



Cost optimization playbook

**A guide for improving
cost efficiency and
operational performance**



Foreword

Boards have always been driven to improve margins, drive growth and ensure day to day operations run smoothly. However, in the past few years and especially during the pandemic, company leaders have been leveraging cost optimization to improve margins, drive efficiency, gain transparency and control and enable decision making. The longer the pandemic lasts, the more likely it is that even the strongest of organizations will need to make difficult financial decisions.

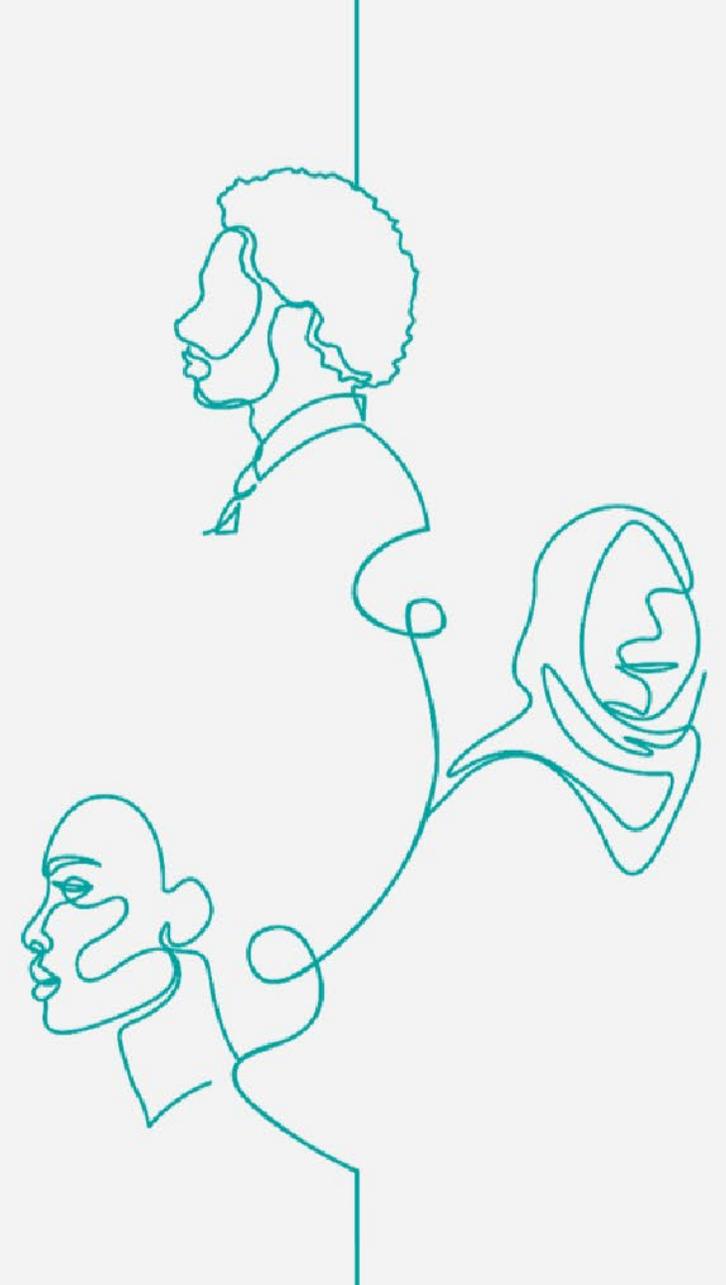
We understand the importance of providing our clients with a carefully considered strategic approach to cost optimization and what is at stake if this is not properly deployed. A strategic approach in hand with the proper levers to drive cost optimization will enable a successful, but more importantly sustainable, deployment to help leaders face the pressure of reducing costs and improving their cash position.

Our purpose is to partner with business leaders to re-evaluate their operational strategy, and balance short-term financial and operational improvements with long-term change. We are here to help you stabilize and strengthen your position through a more effective deployment of resources. Along with helping you rapidly analyze your current situation and building a roadmap, we are with you every step of the way to help enable your success.



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Economic overview and industry context



Cost optimization is in demand

Economic slowdown often spurs cost management programs

Although expense efficiency should always be top of mind, recent events have brought cost optimization into focus.

