

Using the current crisis as an opportunity to critically question the status quo

# Rapid cost and profitability management that goes beyond the obvious

Focus: Selling, General and Administrative expenses (SG&A)



# COVID-19 forces companies to optimise their cost structures; some companies are now even completely rethinking how to manage costs

## COVID-19 action areas that you should keep in mind ...

### Crisis Management

Set up a crisis task force and take immediate measures to secure business continuity, communication with stakeholders



### Workforce

Duty of care, employment law issues, virtual working, travel and mobility, as well as upskilling the workforce



### Liquidity, Finance & Taxes

Measures to ensure liquidity, financing, and corporate steering during the crisis



### Legal & Regulatory

Legal and regulatory changes due to COVID-19, legal issues and their implications for companies



### Supply Chain & Operations

Crisis risk management for supply chains, tax compliance, ramp up management and realignment after stabilisation



### Strategy & Transformation

Macroeconomic impacts, portfolio management and new directions for corporate strategies



## In this document...

... you will find practice-proven **recommendations for effective cost and profitability management with a focus on SG&A**, to help you emerge from the COVID-19 crisis even stronger than you went in:

- Which potentials for savings can be realised through a cost and revenue management approach?
- Where do digital tools add value?
- Are there specific levers you should focus on right now?
- Which goals should be pursued immediately?
- How long will a full analysis take, in order to understand all of the possible measures that could be used?

# Declining sales are putting pressure on the bottom line, forcing companies to make use of previously untapped potential to reduce SG&A costs

## 'Outside-in' perspective on the current cost structure

P&L	
Revenue (gross)	
- Sales deductions	
<b>= Revenue (net)</b>	↓
./. Cost of sales	
<b>= Gross profit</b>	
./. Selling expenses	
./. Administrative expenses	
./. R&D expenses	
+ Other earnings	
- Other expenses	
<b>= Operating profit (EBIT)</b>	↓

### SG&A costs account for up to 20% of sales

**SG&A cost optimisation** has been firmly on companies' radar for many years

Nevertheless, there is often still **untapped potential (about 30-40%)**

**Classical approaches** (e.g. continuous process improvements) will **no longer be sufficient** to optimise costs in the long term

The status quo must be optimised holistically, and rethought where it makes sense - **simplified, cost-efficient, customer-oriented, digital & resilient**

Although numerous measures are immediately apparent, the **cost reduction potential is not yet fully realized** in many companies

**External input** can help companies go **'beyond the obvious'** along all SG&A functions and a **system to manage initiatives and measures can help to tap this potential**

Companies can no longer afford to leave **the promised effects of measures unrealised**

A **benefit tracking system integrated** with controlling instruments **can avoid shortfalls between planned and actual savings**, which could result from a lack of tracking

# A cost and profitability management approach with precise methods and digital tools enables the realisation of these potentials

## Key questions before beginning



Which **levers** do I need to activate and which actions must I take to achieve my goals?  
What **degree of change is involved**?



What **immediate actions** can I take to effectively influence earnings before the end of this fiscal year?  
Are there any other **short-term potentials** beyond the measures already taken?



Can the **measures** already known to me deliver the necessary savings effects? Do I need to think differently about issues and **take an entirely new perspective**?



At what points can the use of **digital tools disrupt processes** and lead to a new normal, such as a significant increase in efficiency and / or improve customer experience or quality?

## 1 Measures to leverage

2

## Procedures & Methodology

What are the concrete **objectives** and until when should they be achieved?



What is the **scope** of the targeted cost initiative and does it fit the objective (particularly the level of expected savings)?



Which **method(s)** should be selected? How broad / deep must an analysis be in order to generate solid recommendations for action?



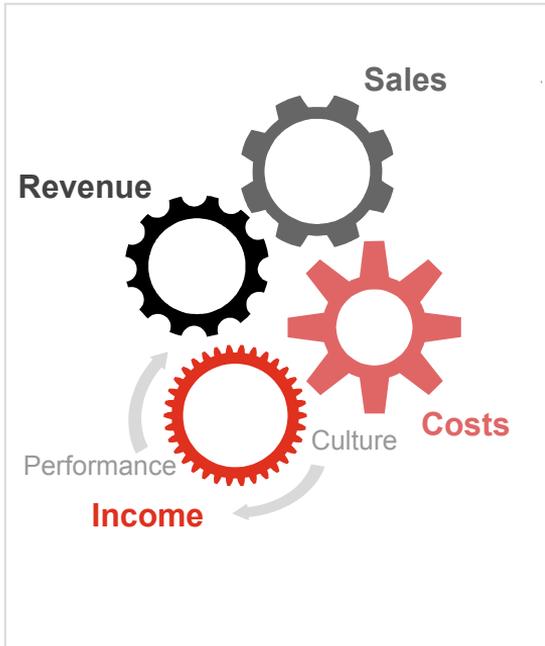
Which **digital tools** can or must I use in order to be able to start implementing measures as quickly as possible?



