areas and required capabilities. The company would need to simplify its organization, leverage its scale, improve productivity, and motivate the workforce to achieve its potential.

Getting everything right was critical because the CEO had set a big goal: to align costs and operating model with business strategy and find from $100 million to $200 million in efficiencies that could be partially reinvested into a growth strategy.

PwC’s solution: Define and help implement turnaround initiatives

PwC’s Strategy& was a natural fit to work with the client’s leadership based on our unique ability to bring industry and functional expertise, from ‘strategy through execution’ to bear: A team of seven advisors well versed in our proprietary Fit for Growth methodology came together and began to work with the client’s CEO, CFO, VP of operations, and HR leaders. With a mix of industry professionals, organizational strategists, and functional advisors in areas such as labor and HR, the team quickly began collecting data and conducting external benchmarking to analyze the operating models of competitors.

To determine where the biggest operational gaps were and to figure out what needed immediate fixing, the team ran our Fit for Growth diagnostic and quickly identified nine overarching areas where the client could unlock value:

- Overhauling the operating model
- Introducing more organizational efficiency
- Restructuring the go-to-market model
- Addressing sales performance opportunities
- Improving customer support operations
- Reevaluating pricing process and levels
- Improving the delivery of professional services
- Building a Saas infrastructure and operations capability
- Improving engineering productivity while shifting engineering skill sets and location footprint

The important piece – and unique feature of Fit for Growth – was that the solution was not just a new operating model, and a cost cutting program, and growth initiative but a holistic approach tying all of them together: the right capabilities to deliver the strategy; the right operating model to streamline non-critical and highlight critical capabilities and the right cost envelope of that operating model that would free up funds to partially reinvest into those capabilities that created the client’s right to win in the marketplace.

Getting everything right was critical because the CEO had set a big goal:

*to align costs and operating model with business strategy and find from $100 million to $200 million in efficiencies that could be partially reinvested into a growth strategy.*
With that approach as the guiding principle, the team began to craft a plan for improving the client’s organizational efficiency, its go-to-market model, and its field and business operations. Among the proposed improvements:

- Driving new efficiency through layer reduction, targeted increases in spans of control, location footprint changes, and teleworker adjustments
- Designing a business-unit-centric go-to-market model with a secondary alignment to geography
- Eliminating redundant functions, processes and systems
- Improving the route to market for professional services, SaaS, and new product launches

- Streamlining and standardizing operational teams and processes that support front-end groups

It was equally important to lay out a timeline for change, focusing on go-to-market improvements first (since that was where revenues would come from) and dealing with technology, infrastructure, and global repositioning issues 6-12 months later.

**Impact on client’s business:**
**Successful repositioning and $100 million in uplift in year one**

The client’s efforts to align its costs with its business strategy, grow and create its competitive advantage, and transform its human capital have paid off handsomely. Ultimately, PwC and the client identified $378 million in total potential EBIT uplift for the company, and in year one it was able to take $100 million out of its costs and reinvest it in its most promising growth areas. Looking ahead, the team identified another $150 million in potential savings in year two and even more if the company was completely successful unlocking the maximum value from all nine areas the PwC team initially outlined. With the operating model transformation now complete, the company has been able to reposition itself for future growth, precisely the goal it hoped to achieve.

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