Many global organizations are undertaking cost optimization as a way of ensuring stability and funding future investments in areas such as digital transformation and customer experience.

This playbook outlines a number of possible cost optimization levers and actions and can help your organization start thinking proactively about its approach.

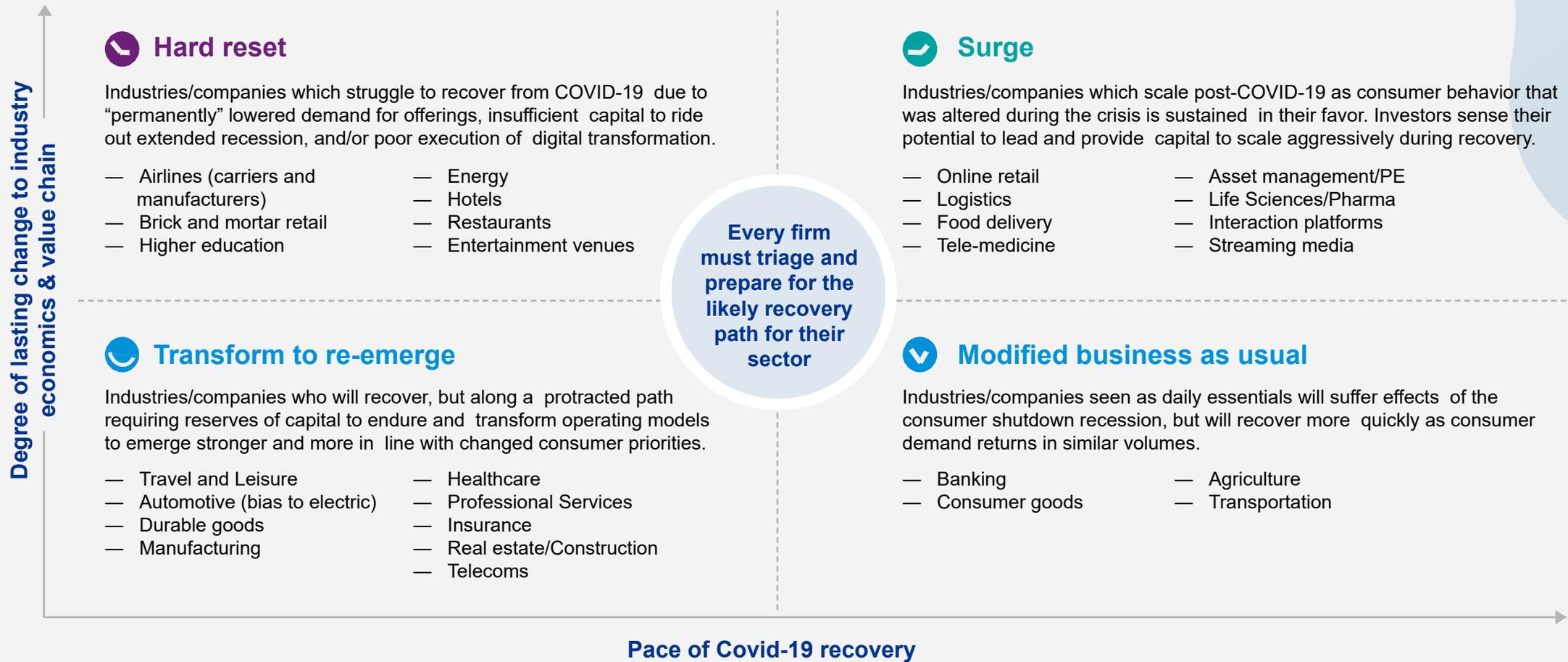
The market is changing, and leaders are pressured to guide their organizations to adapt and respond to the different changes and challenges.

According to research top business challenges include^[1]:

- **31%** driving down operating costs
- **28%** enabling digital transformation
- **20%** increasing revenue and/or profits

While organizations have been challenged to pivot quickly in 2020, going forward, most organizations are now starting to **consider new approaches to the unknown** and taking time to plan safer, risk-managed strategies.

Sectors will respond, recover and change at different rates



There are many factors driving cost optimization

Strategic objectives



- How can we drive value after an MandA integration and deliver on potential synergies?
- How can we fund our longer-term sustainability needs?
- How can we reduce our costs in tandem with driving our business imperatives?

