



ACHIEVING 'COST-OUT MATURITY'

Learn how leading organisations cross-industry take costs out of their businesses to drive substantial savings

PA Consulting Group 2016

BUSINESS AS UNUSUAL

PA is the only consultancy with over 70 years' experience across consulting, technology and innovation.

Working with businesses and governments worldwide, our people find the ground-breaking solutions that really work – in practice, not just on paper. We bring the experience and insight to challenge conventional thinking and we refuse to settle for the status quo.

This is because, in everything that we do, we don't just believe in making a difference. We believe in making the difference.

Sustainable cost reduction continues to dominate executives' agendas. Our research into how effectively companies are managing costs reveals there is a significant variation across sectors – with great potential for those at the lower end of the scale to improve.

Taking costs out of a business is hardly a new phenomenon. It is reasonable, however, to say that cost reduction is often a reaction to a specific market or managerial need, rather than a planned intervention. This is borne from relatively low maturity in optimising cost and investment in many sectors, despite years of cost cutting.

Our research has identified that net profit margins are eroding across industry – with profit falling in most sectors in the first six months of 2015, particularly in IT and automotive. To respond to this, reducing costs and increasing efficiency – what we refer to as 'cost-out' throughout this report – is one option. However, how effective organisations are at cost-out varies greatly.

We have delivered over 350 cost-out projects for organisations globally in recent years that have been hampered by the gap in maturity between the leaders and the laggards, and the transferability of best practice across sectors. Closing this gap will deliver significant benefits quickly.

Our global 'Cost-out maturity' report captures this experience. In addition to our own practical work in the field, we analysed 70 organisations through surveying senior executives and our internal experts to build up a clear picture of what it takes to achieve cost-out maturity.

When we look at organisations that are best at implementing cost-out – the top 25% and those we refer to as 'Cost-out maturity' leaders in this report – it becomes clear that they address cost reduction through a joined up, programmatic series of interventions. We call these the 'six dimensions of cost-out maturity'. An organisation's maturity depends on how well they perform in the following dimensions:

- Strategy
- Organisation and governance
- Process
- Tools
- Competencies and skills
- Cost-out approaches.

Translating comparative cost-out maturity into savings is no mean feat. Through our experience in developing and delivering business cases with clients, we have identified indicative potential savings for nine sectors (automotive, consumer products, defence, energy and utilities, government, industrial engineering, IT/telecommunications, life sciences, transport), based on organisations' ability to achieve cost-out maturity and the resulting benefits.

Jost Kamenik
Transforming operational performance expert

Margin erosion is driving a renewed focus on cost reduction in many sectors

Market conditions and global competition mean operational performance is a focus area for business executives:

- The low-growth environment is putting more pressure on net profit and cost to income ratios
- Productivity has remained largely static since 2008
- Increased post-crash regulations are adding to business expenses, with expenses 5%-15%¹ greater in financial services
- Governments worldwide are searching for efficiencies to protect services whilst imposing restraints on budgets.

Net profit margins are eroding across industry. In our analysis, net profits fell in many sectors in the first six months of 2015 – by 3% in IT and 2% in automotive. Companies are looking to remove costs – but the nature of the initiatives they employ are varied across sectors. We are seeing those organisations that have suffered margin erosion for a longer period of time, in automotive for instance, have developed more sophisticated and effective approaches to taking costs out of their business.

Figure 1: Net profit per sector versus the change in profit first half 2015²

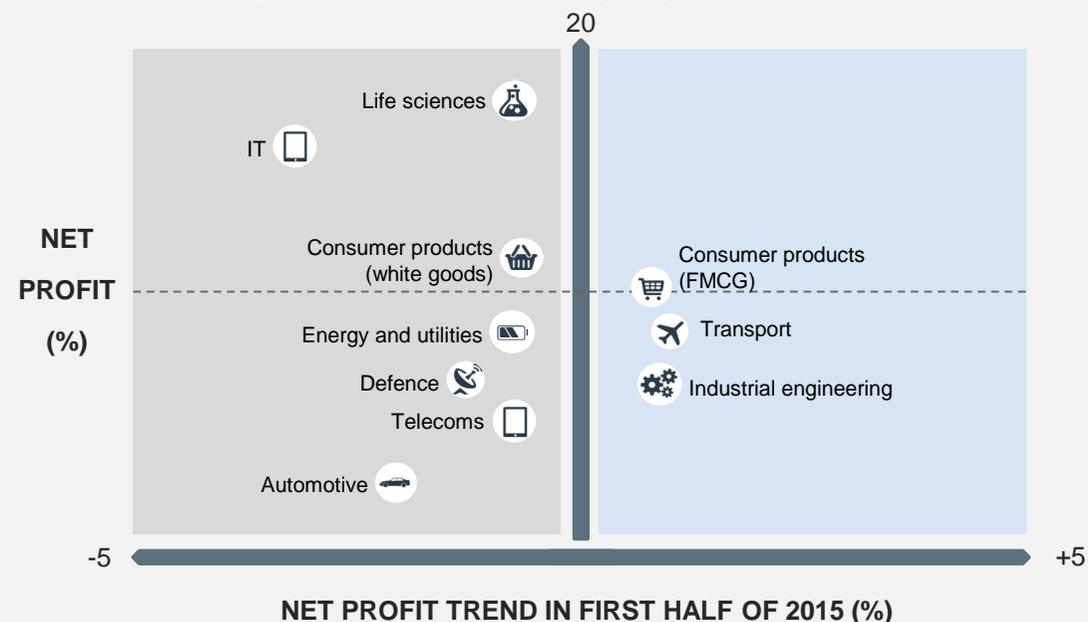


Figure 2: Breakdown of organisational priorities by region³

Priorities	Americas	Asia Pacific	EMEA
Reduce costs	1	1	1
Create a more effective business	2	2	2
Improve operational efficiency	3	3	4
Comply with new or existing regulations	4	5	3
Identify & implement options for growth	5	4	5
Drive innovation	6	8	6
Leverage talent	7	9	9

1. RBC Capital Markets Research S&P 500
2. PA Analysis 2015
3. Source for Consulting Analysis 2015

A hand in a dark suit jacket is pointing with a pen at a line graph on a blue background. The graph has a y-axis with values 2000, 4000, 6000, 8000, 10000, and 100000. The word 'CONTENTS' is written in large white letters across the middle of the image.

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1. About our research
 2. Cost-out maturity across sectors
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 4. The way forward



1

ABOUT OUR RESEARCH

About our respondents

To understand how effectively organisations are dealing with reducing their costs, we drew on experience from over 350 cost-out projects globally. To supplement this knowledge, we analysed data from 70 organisations through surveying senior executives and our internal experts.

Respondents came from nine sectors and six geographic regions. Below are some points worth noting:

- Respondents came from nine sectors but there is a bias towards automotive as it makes up 29% of all surveyed. To some extent, this reflects the well-established cost reduction practices and culture this sector has following many years of margin pressure.
- Respondents came from the major geographic markets but there is a strong US and German/European focus – reflecting the regions' maturity and PA's own business focus.
- 65% of respondents were from organisations with a revenue of €10,000 million or more. Only 9% of the participants have a revenue of under €1,000 million.

Figure 3: Respondents by main geography

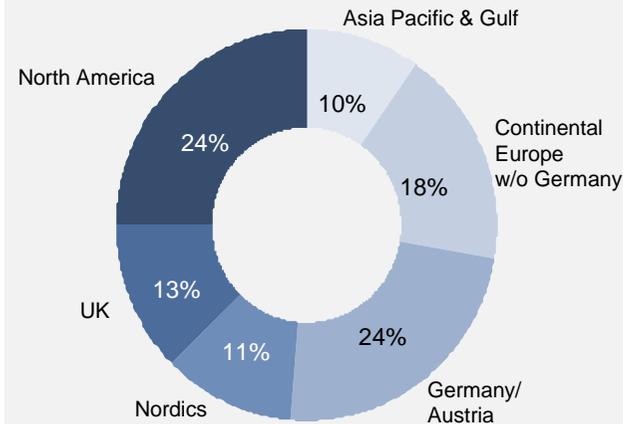


Figure 4: Respondents by sector

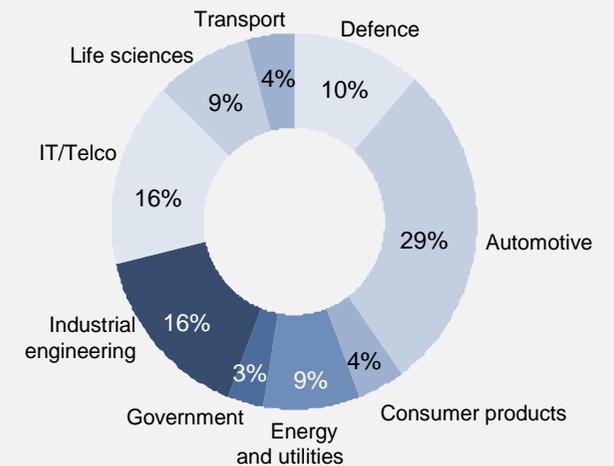
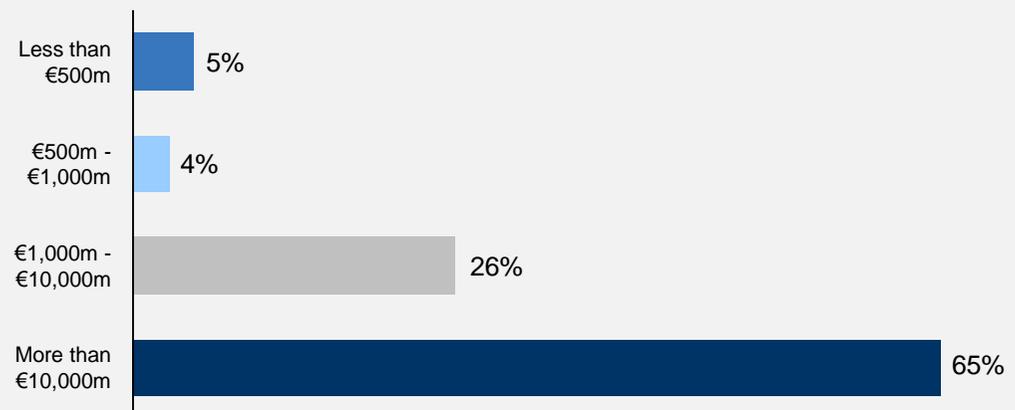


Figure 5: Annual revenue in Euros



The six dimensions of cost-out maturity

From working with organisations that excel at cost reduction, we found a clear pattern emerging. Their maturity comes not from focus on one area, or managing a portfolio of individual projects, but taking a systematic and holistic approach across multiple areas.