# The initial focus is on levers that can be activated quickly and promise to positively impact earnings before the end of the current fiscal year

## Leverage the transformation of the status quos

1 2



<b>Counteract</b>	Swiftly <b>implement immediate measures</b> and launch further short-term measures	Short-term effects
<b>Rationalise</b>	<b>Eliminate</b> all 'non-essential' services <sup>1)</sup> and overcapacity <sup>2)</sup>	
Reduce	<b>Streamline the service range, reduce requirements, capacities<sup>1)</sup> and service levels</b>	Long-term effects
Optimise	<b>Simplify, streamline and automate processes, targeted increase of the performance level</b>	
Realign	Disruptively target the operating model / structures to streamline and professionalise <sup>3)</sup>	
Rethink	<b>Develop end-to-end business processes, supplemented by new, innovative and differentiating services</b>	

1) Including external procurement services

2) Temporary staff, contract and temp workers

3) Cost efficiency, quality, compliance, customer satisfaction, degree of innovation

# However, short-term cost reductions should only be a starting point on the way to a 'new' cost structure

## Priorities and development paths of possible initiatives

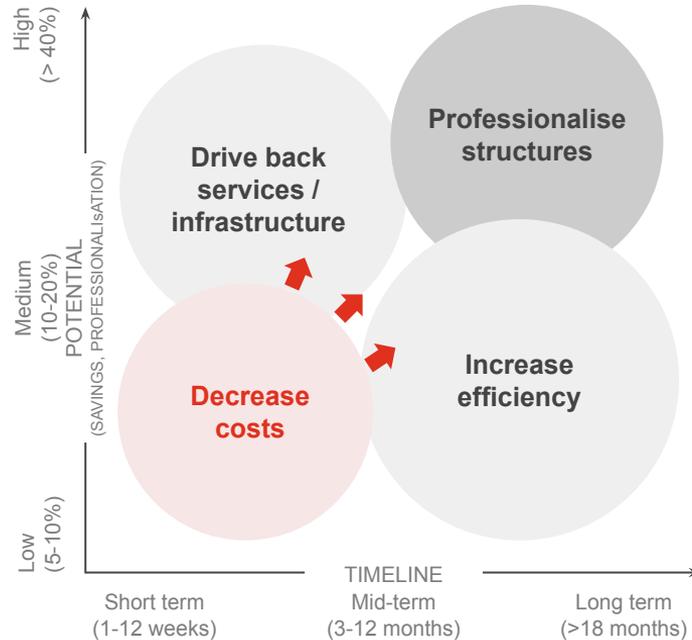
1 2

### Reduce

- Real estate and locations
- IT infrastructure (systems, platforms, interfaces, software)
- Business requirements (reports, value limits)
- Reduce service levels
- Workstation equipment
- Employee benefits
- ...

### Counteract and Rationalise

- Immediate / short-term measures with 'cash-out effect' and earnings affecting the current fiscal year
- Review investment projects (stop, postpone, continue)
- Eliminate 'non-compulsory' services
- Achieve quick successes
- ...



### Realign, rethink

- Operating model (e.g. process and organisational structure) and differentiating structures (e.g. SG&A Innovation Lab)
- Customer and end-to-end focus in process chains
- Accelerating digitisation & resilience
- Develop skills and SG&A 'work culture'
- ...

### Optimise

- Simplify, harmonise, standardise and digitalise processes (e.g. AI-based invoice processing, RPA, workflows)
- Managing interfaces ('quality at source' principle)
- Qualification of employees
- Continuous improvement management
- ...

