



# Cost optimization playbook

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



# Foreword

Today's economic climate is driving demand for cost optimization programs. The longer the COVID-19 pandemic lasts, the more likely that even the strongest of organizations will need to make difficult financial decisions.

It is often during challenging economic times that leaders are under pressure to reduce costs and improve their cash position. This can come at a significant price to the business if not done well. A carefully considered, strategic approach is required.

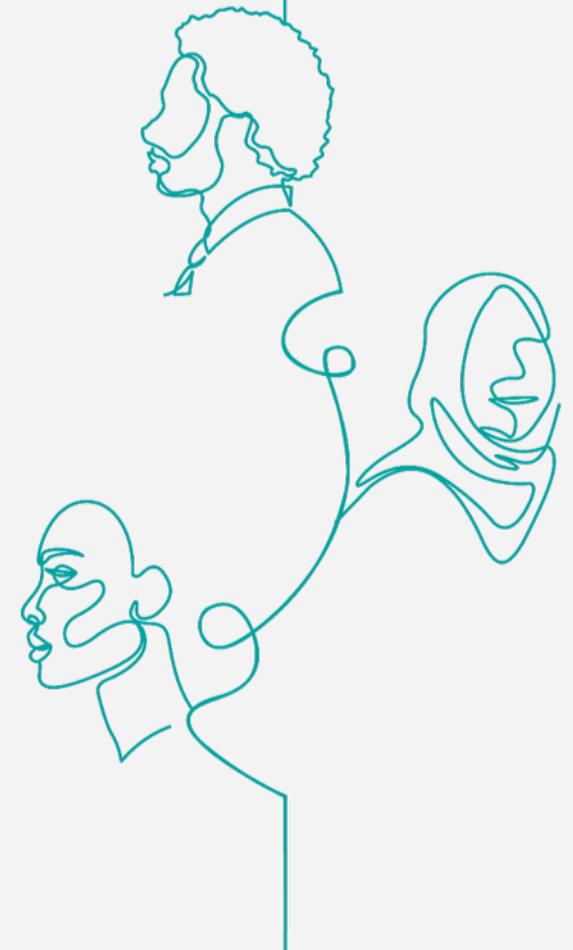
Our approach helps business leaders re-evaluate their operational strategy, and balance short-term financial and operational improvements with long-term change.

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 ensure your success.

We are in this together.



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# Contents

|   |           |
|---|-----------|
| <b>Economic overview and industry context</b> | <b>4</b>  |
| <b>Cost optimization levers and actions</b>   | <b>8</b>  |
| <b>Final considerations</b>                   | <b>17</b> |
| <b>Contacts</b>                               | <b>20</b> |



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

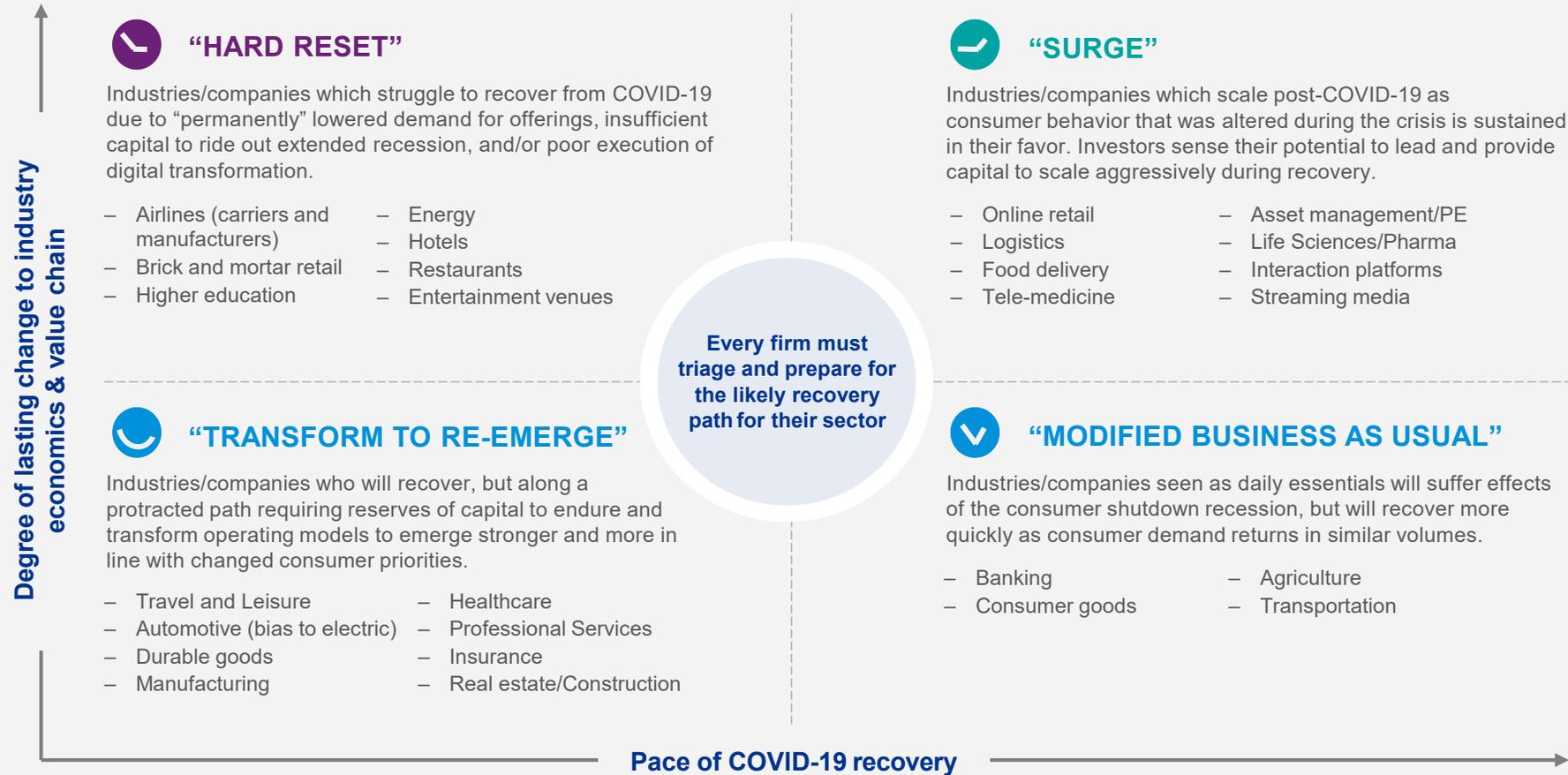
**This playbook outlines a number of possible cost optimization levers and actions, and can help your organization start thinking proactively about its approach.**