They are leaders in what we call the six dimensions of cost-out maturity. Our cost-out maturity index seeks to understand the scale of focus and capability in each dimension to then derive an average score.

It goes without saying that there is an element of simplification in reducing a complex series of inter-related interventions down to a single score for each dimension. Nevertheless, we have found the index does reliably identify strong performance in taking cost out of the business – both at an individual and a sector level.

We have also seen clear evidence for the transferability of best practice across sectors – both in terms of applying specific ideas in one dimension from one organisation to another, and in transferring the entire cost-out maturity approach from one industry to another. We have used six dimensions to create a framework for action for organisations across sectors and geographies.

Figure 6: The six dimensions of cost-out maturity and a selection of self-assessment questions

Dimensions		Self-assessment questions
A	Strategy	<ul style="list-style-type: none"> • Do you have a company-wide cost-out vision? • Is there an integration of target setting and reward? • Is there a degree of transparency and standardisation?
B	Organisation & governance	<ul style="list-style-type: none"> • Is there a dedicated cost-out function? • Do you use cross-functional teams? • Are programme leaders fully empowered?
C	Processes	<ul style="list-style-type: none"> • Are processes integrated top-down and bottom-up? • Do you use total cost optimisation approach? • Are there end-to-end cost models?
D	Tools	<ul style="list-style-type: none"> • Is the portfolio managed based on cost-benefit analysis? • Is there standardised project and risk management? • Do you have consequent cost and progress tracking?
E	Competencies & skills	<ul style="list-style-type: none"> • Do you have a defined and mandatory training roadmap? • Do you grow operational excellence capabilities? • Do you foster entrepreneurial competencies?
F	Approaches	<ul style="list-style-type: none"> • Is the baseline clearly defined at the beginning? • Are there a range of cost-out methods? • Do you use cross-sector benchmarking?

2

COST-OUT MATURITY ACROSS SECTORS



The ability to get costs out of the business sustainably varies significantly

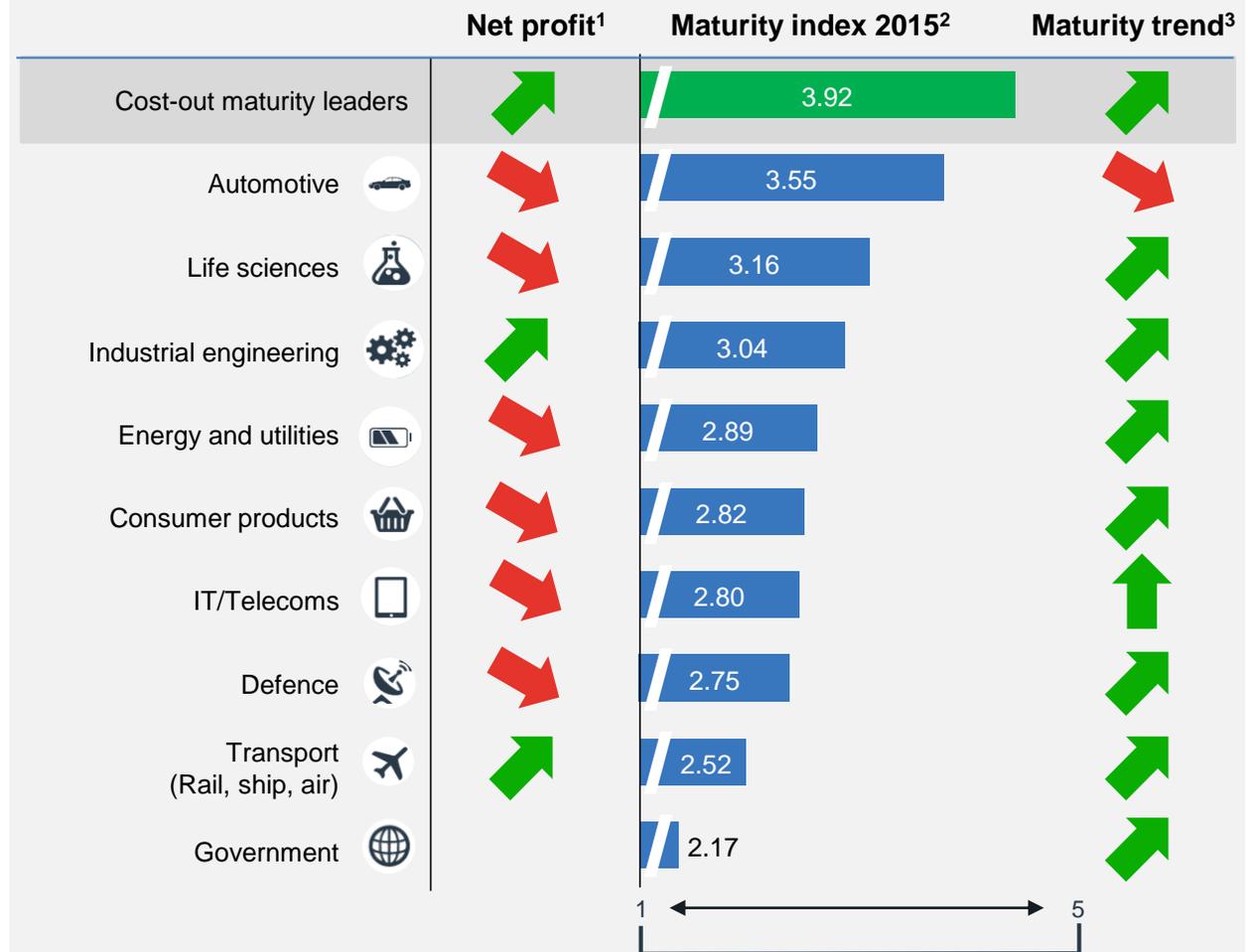
The goal of our research was to identify best-practice approaches to cost-out maturity. In particular, we sought to isolate the key traits shared by those who excel in this area.

To do this we asked our 70 respondents to rank how their organisation performs on a scale of one to five (with five being the best) on the six dimensions. The average score across the six dimensions then created the organisation's cost-out maturity score which was then used to calculate the overall sector score.

As you can see in Figure 7, maturity across the nine sectors varies greatly. Some sectors are more mature than others, partly in response to sustained margin erosion.

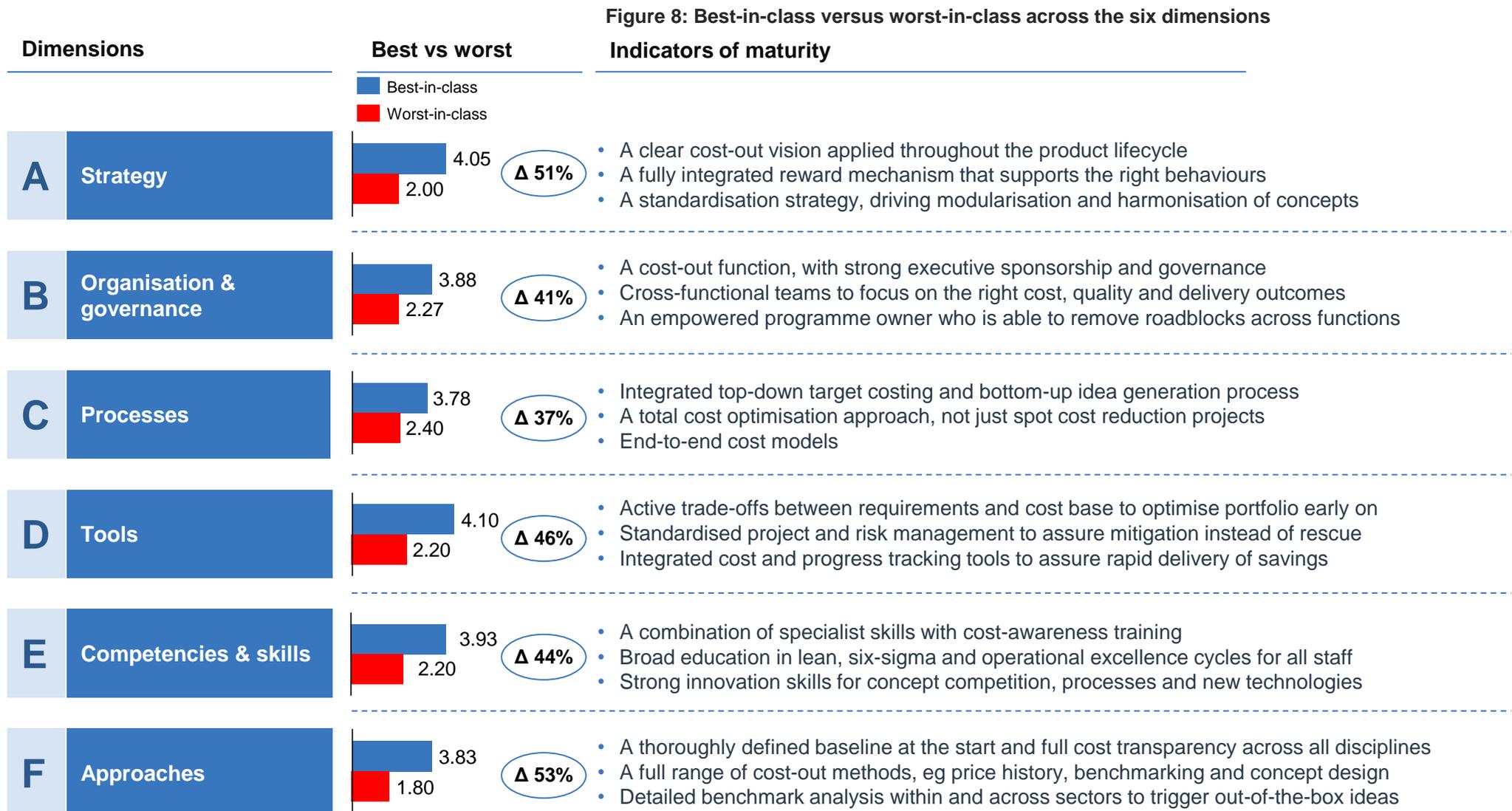
Strikingly, upper quartile organisations hugely outperform the rest. Looking at the leaders in more detail, it becomes clear they address cost reduction through a joined up, programmatic series of interventions – the six dimensions of cost-out maturity.

