# Cost Efficiency: Definition and Strategies for CFOs

January 2023

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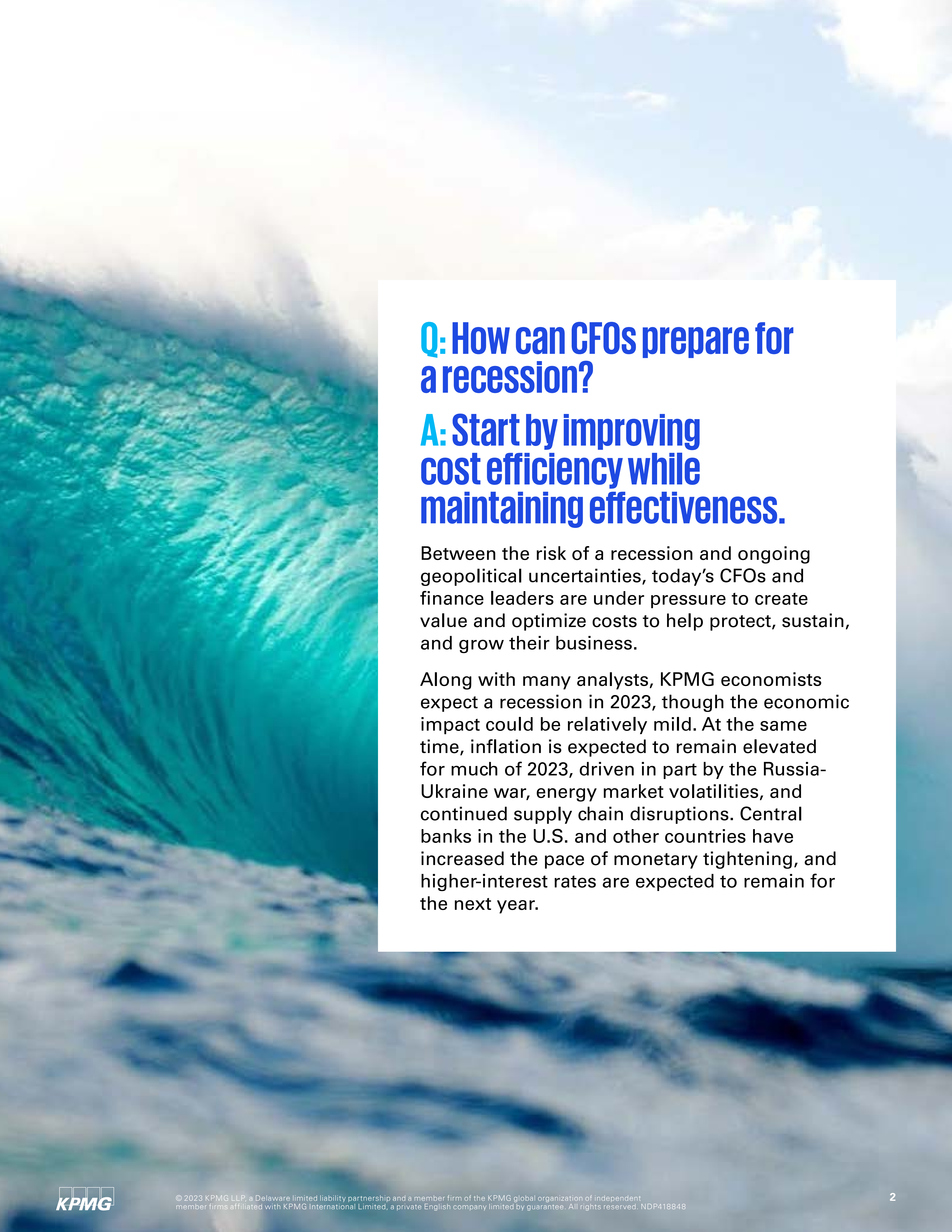
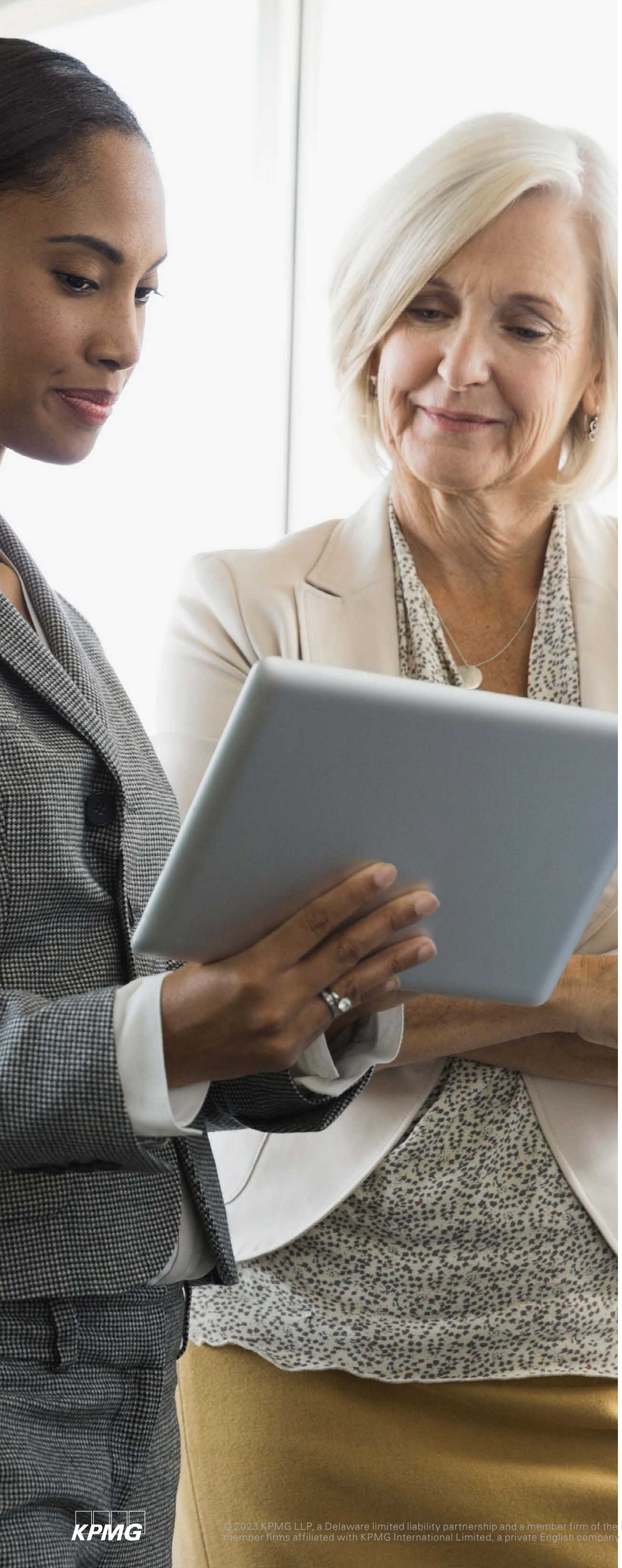


