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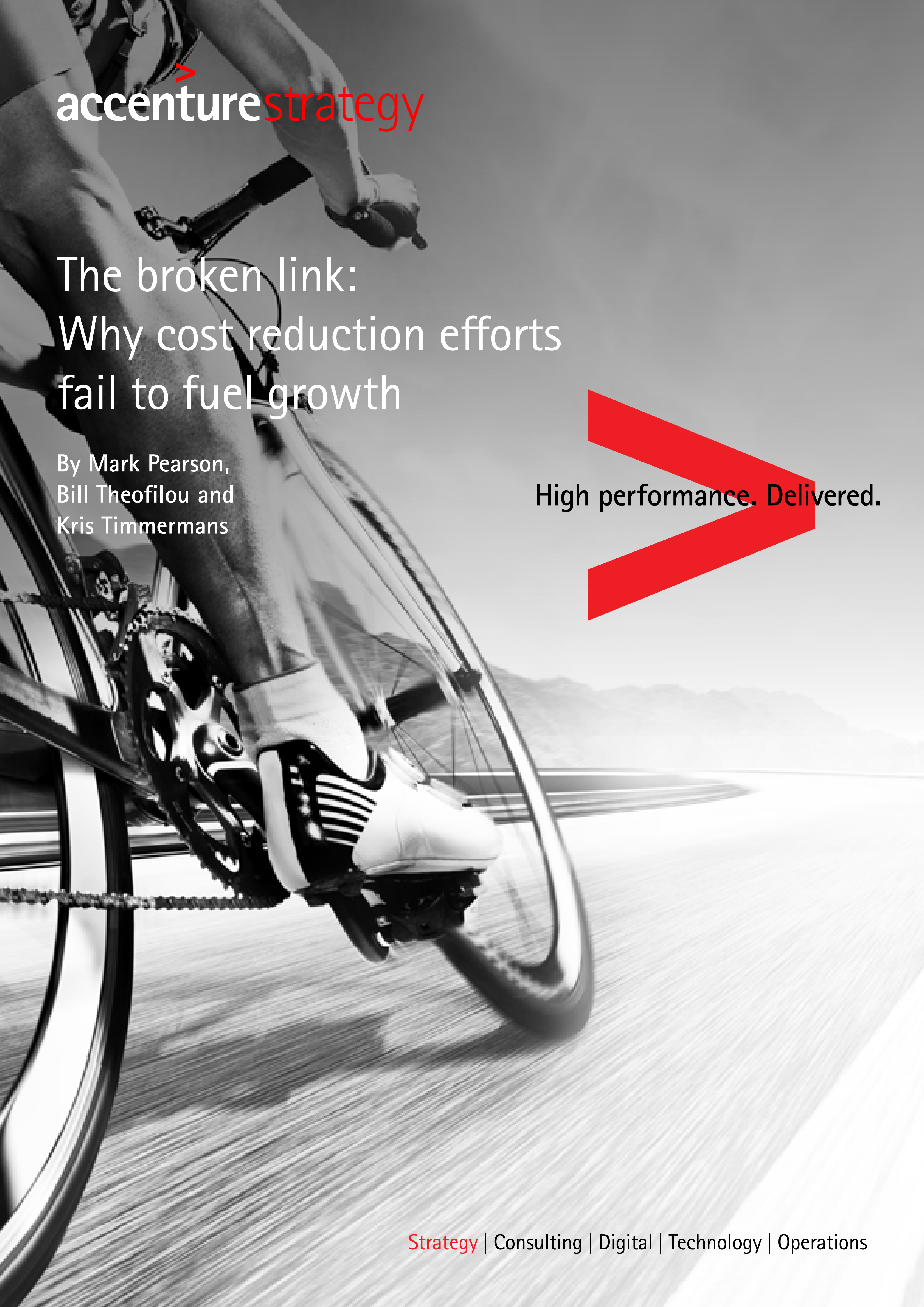

The broken link: Why cost reduction efforts fail to fuel growth

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The rules of competitiveness are changing and businesses must fire on all cylinders to keep pace with the unprecedented demands for speed, scale and flexibility in today's global marketplace. Since 2000, 52 percent of the companies in the Fortune 500 have gone bankrupt, been acquired or ceased to exist, due in large part to the disruption of traditional industry models by digital models.[1]

To drive profitable, sustainable growth, companies must proactively identify activities that drive value, take out non-value adding costs and reinvest those savings into growth and sustainability initiatives that improve competitiveness. And, they must not only do all these steps in concert, but also embrace them as a *permanent* part of a winning company culture.

Accenture Strategy research[2] across 700 executives found that most businesses have made both cost reduction and growth a priority, but the critical link between cost reduction and growth strategy is broken. Why? Because executives lack the detailed visibility to know where to best invest, are juggling too many cost reduction initiatives, and execution is lagging. Leaders are misaligned on where to invest for growth, and in some cases, operating models are too inflexible to fuel growth initiatives.

Connecting the dots to increase competitiveness

What are the weaknesses that businesses face on the journey to growth? There are several, but most important is the fact that businesses aren't grasping the critical interdependencies between cost reduction efforts and growth strategy.

Weak execution dilutes fuel for growth

On a positive note, executives have big plans for cost reduction programs, aiming to fuel growth and competitiveness for the long term. The top outcomes driving cost management activities are simplifying and increasing the flexibility to respond to market changes (57 percent), improving competitive advantage (54 percent), improving financial performance (53 percent) and reinvesting cost savings into growth initiatives (49 percent).