# Many immediate measures have already been implemented to mitigate the initial disruption, but not all potentials have been realised

## Extract of short-term measures (PwC SG&A Optimization Measure Repository)

1 2  
EXTRACT

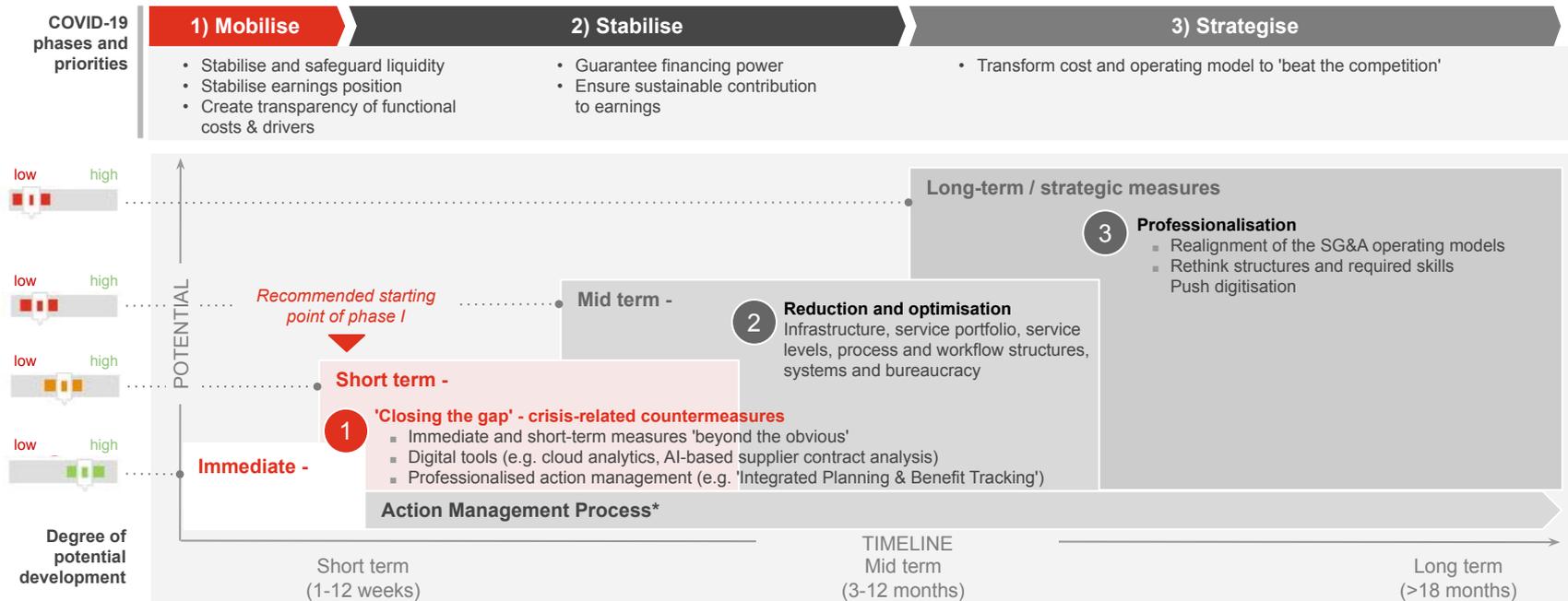
		Effect-Date	Effect type	Implementation Effort
COMPANY-WIDE	<input checked="" type="checkbox"/> Suspend / stop recruiting activities, restrict headhunter support	<3 months	O	low
	<input type="checkbox"/> Release temporary employees, complete an internal review to derive external impact	<3 months	R	low
HR	<input type="checkbox"/> Adjust travel guidelines (train vs. flight, 1st vs. 2nd class, ...)	<3 months	R	medium
	<input type="checkbox"/> Review supplier relationships, e.g. external trainers, temporary employment, outsourcing partners	<3 months	R	medium
FINANCE	<input checked="" type="checkbox"/> No advance payments, take full advantage of payment terms	< 3 months	R	low
	<input checked="" type="checkbox"/> Establish structured working capital management	< 6 months	R	medium
SALES / SERVICE	<input type="checkbox"/> Check customer creditworthiness, re-segment, push digital contact (email) with C-customers	<3 months	R	medium
	<input type="checkbox"/> Push digital communication by means of email, chat bots, RPA, NLP, especially for C-customers	<3 months	R	medium
PROCUREMENT	<input type="checkbox"/> Verification / approval of expenses before purchase order	<3 months	R	medium
	<input type="checkbox"/> Identification of alternative delivery scenarios	<3 months	R	low
IT	<input type="checkbox"/> Reduce service levels (response times, service hours etc., mainly with outsourcing partners)	<3 months	O	low
	<input type="checkbox"/> Renegotiating large outsourcing and licensing agreements	<6 months	R	high
FACILITY MGMT.	<input checked="" type="checkbox"/> Reduce service level for cleaning and security services	<3 months		