Operational weakness



- How can we make our processes more efficient?
- How can we raise the quality of our products or services to meet customer needs?
- How can we break down the siloes between functional teams?

Financial weakness



- How are we performing financially compared to competitors?
- How can we deliver more value to shareholders?
- How can we self-finance our business goals? Can we shift capital to growth areas?
- How can we decrease our operating margin?
- Do we have a competitive effective tax rate and can we optimize our cash tax position?

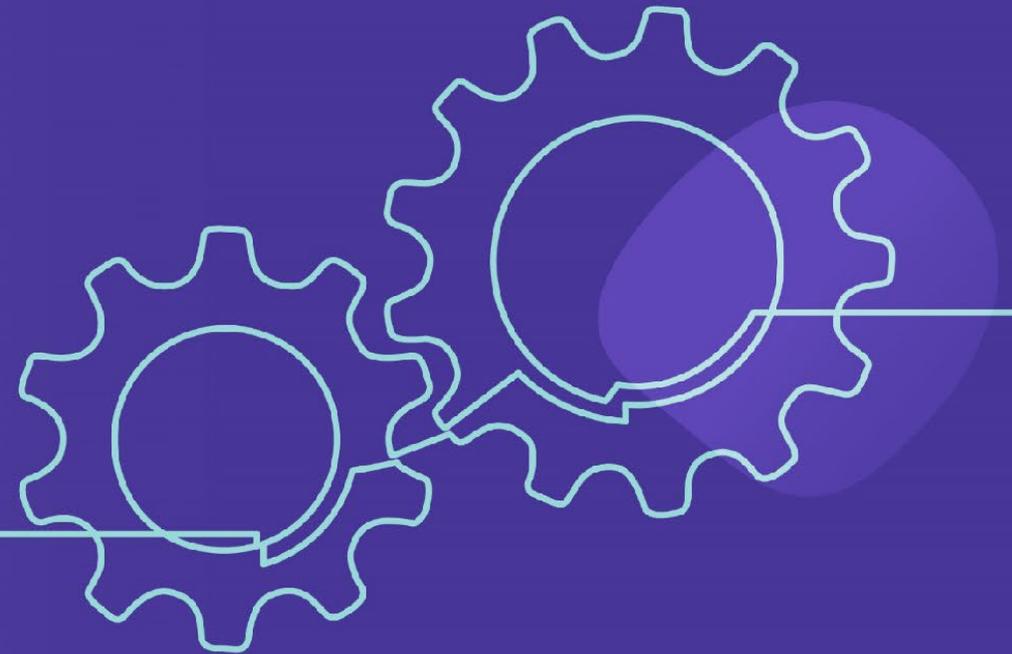
Market dynamics



- How is our market being disrupted by innovation or technology?
- What changes are there to our industry's competitive dynamics?
- What are the short-term and enduring changes to customer preferences?



Cost optimization levers and actions



Key cost optimization levers and potential actions

- 1 **Product, service and customer profitability**
- 2 **Third party spend**
- 3 **Process improvement (redesign and automation)**
- 4 **IT and systems**
- 5 **Operating model**
- 6 **Effective tax management**

These six cost optimization levers are options that organizations may wish to consider. To start, we recommend gathering and analyzing the right operational and financial data, and building an accurate picture of the operation, financial and tax positions, and cashflow.

The following slides explain each area, outline potential considerations, and conclude with a sample high-level action plan.

Contact your local KPMG partner to create a plan that considers the full range objectives.

Contact a local KPMG partner or [email us](#) for more information.

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Reassess the products and services portfolio to improve profitability across customer segments.

Potential considerations – sample checklist:

Product optimization

- Consolidate product or service offerings
- Limit potential investment or account types
- Review pricing strategy across and between customer types

Customer profitability

- Delineate service levels based on assets
- Evaluate client portfolio to exit unprofitable clients

Tax impact

- Assess impact on transfer pricing, indirect tax/customs optimization and the tax treatment of restructuring costs.

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Assess vendors and how the organization engages with them to extract maximum value for organizational spend.

Potential considerations – sample checklist:

Third party spend

- Assess third party vendor spend
- Negotiate lower pricing through consolidated buying power

Discretionary spend

- Review training, entertainment, employee, client acquisition and travel policies
- Streamline review and reimbursement process to decrease time spent on discretionary expenses

Tax impact

- Assess indirect tax recovery opportunities, trade and customs optimization, and transfer pricing considerations.