Figure 7: Cost-out maturity by sector



1. Net profit trend for the first six months 2015. Source: RBC capital markets research, PA analysis
 2. Index 1-5 based on PA's six dimensions of cost-out maturity
 3. Indicative change in maturity over last 12 months

The common characteristics of cost-out maturity leaders



* To find a breakdown of the best and worst performing sectors for each dimensions, see page 31.

Position in sector comparison

1/9

Automotive

Automotive leads the way for cost-out maturity. This is due to a combination of significant competition that has challenged industry players for decades together with the pressure to globalise and standardise the supply chain.

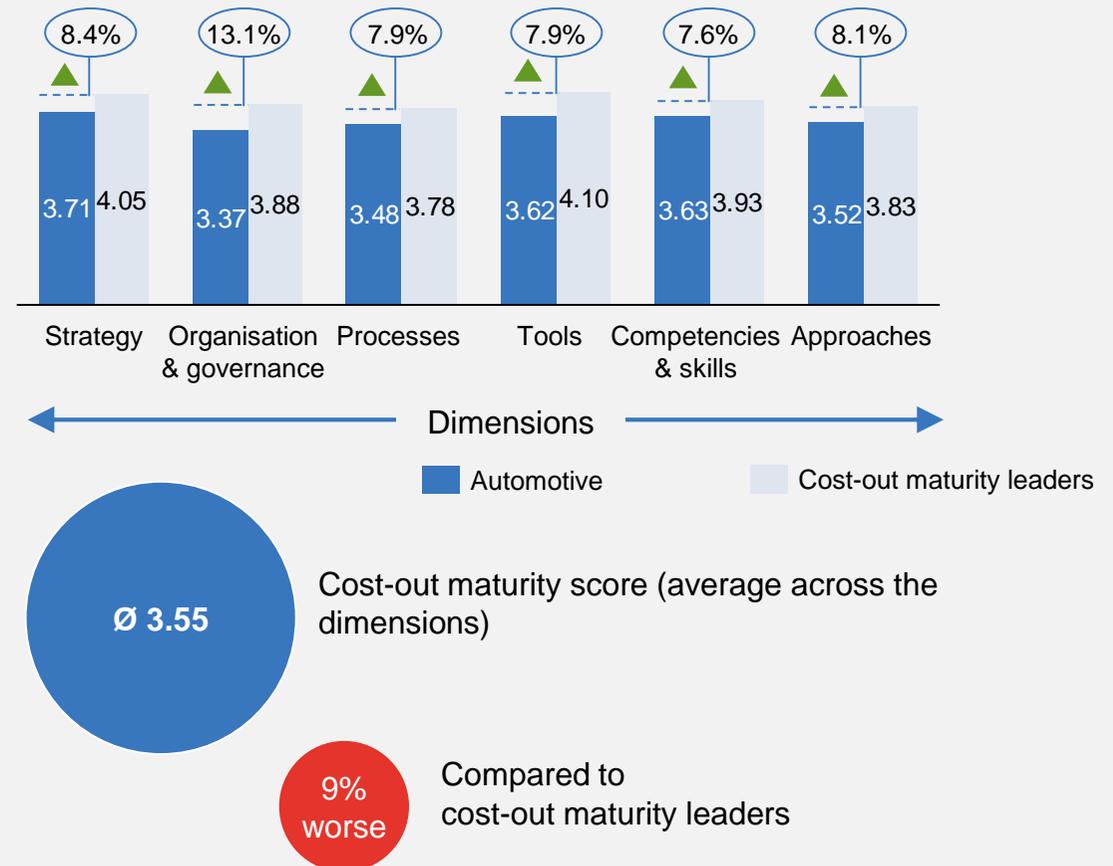
Overall the sector scores well at 3.55, even against the leaders, when it comes to their strategy, competencies and skills, and approaches.

We see that organisations have significantly invested in their in-house capabilities for cost-out projects and set up strong governance and steering processes to monitor and manage performance tightly.

Nevertheless, as you can see in Figure 9, there are still opportunities to improve, with maturity gaps identified across the board.

A common critical challenge for most automotive companies is the need to integrate all available sources of cost data into a 'single source of truth' while retaining simplicity and speed in decision making.

Figure 9: Automotive cost-out maturity across the six dimensions



“

The sector is rapidly changing, with new technologies and the need to meet ever-greater emissions regulations. The challenge for the next five years will be to ensure our mature cost-out capabilities drive affordability in these new technologies.

”

Tim Lawrence, PA automotive and manufacturing expert

Position in
sector
comparison

2/9

Life sciences

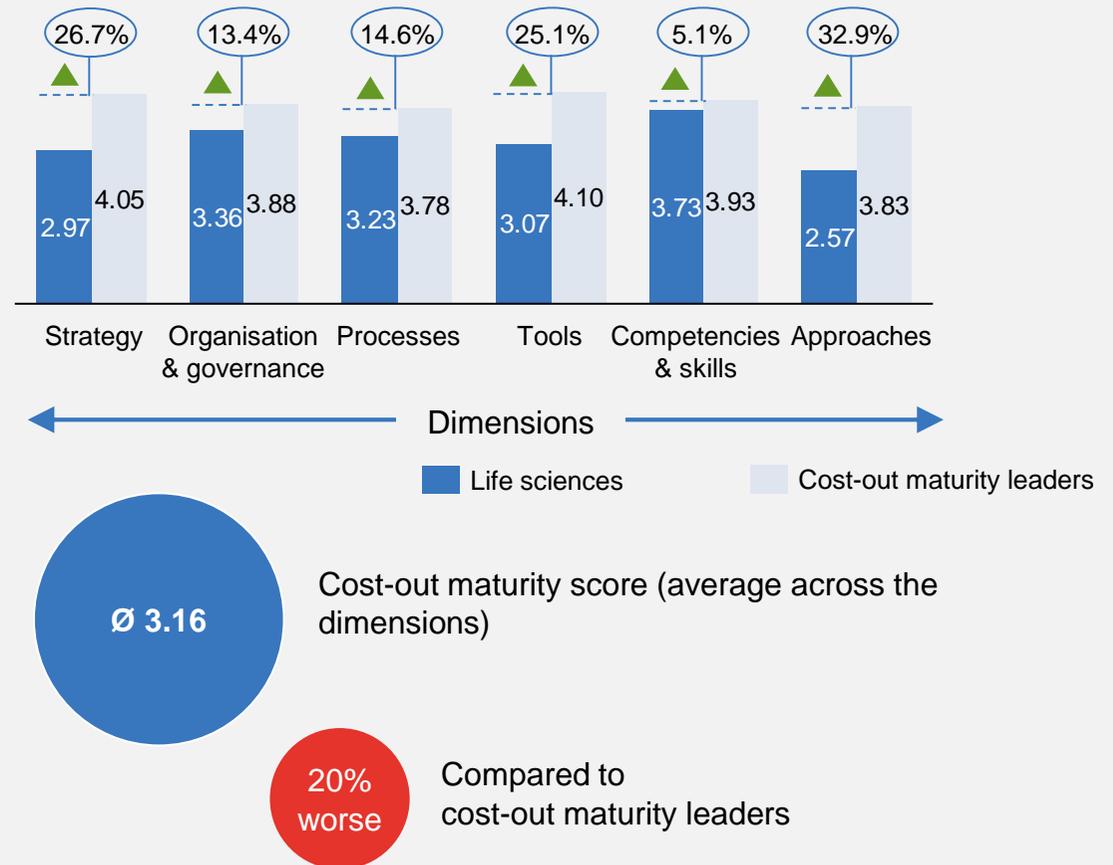
With a cost-out maturity score of 3.16, life sciences comes in at second place.

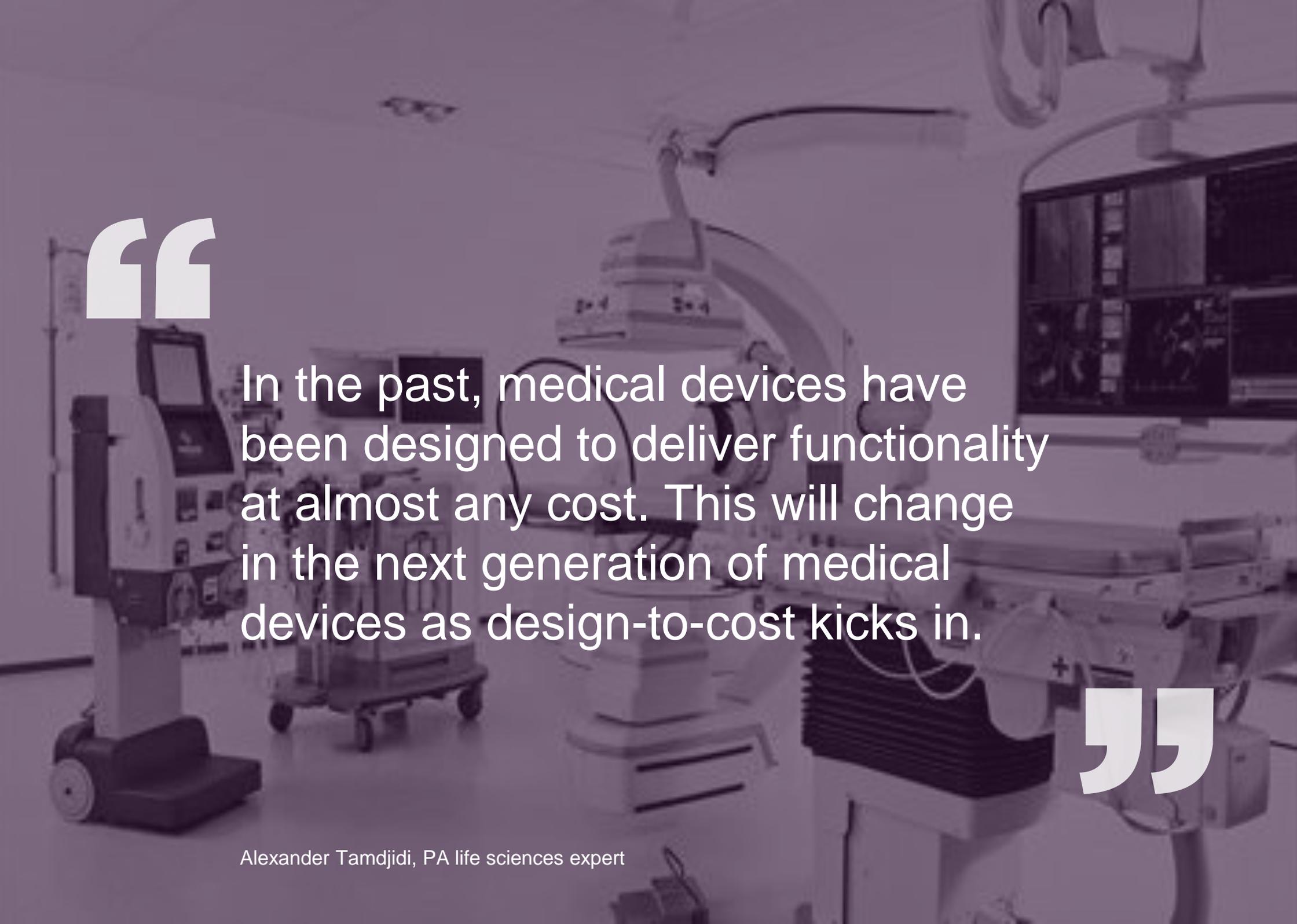
There are a number of factors driving this performance. This includes the 'patent cliff', where a firm's revenues could 'fall off a cliff' when one or more established products go off-patent, and increasingly long cycles in drug creation. These have forced a focus on the reduction of non-value adding costs over the last decade to sustain strong margin levels. Equally, more stringent regulation has forced a need for the highest standards in processes and operating procedures to obtain formal sign-offs.