# Q: How can CFOs prepare for a recession?

# A: Start by improving cost efficiency while maintaining effectiveness.

Between the risk of a recession and ongoing geopolitical uncertainties, today's CFOs and finance leaders are under pressure to create value and optimize costs to help protect, sustain, and grow their business.

Along with many analysts, KPMG economists expect a recession in 2023, though the economic impact could be relatively mild. At the same time, inflation is expected to remain elevated for much of 2023, driven in part by the Russia-Ukraine war, energy market volatilities, and continued supply chain disruptions. Central banks in the U.S. and other countries have increased the pace of monetary tightening, and higher-interest rates are expected to remain for the next year.



# CFOs as leaders of change

In an uncertain business world, CFOs need to be the leaders of overall enterprise performance management and cost management efforts, providing clear ownership to drive adoption and provide accountability. CFOs should take a long-term, comprehensive view of the entire organization and consider all options to help manage costs. At the same time, they need to be ready to quickly identify and drive initiatives across multiple fragmented functions, departments, and business units. This will smooth the path to change and help reduce organizational resistance from operational and finance colleagues alike.

Based on our experience, CFOs and finance leaders tend to manage costs in three ways. The first involves spend in terms of procurement, technology, and indirect costs. The second way is managing or reducing headcount. The third way is to support cost management initiatives with accurate and timely data to help improve decision-making, workforce productivity, and value tracking.

All three ways should be part of a structured approach to financial transformation, helping to support cost efficiency for short-term quick wins, ongoing improvements, and longer-term competitive advantages.

# Develop recession-ready procurement

## Potential "leakage" across the procurement lifecycle due to a suboptimal operating model

**1 Analyze needs/ demand planning**

Abundance of data, with very ***little intelligence*** and Procurement lacks the insights to effectively establish a market basket

**2 Analyze and understand supply markets**

**3 Develop sourcing strategy**

Limited Procurement ***influence*** and lack of business buy-in to sourcing strategies

**4 Obtain and analyze proposols**

Little to no technology utilization in the Sourcing process and ***inability to drive rapid value*** via e-auctions

**5 Negotiate and contract**

***Lack of visibility*** to preferred suppliers/ negotiated contracts which can lead to conflicting/***duplicate contracts*** and a high degree of off-contract spend

**6 Create requistion**

Inefficient requisitioning process can lead to ***lack of user*** adoption and manual/ offline processes

**7 Approve requistion**

Lack of a formal requisitioning process and 'after-the-fact' approvals lead to ***limited controls*** around budget checks and delegation of authority compliance

**8 Place purchase order**

Few up-front purchase orders limits ability to drive ***spend on contracted*** suppliers

**9 Receive goods/ services**

Receipts not being mandated results in potential exposure to processing ***duplicate payment***

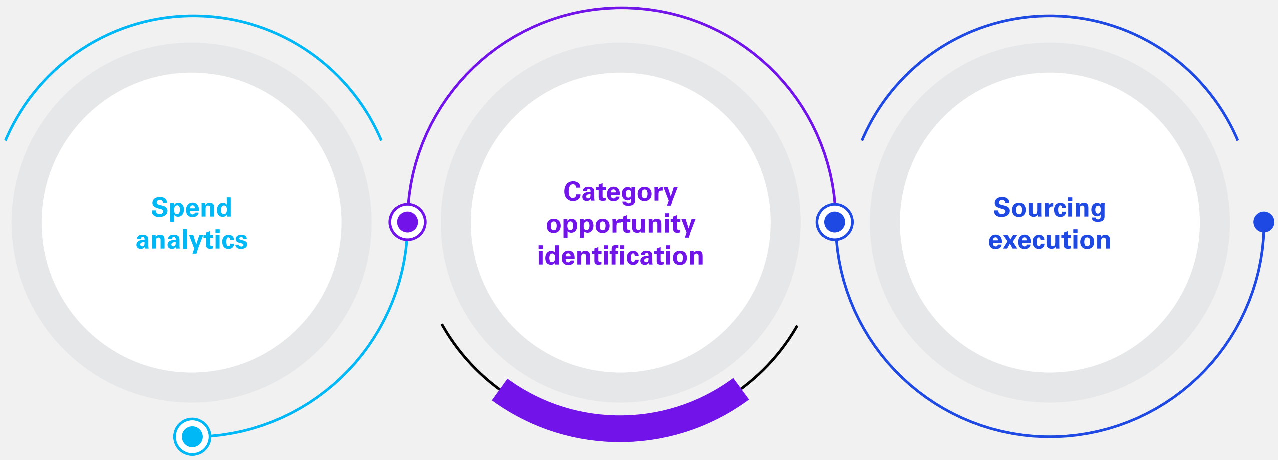
**10 Post invoice**

Limited supplier e-enablement results in a ***lack of collaboratio***n and sharing of data