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Evaluate processes across the organizational value chain that can become inflated over time, increasing the operational cost to serve customers.

Potential considerations – sample checklist:

Lean/process improvement and redesign

- Identify and reduce non-value add activities across all processes
- Redesign the order of activities to optimize flow of information and utilization of resources
- Evaluate and organize talent around value creation activities

Intelligent automation

- Apply tools, such as bots, to ensure greater accuracy and speed in certain manual or repetitive processes (e.g. data entry, Know-Your-Customer procedures, regulations)

Tax impact

- Assess opportunities to automate certain tax processes to gain efficiencies and reduce risks of errors.

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Leverage technology and advanced analytics to identify opportunities to reduce the overall cost to serve. Optimize the value in technology investments through proper integration of inter-dependent systems.

Potential considerations – sample checklist:

Systems integration

- Build connections between software, such as between different reporting systems, for greater data visibility and minimization of manual work

IT

- Upgrade IT systems to provide data capture and analytical capabilities to inform decisions
- Use self-serve platforms to allow employees and clients to act on requests remotely (e.g. balances, trading requests)
- Maximize tax incentives, value creation and transfer pricing through assessment of tax impacts of technology investment.

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Develop an enhanced operating model able to adapt to changing demand. Closely assess capabilities required to fulfil strategic goals in order to preserve strengths and address organizational weaknesses.

Potential considerations – sample checklist:

Footprint rationalization

- Assess real estate required through remote work or relocation

Workplace design

- Optimize workplace design, location and availability, particularly in the post Covid-19 era

Sourcing strategy

- Evaluate the efficacy of outsourcing vs. onshoring functions, such as IT or Payroll

Functional models

- Adopt shared services models to lower client acquisition and servicing costs

Tax impacts

- Review opportunities surrounding international tax, indirect tax and/or transfer pricing planning
- Assess legal entity rationalization as well as trade & customs optimization
- Explore potential grants and incentives.

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Develop standalone tax strategies aimed at generating tax expense reduction throughout the P&L and/or integrate tax and business strategies and scenarios throughout the other cost optimization levers to maximize cost reduction.

Potential considerations – sample checklist:

Corporate taxes

- Develop plan for repatriating funds to serve treasury objectives and to manage tax attributes (e.g. through tax loss consolidation)
- Assess opportunities to reduce costs through legal entity rationalization
- Capture cost savings through transfer pricing planning

Indirect taxes and trade & customs

- Assess opportunities for recoveries and/or enhancing positions through business-driven cost optimization strategies

Tax transformation and technology

- Optimize tax processes, tax operations and tax technology

Grants and incentives

- Review and maximize available tax incentives

Global mobility

- Assess optimal global mobility payroll and tax policies to reduce costs and mitigate risks



Final considerations



Looking ahead to a new reality

The impact of Covid-19 has led many organizations to initiate cost optimization programs, both out of economic necessity and also to help invest in future growth.

Organizations are looking closely at their cost strategies and recognize how essential these are to maintaining a viable enterprise.

Considerations for organizations:

- What will the “new reality” look like once the risk of Covid-19 subsides? What is our optimal cost base?
- If productivity levels have not been impacted, is the cost of real estate necessary for the organization?
- What has been the impact on the workforce and overall business performance without costly travel?
- How can we adopt automation and other technology tools to help us forecast spending, and boost productivity?
- Should the cost optimization program include all functions and divisions and to what degree?
- How do we re-invest the savings we generate when there are competing priorities?
- How can we encourage the adoption of cost optimization programs so that they become sustainable?

Start building an action plan

Rapidly gather insights and learn from best practices for executing a robust cost optimization program.



KPMG's structured approach is fast and focused

Whether you are starting from scratch or looking for an outside perspective, our team can help you rapidly analyze and identify actions to deliver quick wins that can help ensure stability and fund longer term initiatives. In a few weeks, we can:

- Gather the right operational and financial data
- Build a picture of the operation, financial position and cashflow
- Prioritize where savings can be generated, and cash released
- Create an action plan and help you execute.

Contact a local KPMG partner or [email us](#) for more information.



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