We found that competencies in areas such as project management, requirements management and specification management are available to a high standard consistently across the sector. However, the use of standardised tools to support these areas is where the sector falls down.

Interestingly, the area which has the largest gap between life science organisations and cost-out maturity leaders lies in the field of strategy (see Figure 10). This suggests there is upside in driving design-to-cost and standardisation strategies more effectively.

Figure 10: Life sciences cost-out maturity across the six dimensions





“

In the past, medical devices have been designed to deliver functionality at almost any cost. This will change in the next generation of medical devices as design-to-cost kicks in.

”

Alexander Tamdjidi, PA life sciences expert

Position in
sector
comparison

3/9

Industrial engineering

With an average cost-out maturity score of 3.04 the industrial engineering sector comes third in the comparison. It is worth noting that when compared to other industries, this sector is very diverse in terms of size, product and market, so the average includes some significant variation.

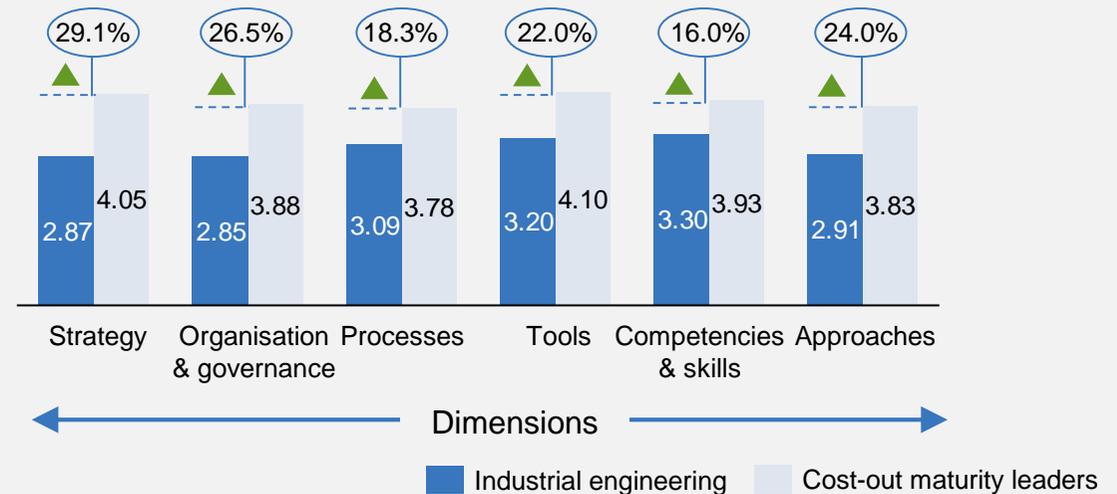
Nevertheless, it is interesting to note that there is a consistent level of maturity across five of the six dimensions, with the largest gap in strategy (see Figure 11).

A key challenge for the sector has been increased competition from low-cost suppliers. This has required organisations to manage the delivery of new technology and functionality while satisfying real end-customer needs.

Our research suggests that senior management in the sector may still have a bias towards an engineering outlook, rather than designing to target cost. 55% of respondents in this sector said they did not have a clear vision on how to apply cost-out and 66% did not have cost engineering functions in place.

There is evidence in some geographies, including Germany, that organisations can successfully apply tools and techniques from the automotive sector.

Figure 11: Industrial engineering cost-out maturity across the six dimensions



Ø 3.04

Cost-out maturity score (average across the dimensions)

22% worse

Compared to cost-out maturity leaders

“

While the big players in industrial engineering have taken some critical steps, most of the remaining players are significantly behind the curve.

”

Hans Houmes, PA industrial engineering and manufacturing expert

Position in
sector
comparison

4/9

Energy and utilities

Scoring 2.89, the energy and utilities sector falls within the middle of the pack in our sector comparison.

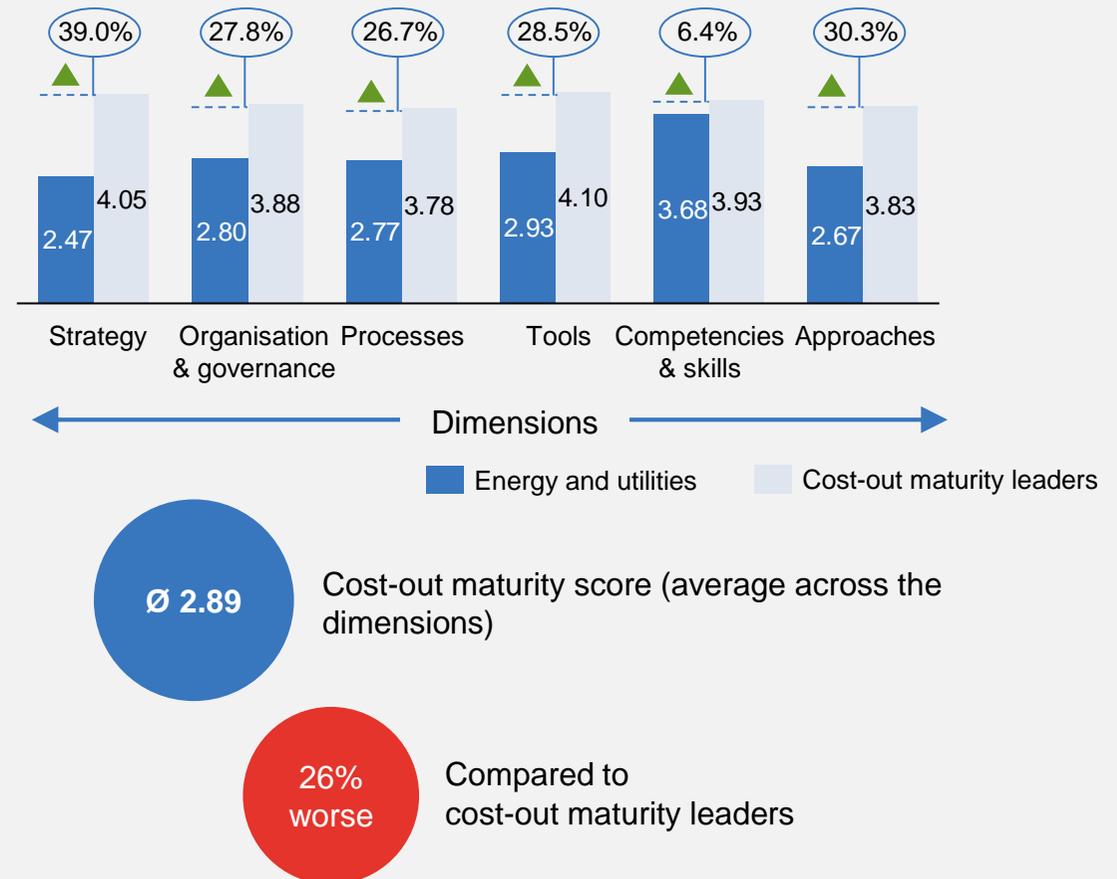
The nature of this sector is strongly influenced by the focus on large-scale, high-cost and complex assets. Unsurprisingly, our research found a strong toolset in project and risk management, supported by strong competencies in these areas.

However, as you can see in Figure 12, the gap between this sector and the leaders is significant in most of the dimensions – particularly in the area of strategy (39%) and approaches (30%).

Our research suggests a significant opportunity to look at cost in terms of meeting customer requirements, and to broaden the use of approaches and tools from other industries with a greater focus on design-to-cost.

For example, 66% of respondents indicated they do not track actual costs against clearly defined target costs, and 33% said they do not benchmark costs or use approaches such as concept optimisation. These are both features that are commonplace in the automotive sector.

Figure 12: Energy cost-out maturity across the six dimensions





With billions of investment to be made in new infrastructure and technologies, improved cost management will be the survival strategy for energy companies.



Ron Norman, PA energy and utilities expert

Position in
sector
comparison

5/9

Consumer products

The consumer products sector also falls within the middle of the pack with a score of 2.82.

This sector is characterised by products with a rapid lifecycle and a constant pressure to develop new and differentiating features to meet real or perceived consumer demand. When it comes to cost-out maturity, this is a significant challenge, which, if unmanaged, can cause margin erosion.

Our research presents a mixed picture for the sector, with some real opportunities open to firms. While 50% of the companies we evaluated in this sector have cost engineering functions in place, there were significant gaps in the areas of strategy, approaches and competencies and skills (see Figure 13).

There is a significant opportunity for this sector to learn from other industries – particularly when it comes to making cost control a more strategic theme. Organisations should also learn to put stronger governance in place and give teams clear incentives to focus on cost at an early stage in the product development.

Taking this approach would allow companies to adopt key approaches such as concept optimisation and customer requirement analysis.