**11 Process payment**

Limited use of ACH/EFT can lead to ***late payments*** which frustrate suppliers and hinder strategic relationships

# Sources of excellence in procurement




**Key deliverables:**

- Categorized spend cube covering indirect spend and services
- Spend data analytics Dashboard
- Spend analysis output Presentation

**Key deliverables:**

- Prioritized initiatives for savings/improvement, including quick wins analysis
- Time-phased plan for implementation
- Category savings opportunity report

**Key deliverables:**

- Sourcing strategy definition
- Bid management and evaluation
- Negotiation strategy development
- Contract transition planning

**Procurement is a ready candidate in finding new ways to improve cost efficiency based on the following activities:**

## Centralizing procurement

Often, there is a lack of consistent integration or collaboration between the business and procurement, impeding companies to achieve economies of scale. With procurement centralization supported by Centers of Excellence and/or consolidated reporting, companies can easily analyze their spend and formulate effective cost-reduction strategies.

## Strengthening supplier relationships

In the face of recent geopolitical and market disruptions, organizations are relying on outside suppliers more than ever before. Procurement plays a critical role in managing supplier relationships to deliver improved performance and creating a joint value proposition beyond just cost reduction. An organization that becomes the “customer of choice” for its business-critical suppliers can benefit from improved collaboration, higher service-level agreements (SLAs), and greater certainty of supply.

## Reviewing contracts

Contracts are a rich source of information, and legacy contracts that haven’t been reviewed for years can offer significant opportunities for cost reduction. Changes in the economic situation, the evolution of the supplier’s relationship across the enterprise, and the introduction of other competitive alternatives are all triggers for potential contract renegotiations involving items such as prices or SLAs.

## Optimizing working capital

Procurement often plays a large role improving working capital for a company. Working with treasury to deploy payment terms with suppliers at the time of contract renewals or new sourcing activity allows the enterprise to strike the right balance between liquidity and cashflow. This can help reduce debt, fund growth, and deliver better returns to stakeholders, even in a recession.

## Improving policy and governance

Procurement is key to devising, operationalizing, and governing spend management policies to control the selling, general, and administrative (SG&A) costs for the enterprise. Controlling the dial on spending based on the market outlook by enforcing policies and guidelines is an effective measure to drive cost containment.

# Procurement cost savings with KPMG and Coupa

Seeking better insight into and control of their purchasing, Magellan Midstream Partners worked with KPMG to transform their procurement function, leveraging Powered Procurement enabled by Coupa's business-spend management cloud solution.

# Challenges

As a leading U.S.-based pipeline company, Magellan Midstream Partners was steadily expanding despite operating as a decentralized organization with many manual nonstandard processes. These contributed to a limited view into procurement and spend and limited data on exactly what was being spent, when, and on what.

Faced with these hurdles, alongside concerns about user adoption success and an impending contract renewal, the company recognized the imperative to digitally mature their procurement function. For guidance, the company turned to KPMG, their trusted adviser with a demonstrated, Coupa-specific technology approach.

# How KPMG helped

To successfully improve process standardization, simplify user experience, and deliver rapid data insights, KPMG performed the following initiatives:

- Leveraged the KPMG Powered Enterprise prebuilt tools and methodology to deliver a target operating model and close 85 percent of all design decisions through the first two weeks of validation, thereby driving speed to value for our client
- Achieved critical buy-in from executive leadership to remove barriers and positively influence support from their teams and end users, resulting in cross-functional "champions" of the newly implemented technology
- Increased company savings projections by designing and standardizing procurement approval processes
- Employed leading practices for change management, including "trusted training," which involved functional champions training their own teams, gathering team member feedback along the process, and gaining true advocacy to adopt and utilize the new system.