Legend:  probably already implemented    possible additional potential   R - recurring effect   O - one-off effect

# Priorities have been modified due to COVID-19, so potential savings and cost optimisation needs to go above and beyond what was initially planned

## Priorities and starting points for tapping the potential over time

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\* ANALYSIS - create transparency, analyse, diagnose  
 IMPLEMENTATION - implement measures

PLANNING - detail, evaluate and plan measures

MONITORING - track implementation and status of savings effects, realisation, budget compliance

# Digital tools accelerate the process to ensure that measurable results across all functions can be achieved in less than 8 weeks

## Recommended approach as a starting point for sustainable cost transformation

1 2

### SCOPE:

All SG&A functions  
'maximum width'

### ANALYSIS FOCUS:

- Functional costs
- Cost drivers
- Projects, investment plans
- Expenses
- Personnel capacities
- Organisational and remuneration structure
- Demography of functions
- Geographical distribution
- Degree of automation

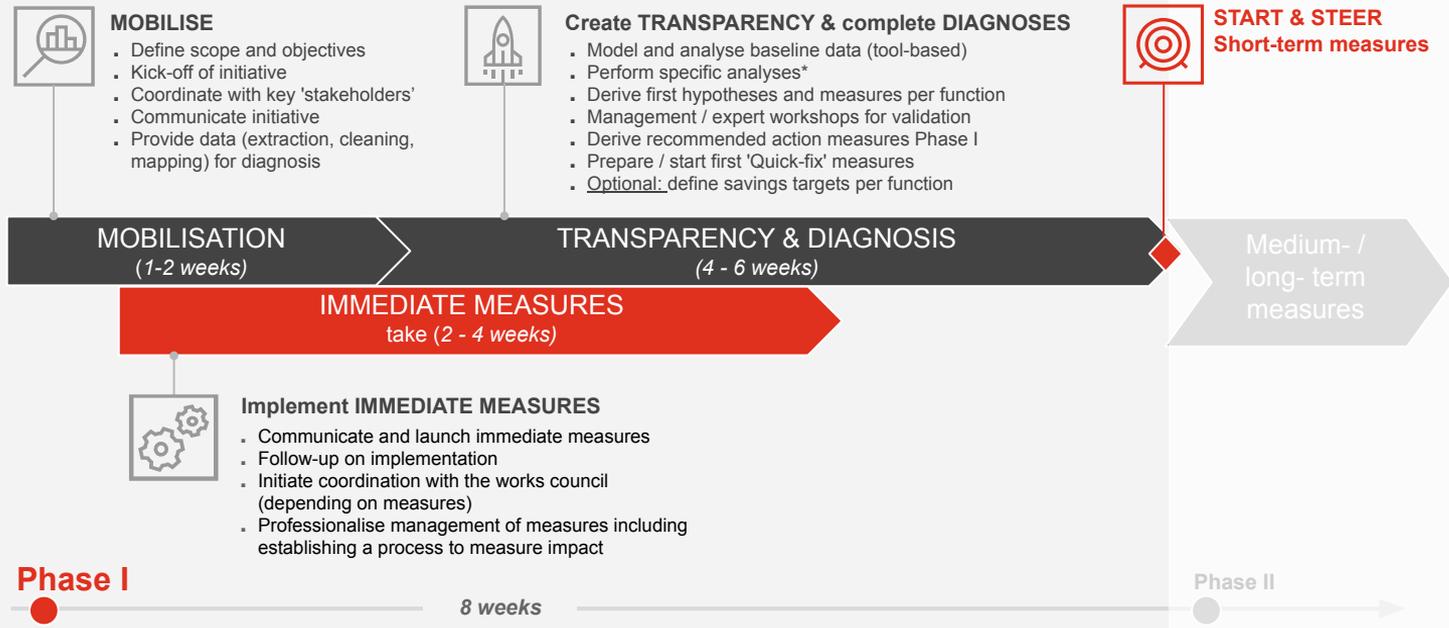
### DIGITAL ENABLER:

Cloud Analytics Platform,  
Mining

 rapid lens diagnostics

 + 

 PIMP 



\* depending on the status of the implementation of immediate measures (analysis of projects/investment plans, functional cost driver analysis may be useful)