**43.9%** of small businesses are **not able to take on any more debt**<sup>[1]</sup>. Furthermore:

- **23.5%** will only be able to operate for 3 months to less than 1 year at the current level of revenue and expenditures<sup>[2]</sup>.
- **31%** worry they won't have capital to make it through COVID's second wave<sup>[3]</sup>.
- **54%** are only focused on survival<sup>[4]</sup>.
- **28%** see this crisis as an opportunity to grow organically or buy competitors<sup>[5]</sup>.

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 M&A integration & 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?

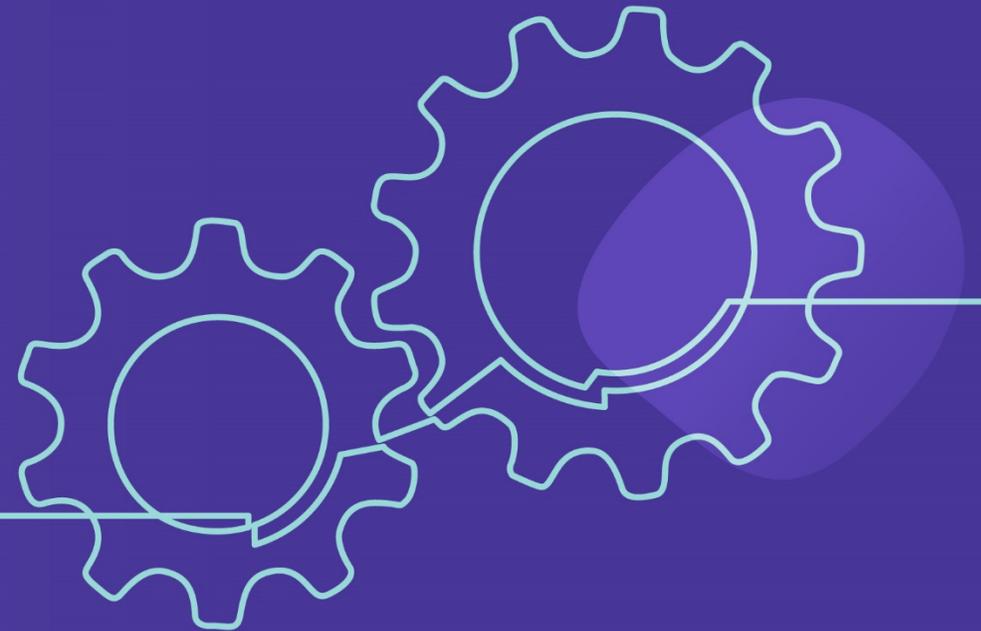
## Market dynamics



- 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 & 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 examples 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 of potential actions that address your business' unique situation and objectives.

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

Visit [home.kpmg/ca/covid19](https://home.kpmg/ca/covid19) for additional resources.

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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 impacts

- ✓ Assess impacts 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 3rd 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 impacts

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

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

## Potential considerations – sample checklist:

### Lean / process improvement & 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 impacts

- ✓ 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

# A strategic approach to cost optimization

## Complete a rapid performance review of your organization to help boost profitability and EBITDA

A rapid operational assessment, conducted in 3-5 weeks, can shine a light on the 'art of the possible' and prioritizes initiatives for implementation.



**Example of deliverables**



# 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.

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# Contact us



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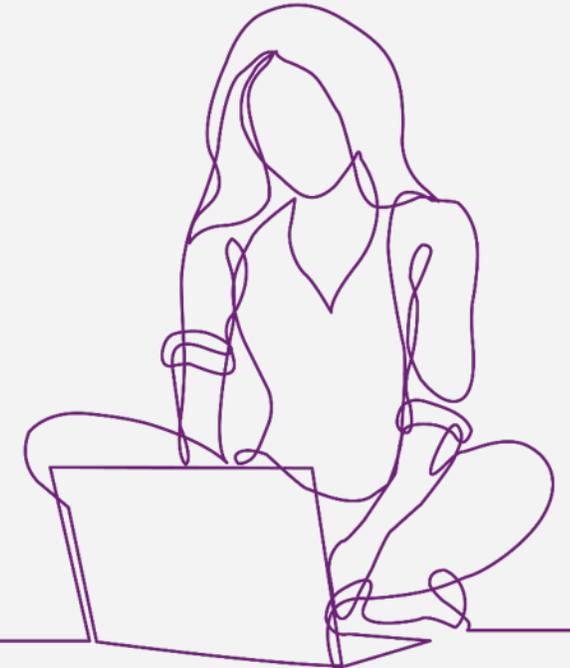
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