# Benefits to the client

The client experienced a digital procurement transformation that resulted in hundreds of thousands of dollars in annual savings from Coupa Advantage as well as a projected total annual benefit in the millions from various operational and processing savings. Key benefits include:

- Wide-ranging spend visibility across the organization, delivering clear, accurate data points and moving the company from a costly reactive approach to a proactive spend management approach
- An easy-to-use system with self-service and mobile capabilities, offering scalability for future improvements, innovations, and growth
- A newly created category and vendor management team that can deliver powerful, accurate insights for effective decision-making in real time
- A dramatic increase in preapproved spend and spend compliance, along with the adoption of compliant e-invoicing
- Timely payments as well as the improved transactional efficiency of automatically matched invoices and the increased overall user adoption of the tool.

# Choose the right strategy for workforce optimization

During economic downturns, cost management for the workforce isn't necessarily a matter of reducing headcount. Increased value is at the heart of cost efficiency and that goal can be achieved in several ways.

While a reduction in headcount may be appropriate, CFOs need to be rigorous in carefully gauging personnel costs against revenues, cash flow, estimated growth, and other factors. When reductions are warranted, they must be undertaken in a strategic fashion that considers where the company wants to be not only now but in the next few years. At the start of the global pandemic in 2020, some organizations were too aggressive in rightsizing their workforce. They found themselves at a disadvantage when markets recovered more rapidly than expected and they were unable to scale up quickly to meet new demand, especially in the face of a tightening labor market.

In some cases, cost efficiencies can be improved by the redeployment or retraining of existing personnel. Cost savings might not be realized immediately as in the case of reductions, but productivity and capabilities can increase over time, helping the organization develop a sustainable strategy for cost management moving forward.

# Unlock cost savings through technology

## A technology-enabled transformation can deliver tangible value

| Savings Lever | | | Savings Range[1] |
|---|---|---|---|
| | **Process Automation** | Transaction automation, cycle time reduction, and invoice processing efficiencies can yield significant savings when moving away from manual processes | **3.0% - 5.0%** |
| | **Strategic Sourcing** | Use of a standardized tool-enabled sourcing methodology can yield savings through spend and demand aggregation | **4.0% - 12.5%** |
| | **Spend Compliance** | Increased spend on contract driven by a tool-enabled P2P process helps drive greater realization of sourcing savings | **2.5% - 10.0%** |
| | **Spend Visibility** | Increased visibility to category spend and transaction detail enables the sourcing team to make more effective supplier decisions that yield incremental savings | **1.0% - 2.1%** |
| | **Working Capital Improvement** | Automated P2P process with greater integration between the supplier contract and transactions enables improvements in working capital via the capture of early payment discounts | **0.5% - 2.0%** |
| | **Control Effectiveness** | Streamlined processes enabled by technology results in greater controls effectiveness, especially in the areas of Delegation of Authority, Segregation of Duties, User Roles Administration | **----** |

# KPMG helps a brokerage firm trade inefficiencies for an investment in growth

### Challenges

A leading U.S.-based brokerage firm took stock of its growth goals and found that increased agility and data transparency was a must. With more than 11 million client accounts, the firm was using many disparate systems, and information was not able to be shared efficiently, which created headaches for associates tasked with increasing market share.

The firm needed to find a more strategic way to reduce complexity, streamline the user experience, and turn fragmented insights into data-driven decision-making. It also sought to empower its associates with more automated, self-service capabilities. By tapping into a strong relationship with KPMG, it began a program to develop a future-focused data strategy and implement the right cloud-enabled systems to achieve its goals.

### How KPMG helped

KPMG helped the brokerage firm build a strategy and business case based on workshops and companywide assessments. Using the KPMG Powered Enterprise approach, the KPMG team focused on process improvement and a holistic operating model in addition to the technology. The RFP process resulted in selecting the Workday Cloud software suite for human capital management (HCM) and enterprise resource planning (ERP).