Figure 13: Consumer products cost-out maturity across the six dimensions



Ø 2.82

Cost-out maturity score (average across the dimensions)

28% worse

Compared to cost-out maturity leaders



“

We see a lot of focus on cost-out techniques, with white-goods companies moving very fast to close maturity gaps and apply cross-industry learnings.

”

Wil Schoenmakers, PA consumer products expert

Position in sector comparison

6/9

IT/Telecommunications

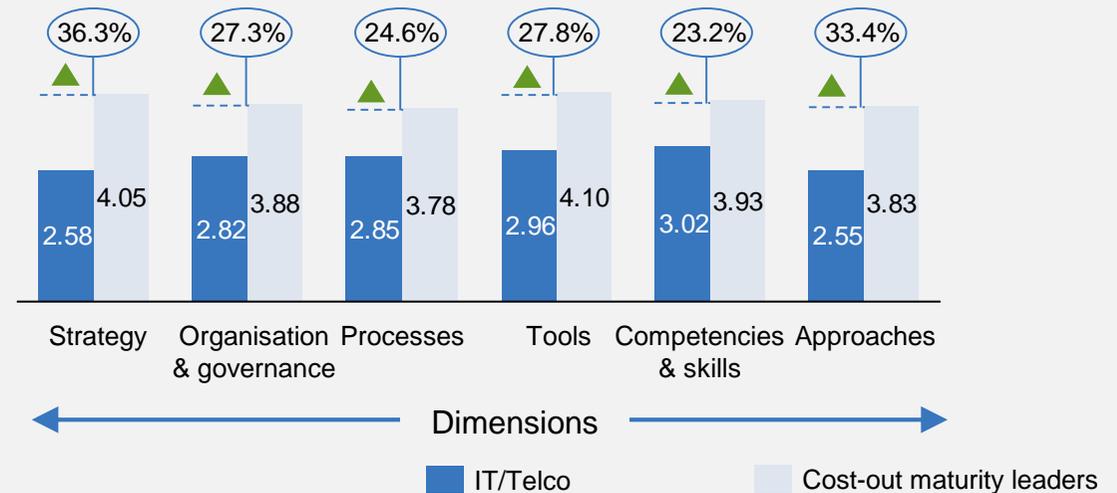
Overall, the IT/Telecommunications sector's cost-out maturity score is low, with a big gap in performance compared to the leaders (see Figure 14). This may be partly due to industry legacy, particularly in the telecommunications space, in terms of privatisation and quasi-monopoly dominating in some markets.

Nonetheless, the sector as a whole is subject to real pressure to drive out cost and manage performance. Our research suggests that while general cost-out capabilities and skills are available, and basic tools are applied, there is scope to improve across all six dimensions.

Interestingly, the biggest gap exists in the areas of strategy, organisation and governance, and the use of state-of-the-art tools, suggesting a need for stronger top-down backing of cost-out initiatives.

We see a real opportunity for this sector to re-evaluate its approach to cost management and systematically learn lessons from other sectors – starting with a more strategic focus on design-to-cost and creating far stronger governance regimes to monitor cost performance.

Figure 14: IT/Telco cost-out maturity across the six dimensions





“

Some organisations within this sector have begun implementing automotive best-practice and other must follow suit to survive in a low-margin business.



”

Rainer Gross, PA telecommunications and design-to-cost expert

Position in sector comparison

7/9

Defence

With a cost-out maturity score of 2.75 the defence sector has the third lowest score across all the industry sectors.

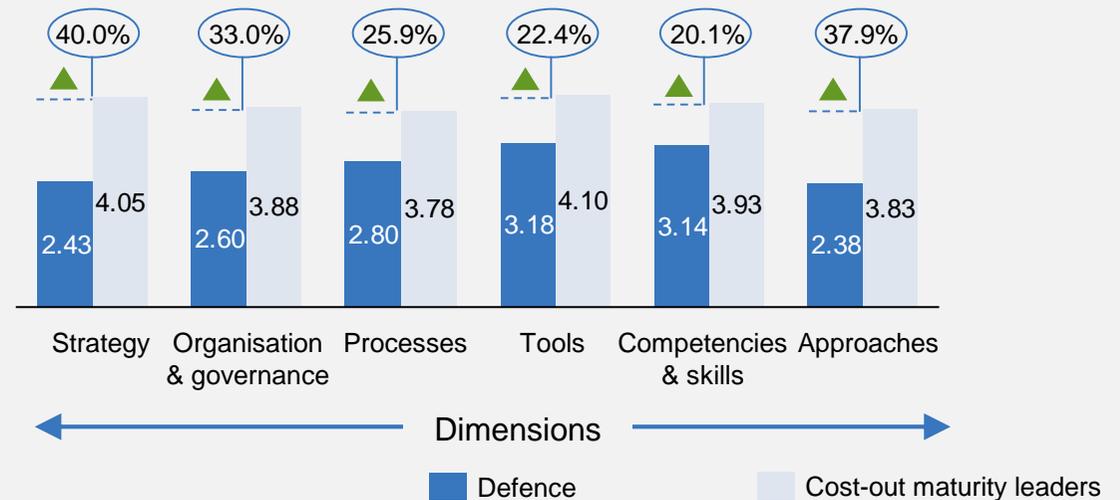
Some fundamental characteristics of this sector play a part in this. The critical role of product innovation and the importance of function over cost, for instance, have strongly influenced the cost culture of the sector.

There is also the challenge of managing large-scale, complex, long-running assignments, with many moving parts and inter-dependencies which make cost management difficult. Changing customer requirements in terms of specification and cost are also features that organisations in this sector need to address.

Our research identifies the largest gap in the area of strategy, see Figure 15, suggesting that strong top-down support is falling short compared to other sectors.

The opportunity for the sector is to take successful approaches from another industry, eg automotive, and scale them up to meet the needs of this very specialist set of providers and their customers.

Figure 15: Defence cost-out maturity across the six dimensions



Ø 2.75 Cost-out maturity score (average across the dimensions)

30% worse Compared to cost-out maturity leaders

The background of the slide is a photograph of military vehicles in a desert environment. The image is dark and has a purple tint. In the foreground, there is a large, dark-colored military vehicle, possibly an armored personnel carrier or a similar transport vehicle, with a turret and various equipment. In the background, there are other vehicles and structures, including what looks like a smaller truck or trailer. The terrain is sandy and flat, with some distant hills or mountains under a clear sky. The overall scene suggests a military operation or a training exercise in a desert setting.

“

To succeed in an environment of defence inflation and reduced economic prosperity, defence organisations must focus on providing customers with market-leading capabilities at reduced cost.

”

David Brook, PA defence and security expert

Position in sector comparison

8/9

Transport

The transport sector is at the bottom end of the scale when it comes to sectors with a profit motive, with a cost-out maturity score of 2.52.

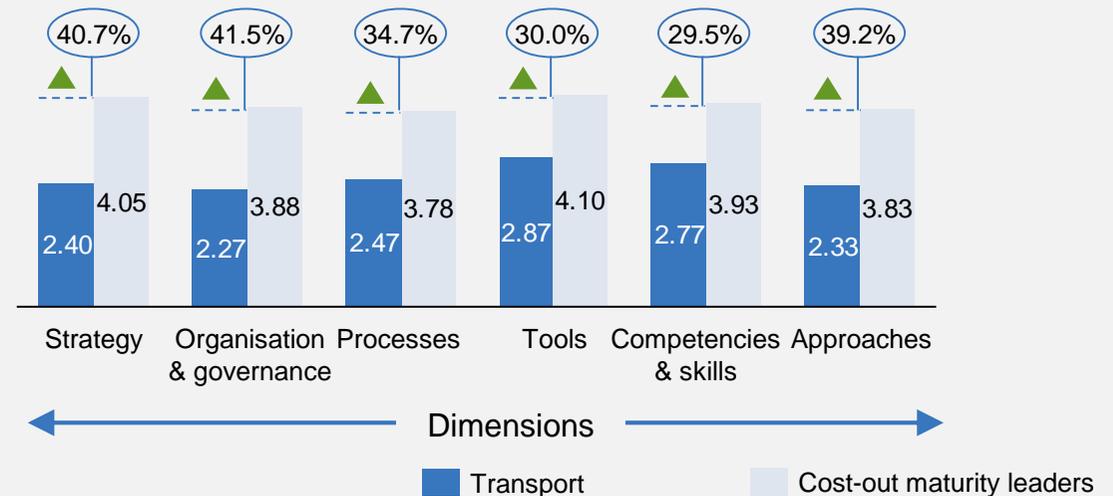
Across the six dimensions, the gaps between transport organisations and cost-out maturity leaders are significant – whether in strategy, organisation and governance, or in more operational areas such as processes and approaches (see Figure 16).

This suggests that programmes to optimise cost in the past have not resulted in a fundamental change in cost management, but rather on short-term, more tactical effects.

Our results suggest that while the need to act is strong, the capability to act is limited – with a significant potential to improve if lessons learned and best-in-class solutions are rapidly applied from other sectors.

This is particularly relevant when the sector as a whole makes significant future investments, eg in infrastructure such as rail networks or increased airport capacity. Improving their cost-out maturity would make a huge impact on the costs of creating this new infrastructure and on the ongoing cost of ownership.

Figure 16: Transport cost-out maturity across the six dimensions



∅
2.52

Cost-out maturity score (average across the dimensions)

36% worse

Compared to cost-out maturity leaders



“

Most of our transport clients fiercely compete in low-margin markets. They must master cost-out to survive.

”

Chris Lynch, PA transport expert

Position in sector comparison

9/9

Government

Government comes in at last place – with a cost-out maturity score of 2.17 and 45% behind the leaders.