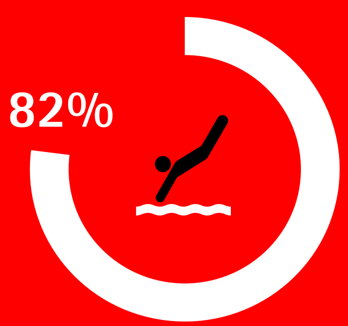
And while the intentions for cost reduction programs are good, executing them well is very difficult. The reality is that most programs are not aligned closely enough to the business strategy or are often the "Plan B" reaction to failed growth initiatives. Only 23 percent say they have optimized their process for identifying and removing business activities and investments that do not add value.

Leadership is missing the mark on sources of growth and misaligned on where to invest

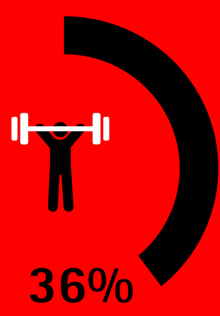
Businesses fail to execute growth strategies and they are not optimized for value creation because executives across titles and levels have competing priorities.

Specifically, CEOs, CFOs and vice presidents (VPs) are not united on where to invest and how to align cost savings initiatives with business strategy. Only 36 percent of the C-suite believes their reinvestment priorities are aligned to the business strategy—and only 25 percent of VPs do.

Many businesses also have too many growth initiatives and they can't decide where to invest. Only 30 percent of executives say they prioritize the reinvestment of cost savings in alignment with business strategy. Instead, they are taking a diversified—or shotgun—approach.



Accenture Strategy research found that 82 percent of companies are focused on cost reduction to free up funds to invest in growth initiatives, yet only 36 percent strongly agree they are able to sustain benefits of cost reduction programs.



Budget holders are reinvesting savings across their own initiatives, yielding smaller growth, versus funding two or three winning initiatives that will lead to game-changing paybacks. Inconsistency at the top puts businesses at risk for cutting the wrong costs and reinvesting in the wrong areas, or worse, achieving poor valuations.

Operating models don't flex for cost reduction—or for growth

Rigid operating models and a lack of visibility/insight into what creates value for the organization is exacerbating the problem. What's even worse: executives are aware of the problem but are unable to solve it.

> Consider the fact that only **22 percent** of executives say their company's operating model is aligned to fuel strategic growth initiatives.

Executives would not argue that operating models should align with how a business wants to profitably grow. Yet, only one-fourth of companies surveyed have a flexible operating model that can adapt to consistently deliver on strategy and execute activities that drive value for the organization.

Businesses are gaining agility through new operating models. One global food company designed and built a new operating model to increase the company's efficiency and agility. This global business services platform is delivering key functions including supply chain, finance, human resources and IT. The value generated through the program—an expected $100 million in recurring savings—will enable the company to fuel its growth strategies.
To identify the right operating model that will fuel growth, companies must decide on which axis they are going to manage their business.

For example, one axis is global/local. Does the business want to balance global with local to take advantage of scale while reducing local service and effectiveness? Or, should the business pass on some benefits of scale in order to enable better local support and performance?

Digital is the direction

One thing executives agree on is the importance of investing in digital to increase competitiveness. Fifty-four percent citing digital technologies as the most common direction for reinvesting cost savings. Digital investments boost competitiveness because they enable new business models that allow unprecedented speed, agility and scale.

Forty-two percent strongly agree that digital business is an enabler of strategic growth. Using digital, companies get ahead of industry disruption, accelerate innovation, fuel more efficient operations and deliver personalized experiences. With the right digital strategy, many operating model choices move from "or" to "and."

Businesses are digitizing the front office—using analytics, the cloud and other Internet of Things-enabled innovations—to get closer to the customer, among other benefits. Companies are also taking non-traditional functions and digitizing them to reduce costs and improve efficiency and scale.

Fixing what's broken

Businesses must better connect cost reduction efforts with growth strategy and business strategy to increase competitiveness and fuel profitable growth. Here's how:

1. Organize for growth

First, identify sources of growth. In a disrupted market place, where will your future growth come from, and what does your growth strategy look like? Create a cost reduction program that will free up large amounts of cash, assets and capital that can be reinvested in line with your growth strategy. Connecting cost reduction and growth strategies—in line with the business strategy—will make cost savings sustainable for long-term growth and competitiveness.

2. Manage the journey

Rather than scattering reinvestment dollars across multiple initiatives, place big bets. Map out the journey to growth, prioritize the scope of the effort and split it into manageable phases.

Align leadership and people on the "big ideas" and create a culture that is centered on continuous cost management. Communicate to all stakeholders the strategy, the value drivers of change, the phases of the journey and the expected outcomes. Demonstrate success through validation points along the journey. To sustain growth and guide all future cost takeout initiatives, institute a governance program that helps identify what initiatives will (or will not) contribute to growth. That way you can quickly abandon the moves that do not add value.

3. Digitize to fuel sustainable growth

Digital business models and strategies help increase organizational agility, flexibility and sustainable growth. Businesses that commit to building digital capabilities and digitizing traditional processes are most likely to manage disruption and grow.

For example, use digital to interpret signals of disruption and determine which disruptions will impact the business, and when. Strongly consider digitizing traditional functions and capabilities to increase speed and agility, and work across your partner ecosystem and invest to acquire "missing" digital capabilities or digitize your company's non-core activities. Take advantage of digital to cost-effectively experiment at speed and scale to solve customers' problems and bring new products to market faster.

Be a leader that can withstand change. Build CEO-level support and drive new growth through a team of leaders who are laser-focused on digital—and digital "fixers" who can draw on the right skills at the right time.

Cost reduction unlocks funds that can be reinvested in growth. But without a cohesive, strategic plan—and people to support the plan—those efforts will fail. In today's climate of unprecedented competiveness, failure is not an option.

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References

[1] Source: Accenture Technology Vision 2015

[2] Increasing Agility to Fuel Growth and Competitiveness, Accenture, January 2016. All data points following are based on this research.

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