Throughout the process, KPMG helped the firm use Workday's Prism framework to blend historic and current data, as well as external and Workday data, to construct a back office built for the future, ready to scale and evolve as the client grows. Two years of financial data, two years of supply management spend data, and three years of HCM transactions were successfully converted to the new system, and the accounting structure was integrated to enable better reporting and drill-down capabilities. In essence, the brokerage firm achieved a single point of truth across its functions and data.

### Benefits to the client

KPMG helped the client achieve more integration, automation, and self-service capabilities while Prism analytics provided insights across finance, HR, and supply chain that enable the organization to access the right data for improved decision-making and greater efficiencies. Benefits include:

- Increased customer data integration, reducing the number of reports by 75 percent and enabling associates to easily see the big picture of their client portfolios
- More efficient processes aligned to standard software, with only 10 percent of workflow requiring customization
- Widespread employee self-service practices adopted within weeks of the implementation, improved HR and payroll efficiency, and increased employee retention
- A unified user experience that increased efficiencies across the organization because analytics and insights were easily accessible through a common platform
- Better reporting via a centralized "Supplier 360" dashboard that provides holistic insight into supply management's historic and current spend data

Data-drive insights supported by technology can create the foundation for rapid cost optimization, helping to identify cost drivers, make cost-saving moves, and target tasks for automation.

CFOs can apply these data-driven insights in terms of the following activities:

## Analyzing cost structure:

Collect and normalize client data such as organizational headcount and costs, company financial data, employee activity mapping, volumetrics involving office space, IT costs, and indirect spend.

Another key step for finance organizations is to merge and analyze company data with external insights and benchmarks. A typical question to ask might be how the company compares to its industry and the market.

## Designing cost-cutting programs

Develop a baseline of performance to quantify opportunities, including organizational and financial comparisons to define the improvement hypothesis and execution roadmap.

## Realizing cost targets

Immediate cost savings based on quantified performance gaps can be balanced against the constraints and risks that are involved in cost-efficiency programs.

# Take a structured approach to enhance cost efficiency

KPMG professionals can provide a three-part, structured approach to improve cost efficiencies across the enterprise.

1

### Rapid assessment

- Develop high-level current- state hypotheses, based on initial understanding of process, technology, and organization operating model capabilities.
- Review and validate with stakeholders, including the identification of associated operating model challenges.
- Conduct deep -dives with members of internal functions and shared services teams to establish further detail and develop current- state operating model.

2

### Future-state operating model

- Define the future-state operating model (including organization structure) to address challenges and inconsistencies identified.
- Refresh benchmark analyses with input from relevant peer groups to reflect current-state organization while considering desired outcomes.
- Identify areas of potential risk associated with the future- state operating model.
- Review and validate with key stakeholders, refine as required.

3

### Initiative definition and roadmap development

- Define the series of initiatives required to implement the future- state operating model and organization structures.
- Perform a comparison against existing/in-flight initiatives to eliminate the risk of duplication.
- Estimate savings and costs associated with initiatives identified.
- Include cost savings and levels of investment for each initiative.

# How to get started

Regardless of the length or severity of a recession in 2023, CFOs should consider actions now that can serve them well in challenging times while also setting their company up for future success.

First, take a decisive, proactive approach to improved cost management. Second, identify clear and transparent cost drivers based on data, not intuition. Third, focus on quick-win strategies that can fund greater transformation further down the line. Fourth, set clear ownership and accountability for cost management across the enterprise. Finally, avoid wherever possible cost-reduction strategies that would hinder the organization's long-term growth strategy.

CFOs can start their cost-efficiency journey by asking themselves questions like these:

- Where is the organization most and least productive?
- What work is foundational and what may not be essential?
- How can we build a resilient organization that can weather an economic downturn without compromising future success and long-term growth?

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