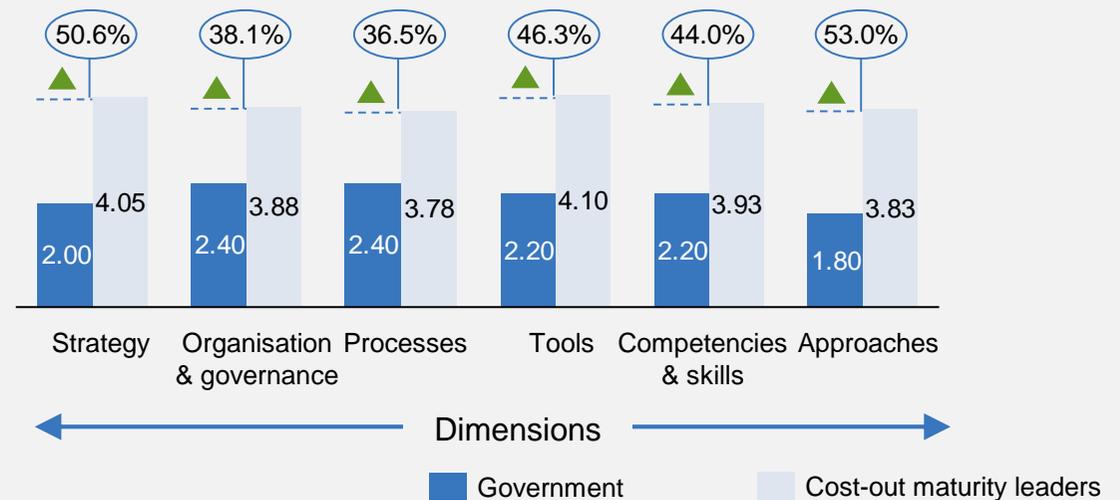
However, unlike the other sectors, government does not operate to make a profit. Its spending forms a significant part of GDP in developed countries, delivers profound economic and social benefits, and comes back in the form of tax for the most part.

Nevertheless, getting value for money for the citizen, and continuing to provide services in a time of constraints on spending, are clearly priorities.

The extent of the gaps – the largest being 53% for approaches as shown in Figure 17 – across all the dimensions suggests a real opportunity to transfer learnings from other industries. For example, taking a customer value based approach to the design of social payments or tax systems might produce a radical revision of the processes and policies which underpin these systems today.

It all begins with strategy, and the research indicates there is a major opportunity to improve across the board.

Figure 17: Government cost-out maturity across the six dimensions



Ø
2.17

Cost-out maturity score (average across the dimensions)

45% worse

Compared to cost-out maturity leaders



“

The potential to apply industry best-in-class across governments is huge. There will be a significant increase in the focus on this in coming years due to tightening budgets.

”

Andrew Hooke, PA's Chief Operating Officer and government expert

Comparing sectors and dimensions

As we have addressed, cost-out maturity varies widely across sectors.

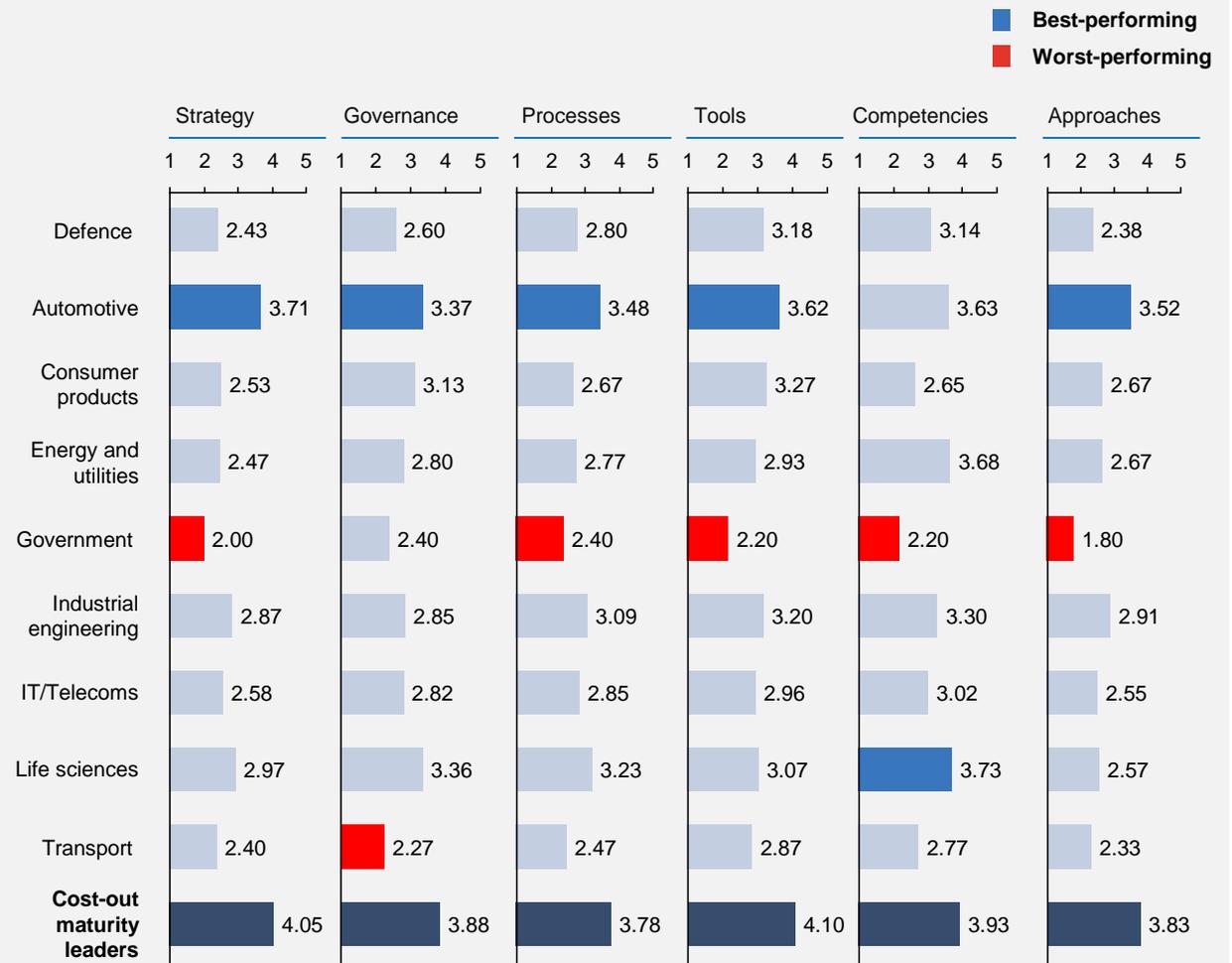
Equally, we have found variability within sectors. There is no single sector that scores the best across all six dimensions. Rather, there are ‘sweet spots’ for different sectors and therefore opportunities for organisations to learn from within and outside their sector.

When we delve deeper into the data, the strongest scores across all industries are in competencies and tools. This suggests that the core cost-out knowledge and methods are there.

However, the biggest gaps between the cost-out maturity leaders and the worst performing organisations are in strategy and governance. This suggests executive ownership of the cost-out agenda plays a significant role in driving maturity.

The proof of the pudding is in the eating, or, in this case, in the ability to manage costs effectively out of the business. Our research indicates a strong connection between cost-out maturity and the ability to drive sustainable savings. See page 32 for more detail.

Figure 18: Cost-out maturity by sectors and dimensions



Potential savings range from 10% to over 30% across sectors

Realising savings depends on a wide range of factors – some of which are industry related and some of which are more specific to geographic markets.

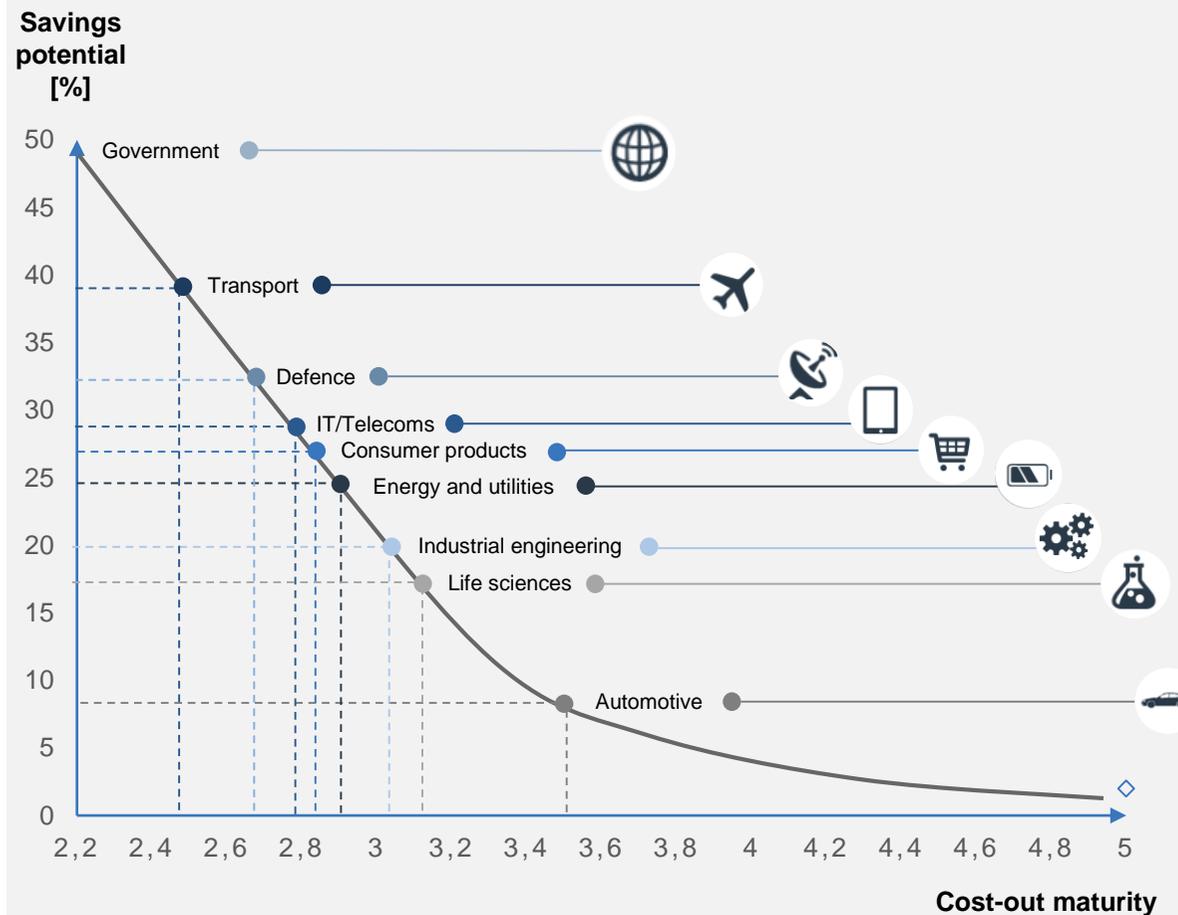
However, from our experience of over 350 cost-out projects across sectors, we have identified a relationship between potential savings and cost-out maturity.

