

Cost Reduction

The Challenge

Cutting costs quickly and materially without unnecessarily compromising critical business needs for support, flexibility and rapid delivery

Adequately evaluating the available approaches without getting caught in “analysis paralysis”

Salvaging value from cancelled or deferred initiatives

Minimizing damage to the organizational strengths required to perform in a reduced-cost environment and to support renewed growth during the following business cycle

Our Approach

Use a structured framework to quickly evaluate diverse opportunities and select an effective mix

Carefully review the business implications and interactions among the selected cost cutting tools

Cost Reduction Opportunities

Approach	Potential Savings	Timing	Key Considerations
Restructuring the Business Model			
<ul style="list-style-type: none"> Outsourcing 	<ul style="list-style-type: none"> Large 	<ul style="list-style-type: none"> Medium–Long Term 	<ul style="list-style-type: none"> Long-term relationships, difficult to execute May include facilities, technology environments, operations, application development areas and/or support functions Requires focused management during analysis, planning, selection, preparation, testing, execution and operation Pricing may be fixed, transaction-based or risk/reward-based Include off-shore alternatives where appropriate
<ul style="list-style-type: none"> Functional consolidation 	<ul style="list-style-type: none"> Varies 	<ul style="list-style-type: none"> Long Term 	<ul style="list-style-type: none"> Consolidate similar / sub-scale activities into shared services Dependant on opportunities (data, call and service centers) Relocation to lower cost locations or geographies an option
<ul style="list-style-type: none"> Creating or joining industry utilities 	<ul style="list-style-type: none"> Varies 	<ul style="list-style-type: none"> Long Term 	<ul style="list-style-type: none"> Alternative to pure outsourcing of non-core activities Emerging option: major opportunities arising though it remains complex to define, negotiate and implement a utility Major firms investigating or initiating utility efforts Must address security, confidentiality, customization issues
Re-engineering the Business Model			
<ul style="list-style-type: none"> Functional benchmarking 	<ul style="list-style-type: none"> Provides Program Foundation 	<ul style="list-style-type: none"> Short Term 	<ul style="list-style-type: none"> Comparative analysis of costs / KPIs to find opportunities Basis for staffing, re-engineering and architecture decisions Establishes baseline for tracking program efforts and savings
<ul style="list-style-type: none"> Overhead / activity value analysis 	<ul style="list-style-type: none"> Large 	<ul style="list-style-type: none"> Varied 	<ul style="list-style-type: none"> Open agenda - may include headcount cuts, project cancellations, facilities consolidations, moves, etc. Review non-revenue services for customer profitability Timing varies from short- to long-term by type of opportunity Review support staff levels / compensation versus requirements Must identify / avoid unwarranted business impacts and risks

Cost Reduction Opportunities

Approach	Potential Savings	Timing	Key Considerations
<ul style="list-style-type: none"> Technology alignment Leveraging new technologies Business process transformation 	<ul style="list-style-type: none"> Medium–Large Medium Medium–Large 	<ul style="list-style-type: none"> Medium–Long Term Medium Term Long Term 	<ul style="list-style-type: none"> Adopt a portfolio view of applications, projects, platforms Re-evaluate all three portfolios: cut or defer low priorities Identify and reduce redundant and off-record activities Reduce roster of IT consultants and external projects Defer discretionary projects, upgrades and maintenance Accelerate cost-cutting projects and technologies Leverage recent advances to automate, cut staff and expenses Pursue cost-effective STP opportunities (and ignore others) Use increased connectivity to relocate or consolidate activities Reduce costs while improving or retaining service levels Relies heavily on technology and organizational changes Includes automating, standardizing, consolidating, eliminating low-value activities, managing demand... Focus first on best opportunities, progress to others Opportunities cross product silos and front-/mid-/back-office
Strategic Sourcing			
<ul style="list-style-type: none"> Negotiated cost reductions Demand management Procurement process improvement 	<ul style="list-style-type: none"> Large Medium–Large Medium 	<ul style="list-style-type: none"> Medium–Long Term Short–Medium Term Short–Medium Term 	<ul style="list-style-type: none"> In waves - increasing difficulty / decreasing opportunity Impact largely placed on external vendors Technology sourcing requires specialized expertise Impacts internal staff - requires strong management support Can quickly achieve significant results Cuts operating costs, embeds other sourcing benefits Requires organizational change Can utilize technology: e-procurement, on-line auctions, etc.
Program Management			
<ul style="list-style-type: none"> Program Management Approach 	<ul style="list-style-type: none"> Must be communicated as a top priority by senior management with clear targets and a broad scope Team members must be first-team players from key areas for whom this is a key MBO component Focus on fast, decisive, results-oriented approach; avoid false starts and traditional “committee” mentality 		

Cost Reduction Approach



Objective: Analyze current cost structure and cost drivers to set scope Develop cost reduction opportunities Determine highest priority opportunities and identify quick-hits Develop high-level plans for agreed opportunities and prepare for initiative launch

- Activities:**
- Analyze Current State:**
 - Establish baselines at the Group IT and departmental IT levels:
 - Financials
 - Headcount
 - Infrastructure
 - Purchased goods and services
 - Processes
 - Functional activity levels
 - Identify cost drivers
 - Identify and develop inventory of current and planned projects
 - Identify Cost Reduction Opportunities:**
 - Define targeted practices for key processes / areas
 - Identify cost reduction opportunities within and across functional areas, including addressing:
 - Span of control
 - Shared services
 - Low value / redundant activities
 - Process streamlining
 - Identify opportunities for better aligning IT with business needs and reassessing IT projects
 - Assess large spend categories
 - Analyze And Prioritize Opportunities:**
 - Analyze identified opportunities:
 - High level cost/benefit
 - Ease of implementation
 - Implementation risk
 - Operational impact
 - Prioritize opportunities based on analysis
 - Validate opportunities and gain stakeholder buy-in
 - Identify quick-hit opportunities
 - Prepare For Implementation:**
 - Define initiatives and deliverables
 - Design high level implementation work plans
 - Identify required projects and resource levels

- Deliverables:**
- Analyze Current State:**
 - Cost structure baseline
 - System inventory
 - Infrastructure inventory
 - Cost driver analysis
 - Current project inventory
 - Identify Cost Reduction Opportunities:**
 - Gaps between current state and targeted practices for selected areas
 - Comprehensive list of improvement opportunities
 - Analyze And Prioritize Opportunities:**
 - Quick-hits list
 - Opportunity analysis
 - Prioritization of opportunities
 - Financial estimates
 - Prepare For Implementation:**
 - High level Implementation workplans
 - Implementation resource list
 - Milestones / deliverables list
 - Business Case(s)

- Primary Tools:**
- Analyze Current State:**
 - Available internal data and management reports
 - Internal interviews
 - Identify Cost Reduction Opportunities:**
 - Workshops
 - Interviews
 - Industry analysis
 - Analyze And Prioritize Opportunities:**
 - Workshops
 - Industry experience
 - Cost/benefit models
 - Prepare For Implementation:**
 - Pre-defined Templates:
 - Project plans
 - Communication plans