Building a cost efficiency strategy to drive growth and value
Cost efficiency

Definition and Strategies for CFOs
With you today: Thank you

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Today’s agenda

• Reflecting on the current state of the economy and the impact on finance organizations

“Playing offense” when planning for an economic downturn

• Setting up quick wins to enable the broader cost optimization plan

How the KPMG framework can align finance activity to the core business value drivers of a company

• Q&A
Reflecting on the current state of the economy and the impact on finance organizations
Decent on inflation slows -- the trajectory for the core (excluding food and energy) personal consumption expenditures (PCE) index, the Fed’s favored measure of inflation

- Recent data suggest underlying inflation may be getting stickier with the persistence of inflation, particularly in the service sector worrisome
- The Fed wants to see core PCE drop below 3% for an extended period before it starts normalizing policy. That puts the first rate cut in June
- Bottom Line -- We have weathered the storm of inflation and rising rates better than our counterparts abroad. A soft landing is possible and even probable but not guaranteed; our journey is not yet done

Not too long-ago inflation was at its highest rate in 40 years, and the prospect of slowing economic growth had clouded the business outlook. A soft landing is possible and even probable but not guaranteed; our journey is not yet done.
CFOs need to plan for a downturn while thinking about future goals

Shifting economic cycles put pressure on finance leaders to “Elevate Finance” while creating value and optimizing costs to survive, sustain, and grow the business.

**Economic Output**

- Expansion
- Recession
- Recovery

**Time**

- Implementing cost efficiency program
- Investing in future growth

**Market/economic events disrupting earnings and growth**
- Cost increases
- Demand/growth concerns
- Margin pressure

**Economic expansion**
- Excess cashflow
- Healthy balance sheet
- High growth projections
- M&A/transactions
KPMG research indicates that “playing offense” requires...

- Rigorous Implementation
- Fresh Thinking
- Changing Behaviors
- Clear Leadership and Communication
- Clarity and Knowledge
- A Real Understanding of the Business
Setting up quick wins to enable the broader cost optimization plan
KPMG guiding principles for cost efficiencies

Truly effective cost optimization must...

1. Be sustainable over the long term and enable current and future business performance.

2. Prioritize quick wins and digital agility that can fund larger transformations later in the business cycle.

3. Take into account areas of growth and opportunity that also help the organization become future ready.

4. Create a “cost culture” that enables the organization to optimize cash and find new ways to reduce costs in the future.

5. Provide a monitoring program that allows the organization to track and measure its performance over time and make adjustments as needed.
Our approach emphasizes speed to insight and quick wins

<table>
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<tr>
<th>Quantify the value</th>
<th>Capture the value</th>
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<tbody>
<tr>
<td>Rapid assessment of transaction level data to quantify EBITDA value of various opportunities across a series of levers to transform performance</td>
<td>Implementation of quick wins to generate immediate EBITDA value and help fund long term transformative sustainable changes to the business</td>
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- Synthesize, Prioritize, and Quantify
- Validate and Build the Plan
- Deliver Quick Wins
- Plan and Implement Initiative List
- Manage and Track Value

Continuous tracking and management of value identified and communicated to leadership to manage program costs and ensure transparency in transformative efforts
Leveraging KPMG target operating model to prioritize cost saving levers

- Demand optimization
- Controls/compliance rationalization

- Process re-design
- Process standardization
- Elimination of activities

- Consolidate data sources
- Standardize reporting

- Delayering
- Spans of control
- Skills mix and skills prioritization

- Rationalization/consolidation
- Automation

- Consolidation
- Offshoring/outsourcing
KPMG Economic Insights indicate what cost saving levers are top of mind for companies to manage labor costs

How are companies planning to reduce unit labor costs?

- Investing in/implementing labor-saving technology: 77.6%
- Implementing programs to reduce the costs associated with employee turnover: 67.8%
- Adopting remote work policies to hire talent from lower cost-of-living areas: 53.1%
- Outsourcing/subcontracting personnel from third parties: 32.0%
- Off-shoring production/service centers to lower-cost markets: 31.2%
- Minimizing labor organization/mobilization: 16.1%
- Onshoring/near shoring production closer to final market: 11.8%

Source: KPMG Economics, KPMG Insights on Inflation (Q3 2022)
Using quick wins to fund longer term goals

Savings realization levers

Current State

- **Process & Technology Efficiency**
  - Efficiencies gained from building and adhering to **global process standards**, leveraging **technology**, and rigorous performance management; all enabled by data intelligence

- **Organization and Labor Scaling**
  - Calculation based on reduction in management layers including non-essential personnel as well as related costs associated with location consolidation

- **Spend Management**
  - Analyzing essential versus non-essential third party spend and promoting a culture of cost management

Future State

Quick Wins
KPMG framework is a tactical program that prioritizes data and analysis for a targeted cost efficiency program...

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<th>Collect and normalize client data</th>
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<td><strong>Types of Data:</strong></td>
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<tr>
<td>• Organization Headcounts and Costs</td>
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<td>• Company Financial Data</td>
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<td>• Employee Activity Mapping</td>
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<td>• Volumetrics</td>
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<td>• Technology Landscape</td>
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<td>• Indirect Spend</td>
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<td>• JE &amp; Planning Detail</td>
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<th>Merge and analyze data with external insights and benchmarks</th>
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<tr>
<td><strong>Types of Benchmarks:</strong></td>
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<tr>
<td>• Cost</td>
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<tr>
<td>• Financial</td>
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<tr>
<td>• Volume</td>
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<tr>
<td>• FTE</td>
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<td><strong>How much less can the company spend?</strong></td>
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<tr>
<td><strong>How much efficiency can the company gain?</strong></td>
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Enabled by KPMG Benchmarking Plus tool
...which leads into opportunities and initiatives that emphasize business needs and quick wins

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<th>Design cost efficiency program</th>
<th>Realize cost targets</th>
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<td>Develop a baseline of performance to quantify opportunities</td>
<td>Prioritize opportunities based on “quick wins”</td>
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<td>Evaluate opportunities using a series of levers to uncover savings</td>
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**Process Levers**

**Technology Levers**

**Organization Levers**

![Diagram](image)
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