It follows that the greater the maturity, the more the six dimensions have been implemented. Based on this we also see a reduction of the additional savings potential.

Nevertheless, even in automotive (the leader in our sector comparison) we see potential savings of close to 10% to be gained.

In other sectors there is potential for a significant change in cost performance, ranging from almost 20% in life sciences and industrial engineering to 30% or more for defence, transport and government.

Figure 19: Estimated saving potentials across sectors



BMW illustrates the value of achieving cost-out maturity

As a result of improved cost-out maturity, BMW significantly increased their profit while accelerating benefits delivery. They are a best-in-class example for many companies.

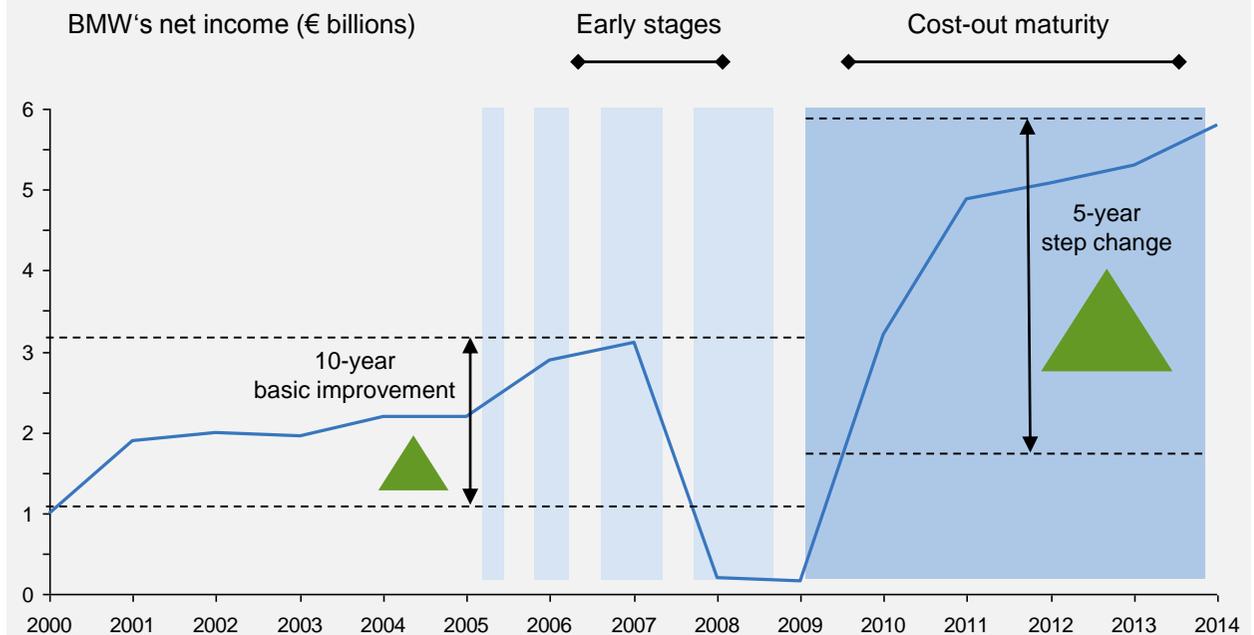
Many organisations carry out cost-out maturity

Car	BMW, VW, Renault, Toyota, Daimler, FIAT, Nissan, Skoda, Hyundai
Truck	Volvo, MAN, Daimler, Caterpillar, Renault Trucks, IVECO, FIAT, TEREX
Other	E.on, Siemens, Nordex, Ericsson, Rolls-Royce Power Systems AG, Wärtsilä, Vestas, Jungheinrich



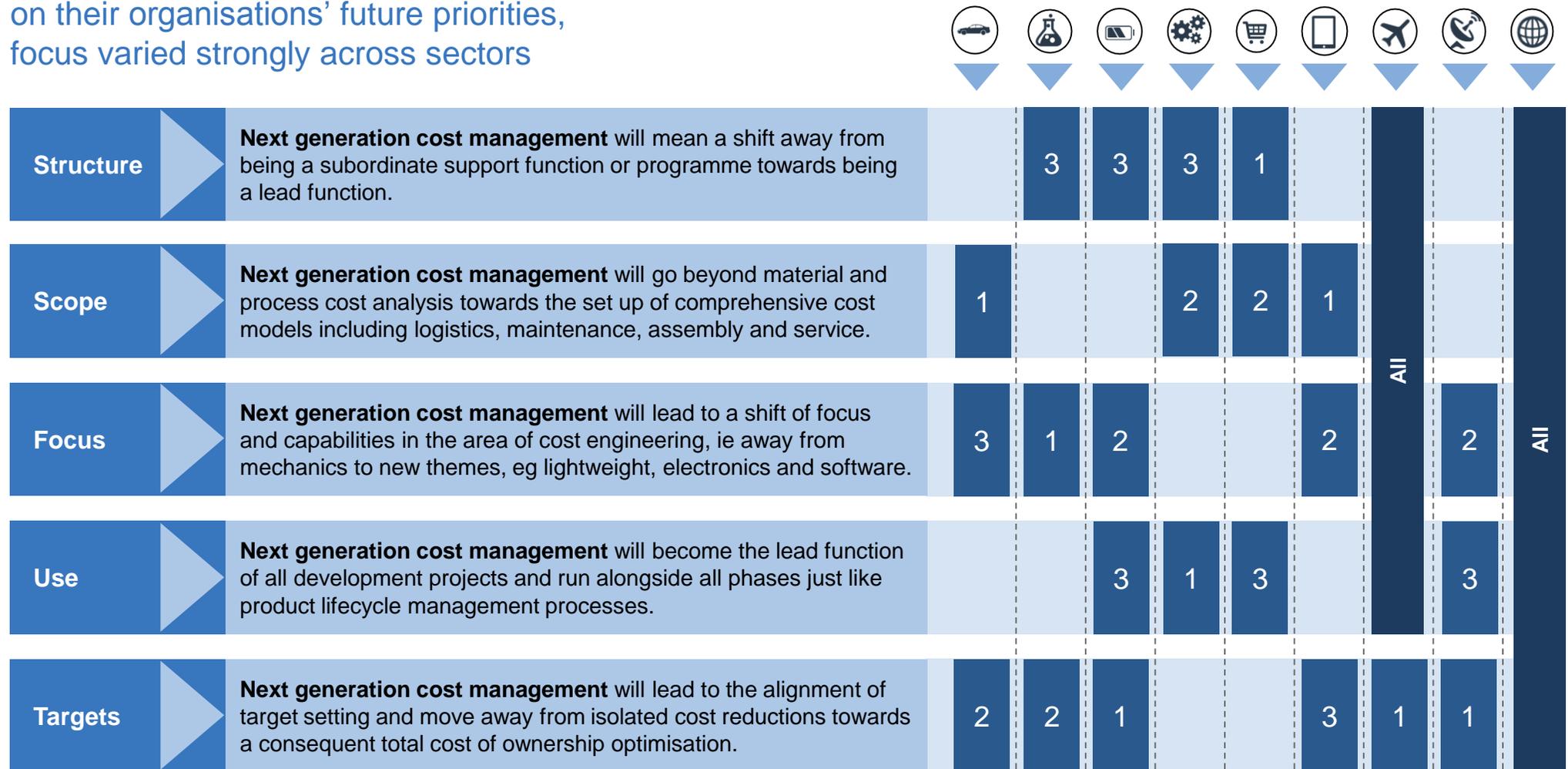
Figure 20: BMW's net income development

Organisations that achieve cost-out maturity will see significant benefits



When we questioned our respondents on their organisations' future priorities, focus varied strongly across sectors

Figure 21: The future top three priorities of organisations per sector



3

COST-OUT MATURITY IN ACTION

€ 538,00	€ 391,00	€ 820,00
€ 891,00	€ 958,00	€ 784,00
€ 748,00	€ 527,00	€ 934,00
€ 589,00	€ 335,00	€ 555,00
€ 949,00	€ 885,00	€ 386,00
€ 843,00	€ 256,00	€ 974,00
€ 836,00	€ 628,00	€ 575,00
€ 349,00	€ 341,00	€ 645,00
€ 221,00	€ 441,00	€ 943,00

Realising €600 million in cost savings for a global telecommunications company

We Make the Difference

Adapting cost-out techniques from automotive into the telecommunications sector

When a global telecommunications company needed billions of euros of investment to keep their competitive advantage, they were faced with finding the next generation of cost optimisation projects to deliver bottom line savings.

To tackle this, we:

- Delivered a pilot achieving €240 million savings after six months
- Produced a benchmark report of the organisation's cost-out maturity
- Designed and built a cost-out organisation and training capability
- Rolled out capability across the project portfolio – optimising costs across assets, processes, systems and structures.

The value we delivered:

-  Improved efficiency by 25%, leading to a reduction in headcount
-  €600 million in savings overall from a 20%-35% cost reduction
-  A 15% capacity increase through production and process improvement
-  €1.5 billion released to invest in new network optimisation

Identifying cost savings of 30%-50% for a leading defence organisation

We Make the Difference

Adapting cost-out techniques from automotive into the defence sector

The platform solutions division of a leading defence organisation designs and builds avionics products for civil and military platforms. These programmes can take 10 years to go from initial concept to entry into service.

As many of the components are bespoke, cost- and quote-based, estimating models do not provide robust evidence to inform future procurement and customer cost estimates.

To tackle this, we:

- Delivered portfolio analysis and prioritisation areas
- Created baselines and cost transparency
- Analysed underlying supply chains
- Went through a manufacturing assessment, setting realistic overheads and profit levels
- Derived, qualified and agreed target costs and savings with the client.

The value we delivered:



Savings quickly by focusing on cost-out techniques



30%-50% cost reduction across various functional areas

Reducing costs by €80 million for Fiat through a revolutionary approach

We Make the Difference

Adapting cost-out techniques within the automotive sector in Europe

Fiat Group Automobiles, one of the world's leading carmakers, needed to make major cost reductions in their €1 billion annual purchasing budget. The company already aimed to reduce costs by several hundred euros per car, to meet a total target exceeding €100 million by year end. We accelerated this programme by adopting a strong methodology, initially focused on four models crucial to Fiat's future success: Croma, Grande Punto, Alfa Romeo 159 and Ducato.

