EBITDA / ROCE Transformation

Identifying opportunities through directional benchmarking, gap analysis and projects assessment to build an actionable plan and roadmap
Unearthing potential and building a Transformation plan

**Background**

Organizations often have ambitious strategic goals/financial targets in terms of market share (revenue growth), profitability (operating margins, RoCE) etc. However, a comprehensive view of the most effective levers for realizing these targets from a functional/operational perspective and a robust mechanism to control the levers is seen lacking. This often reflects in the sub-optimal quality of:

- planning and roadmap to achieve the goals
- prioritisation of internal projects
- consideration of risk
- integration of operational plan and projects with financial plan
- synchronisation of execution
- monitoring and review mechanism

**CEO Challenges**

- Is the organization well-prepared to achieve its short term and long term goals?
- Are functional efforts translating into necessary financial goals without compromising risk?
- Which are the functional/operational levers that have maximum opportunity for improvement?
- Is there a robust mechanism to assess the opportunities, related risks?
- Are human and capital resources focused on the most effective levers?

Many a time, a host of disconnected, bottom-up performance improvement initiatives are kick-started and run by organisations thinking “the more, the better”. But all this does is spread resources too thin and dilute the chances of achieving the macro-financial goals. For an effective project portfolio – “less is more”.

Identifying the right portfolio of special projects to undertake pre-programs an organisation for meeting its financial goals. This involves:

- identifying the value drivers/ performance levers that have maximum impact on the macro financial goals
- boiling down to areas with:
  - maximum potential for improvement (internal/external benchmarking and gap analysis)
  - and high degree of influence on the key performance levers

Other best practices for performance improvement through project portfolio management:

- A concerted view of resource requirement and expected financial outcome of each project to ensure optimisation
- Cross-functional efforts and overall alignment across functions
- Baking project plans into organisation’s financial plan & budget
- Linking back to KRAs and incentivisation
- Central project management office to monitor projects against financial/strategic targets and review variance

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**Business Gap Analysis - Estimated Impact on EBITDA**

<table>
<thead>
<tr>
<th>EBITDA %</th>
<th>Potential EBITDA %</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.6%</td>
<td>60.6%</td>
</tr>
<tr>
<td>3.6%</td>
<td>1.7%</td>
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<tr>
<td>1.0%</td>
<td>1.3%</td>
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<tr>
<td>0.8%</td>
<td>0.1%</td>
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</tbody>
</table>
Client Situation – Auto Sector

A leading automobile manufacturer in India was recording consistently low EBITDA margin and RoCE compared to peers. The company wanted to drive a multi-function profitability improvement program that would help them attain a competitive EBITDA margin and RoCE.

Although the company already had a host of profitability improvement projects being run by individual functions (including VA/VE initiatives), the overall financial results failed to improve. The company was uncertain if this was because they were not “doing the right things” or “doing things right”. Not all the initiatives were tied into the annual financial plan/budget and there was no central team (PMO) responsible for regular monitoring of all the performance improvement initiatives across the organisation.

PwC was brought on board to estimate the opportunity that existed across functional areas including Procurement, Design, Production, Supply chain, Marketing, Human resource and Business planning that would feed into developing the best set of initiatives for EBITDA & RoCE transformation and also help in creating a roadmap for the transformation. The company also wanted to re-evaluate the existing project portfolio from a quantitative perspective considering opportunity, risk, resources, impact and the resultant priority.

Approach

PwC undertook a structured approach that included directional benchmarking, gap analysis & projects assessment, to estimate the opportunities across functional areas.

The first step included a product line/ segment level financial peer comparison of pricing, cost structure and capital employed which helped in arriving at high level opportunity areas.

This was followed by:

- Deeper investigation of the high level opportunity areas which led to formulation of hypothesis
- External benchmarking with global best-in-class companies for specific functional areas
- Internal benchmarking with products/models within the company to identify potential areas of improvement

By translating the P&L and Balance sheet benchmarking into function level benchmarking, a comprehensive set of actionable gaps could be identified. These were further used to build a roadmap for transformation.

A customized multi-factor quantitative assessment model was built for evaluating existing and new projects. The quantitative assessment of ongoing projects, revealed sub-optimal project portfolio with:

- only a fraction of the overall improvement potential being tapped
- mismatch in resources invested vs. estimated benefit of certain projects
- absence of projects in certain high impact areas

Results

The approach enabled PwC to quantify opportunity areas at a functional level. 10%+ gain in EBITDA identified (each functional area contributing in the range of 1% - 3%) with potential to double RoCE.

This paved way for a Transformation roadmap with:

- List of new initiatives at functional level to achieve the identified potential
- A/B/C prioritisation of initiatives → Creation of Implementation plan
- Integration of initiatives with plan and budget
- Resource plan/ CAPEX plans for the initiatives
Unearthing potential and building a Transformation plan

PwC Methodology (Customizable)

Focus Areas

- Raw Materials
- Supply Chain Management
- Marketing
- Human Capital

Identifying Areas of Improvement

- Raw Materials
- Design Efficiency
- Buying Efficiency
- Supply Chain Management
- Working Capital + Inventory
- Plan v/s Actual
- Marketing
- Portfolio
- Pricing
- Human Capital Effectiveness

Initiatives Development

- Identify initiatives
- Segregate initiatives into quick wins, medium and long term
- Risks, options & tradeoffs
- Impact on ROCE, EBITDA, cash flow & Balance Sheet
- What-if and sensitivity analysis

Deployment and Tracking

- Transformation Plan
- Findings
- Strategy
- Business Case
- Measurement/KPIs
- Leadership
- Funding
- Detailed Plan
- Financial Model

Reporting

- ROCE, EBITDA improvements incorporated into ECM reporting
- Variance Tracking and Reporting

Setting up of a PMO

- War Room, Management of work elements, resourcing, scheduling, benefits tracking

Stakeholder Management

- Inform, Involve, achieve ownership, buy-in

EPM Platform Enabler

- Plan, budget, track, monitor, control

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