We are happy to support you in these turbulent times  
with advice and action



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# Appendix

# Methods and digital tools used in the phase 'Create TRANSPARENCY & conduct DIAGNOSES'

## Methods of the phase at a glance

1 2

### Create TRANSPARENCY & conduct DIAGNOSES

#### Personnel, capacity & cost analysis



- Transparency of capacities and costs per function and per process
- Transparency of geographical distribution and sizes
- Basis for benchmark comparisons, indication of synergy effects

 digital enabler

 **rapid lens diagnostics** 

#### Functional cost driver analysis



- Quick supplement / adaptation of industry-specific cost drivers
- if-then simulation
- Basis for measure definition and / or decision making

 digital enabler



#### Organisation Analysis

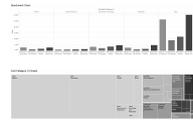


- Transparency regarding team sizes and composition (by function)
- Pay grade and spans & layers analysis
- Basis for benchmark comparisons, indication of synergy effects

 Digital enablers

 **rapid lens diagnostics**

#### Output analysis



- Transparency of expenditures per function, cost category, material group
- Cross comparisons
- Basis for benchmark comparisons, indication of synergy effects

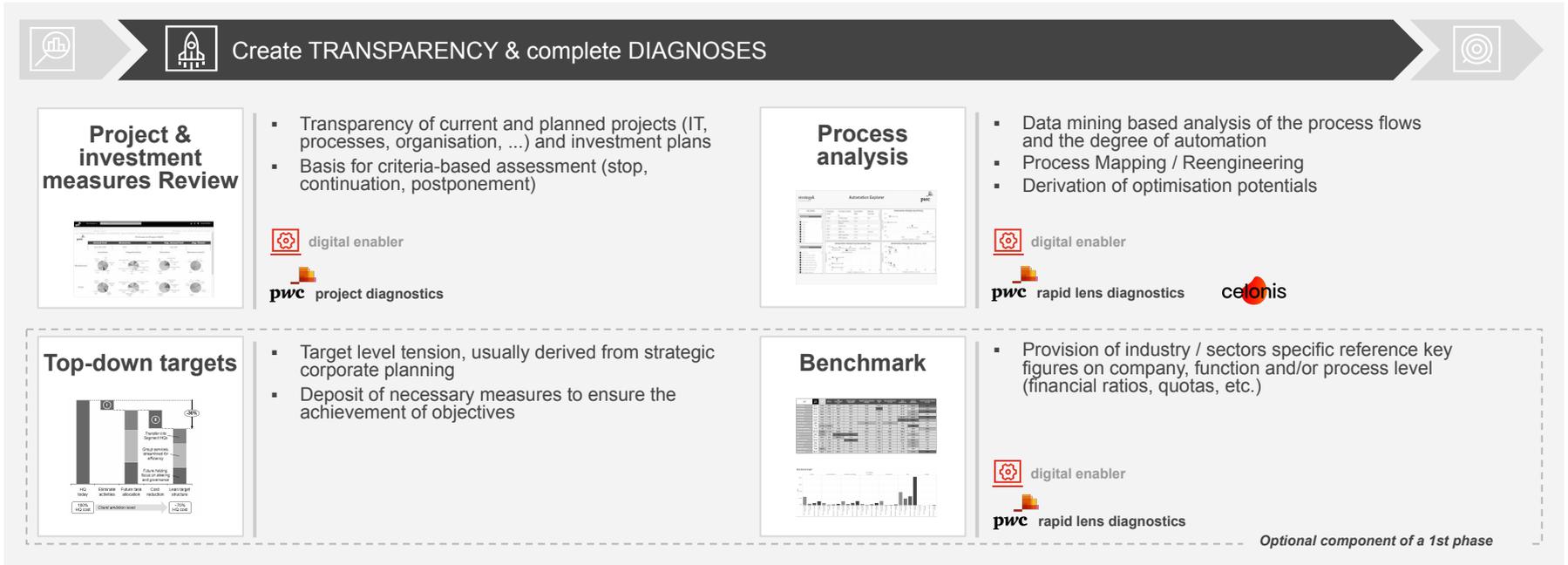
 digital enabler

 **rapid lens diagnostics**

# Methods and digital tools used in the phase 'Create TRANSPARENCY & complete DIAGNOSES'

## Methods of the phase at a glance

1 2



# Methods and digital tools used in the phase 'Implement MEASURES and steer IMPLEMENTATION'.

## Methods of the phase at a glance

1 2

### START & STEER

#### Measures- Management



- Transparent capturing of optimisation measures according to level of concretisation.
- Stringent planning and management of implementation by tracking measures, including the status of implementation
- Integrated monitoring of savings effects

 digital enabler

 PwC

PIMP tool

 .naplan

 AMPLIFY

# Thank You

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