To tackle this we:

- Delivered portfolio analysis across car lines and models, including prioritisation
- Created and agreed baselines and full cost transparency
- Analysed underlying supply chains and participated in supplier negotiations
- Ran a manufacturing assessment, including co-location with cross-functional teams

The value we delivered:



Improved delivery speed of ideas due to improved governance



€300 million in savings identified after three months with €80 million delivered after six months

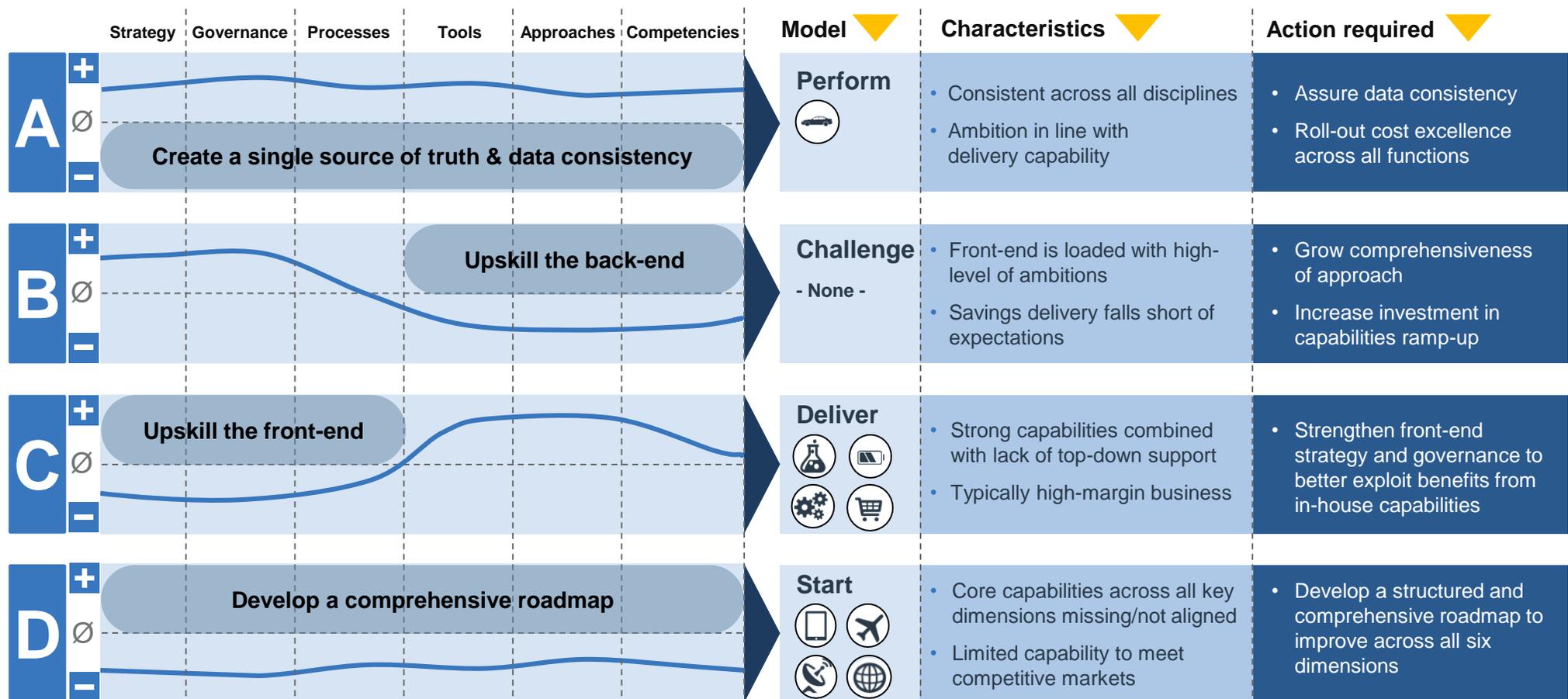


4

THE WAY FORWARD

Starting points for a cost-out journey vary across sectors and require customised focus

Figure 22: Overview of conceptual starting points on a cost-out journey



“

A focus on higher profit margins through cost-cutting can become a viable alternative to expanding production and market share in a never-ending quest for economies of scale. The time when people were managing the auto business by volumes is over. If you can't sell the value of what you do, you're just fighting on pricing with other people and your throat gets cut.

”

Carlos Tavares, CEO at Peugeot
Wall Street Journal, 24 February 2016

How to improve your cost-out maturity

Our research has confirmed what our day-to-day experience of working with clients had already told us – that leaders address cost reduction through a joined up, programmatic series of interventions (the six dimensions of cost-out maturity).

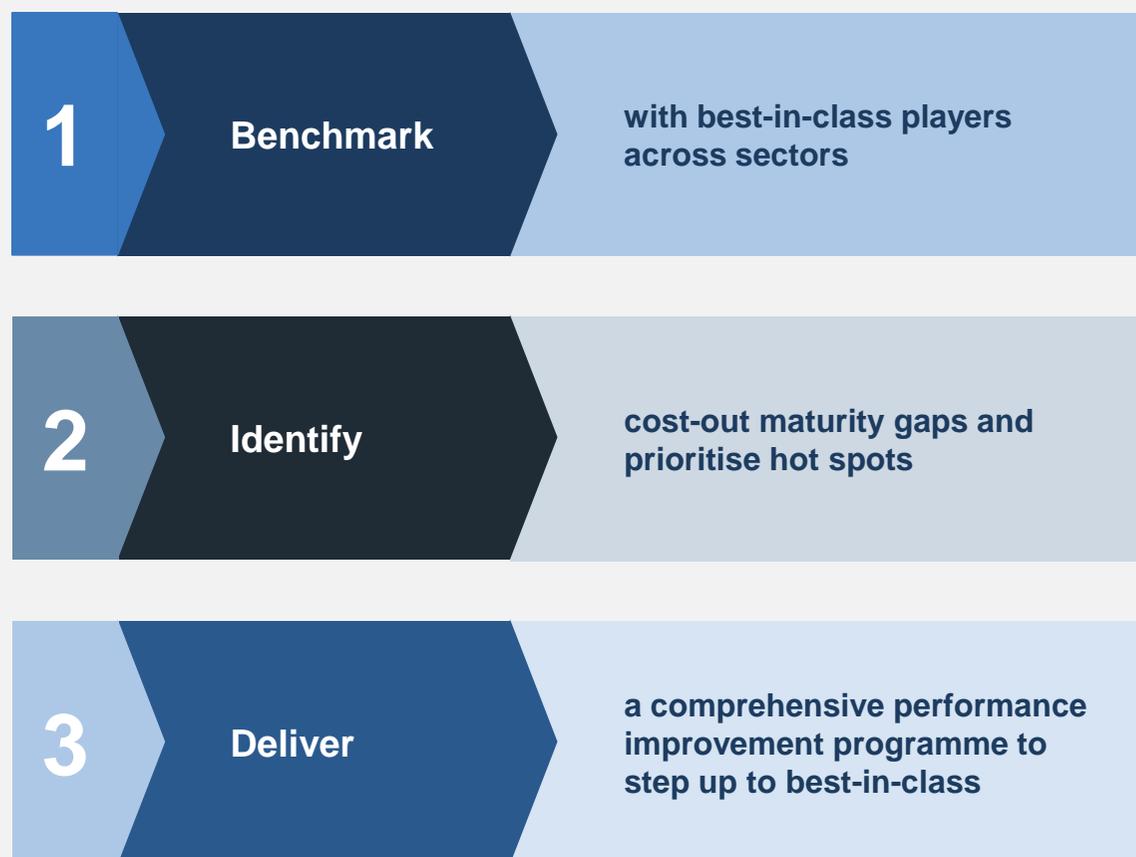
We know that the cost-out maturity leaders identified through our results have not achieved their success through inspiration or divine intervention, but rather strong attention to detail and a clear-eyed assessment of their own cost performance compared to their peers and the rest of the market.

Building this knowledge base and benchmarking performance systematically is a great place to start, and we work with organisations cross-industry to do this.

For many clients, we run a diagnostic process looking at each of the six dimensions and help them assess where they are today and where they need to be to outperform their rivals.

The identification of these cost-out maturity gaps is the foundation for the delivery of a tailored performance improvement programme.

Figure 23: Improving your cost-out maturity



Final reflections

1	2	3	4	5
<p>Excelling at cost-out maturity is no longer optional</p> <p>Markets in all sectors are under pressure as margins erode and the need for innovation is rising. Achieving cost-out maturity across the six dimensions makes a significant difference, with potential savings ranging from close to 10% to more than 30% depending on current maturity levels.</p>	<p>Cost-out maturity is on management's agenda</p> <p>Cost management has been delegated down in many cases, leaving the board engaged primarily in a mixture of routine reporting and managing hot topics. This can result in a disconnection between responsibility and delivery. Leaders in cost-out maturity bring cost management up to the top and align the governance, KPIs and reward structure, and proactively follow-up on performance.</p>	<p>Own sector benchmarking is not enough</p> <p>Measuring performance within one sector does not provide enough breadth of comparison and best practice. While repeating well-known processes is not sufficient to create a step-change in performance. A new set of ideas and innovative thinking needs to be injected from beyond industry boundaries. Sectors such as telecommunications, defence and industrial engineering are making rapid progress in this respect, with companies such as Ericsson, Deutsche Telekom, Vestas and Wärtsilä leading the way.</p>	<p>Cost-out maturity requires coordinated action across the six dimensions</p> <p>Many cost reduction projects promise a lot but fail to deliver long-term cost changes. Ensuring that improvements are sustainable, managed rigorously and demonstrably on track is key. This requires action across all six dimensions to succeed at the same time. Sectors such as automotive provide a great platform to learn from, with leading companies such as Toyota, BMW, Daimler, Hyundai having implemented coordinated programmatic change.</p>	<p>Cost-out maturity goes beyond projects and methods – it is about institutionalised performance management</p> <p>Cost cutting initiatives are often project based. Responsibility lies with individuals, who may change roles frequently. A better approach is to formalise the cost-out organisation and responsibilities. Key areas to focus on are developing end-to-end process views, empowering key staff, creating an efficiency culture and tightly monitoring of performance.</p>



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