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Leadership through cost transformation

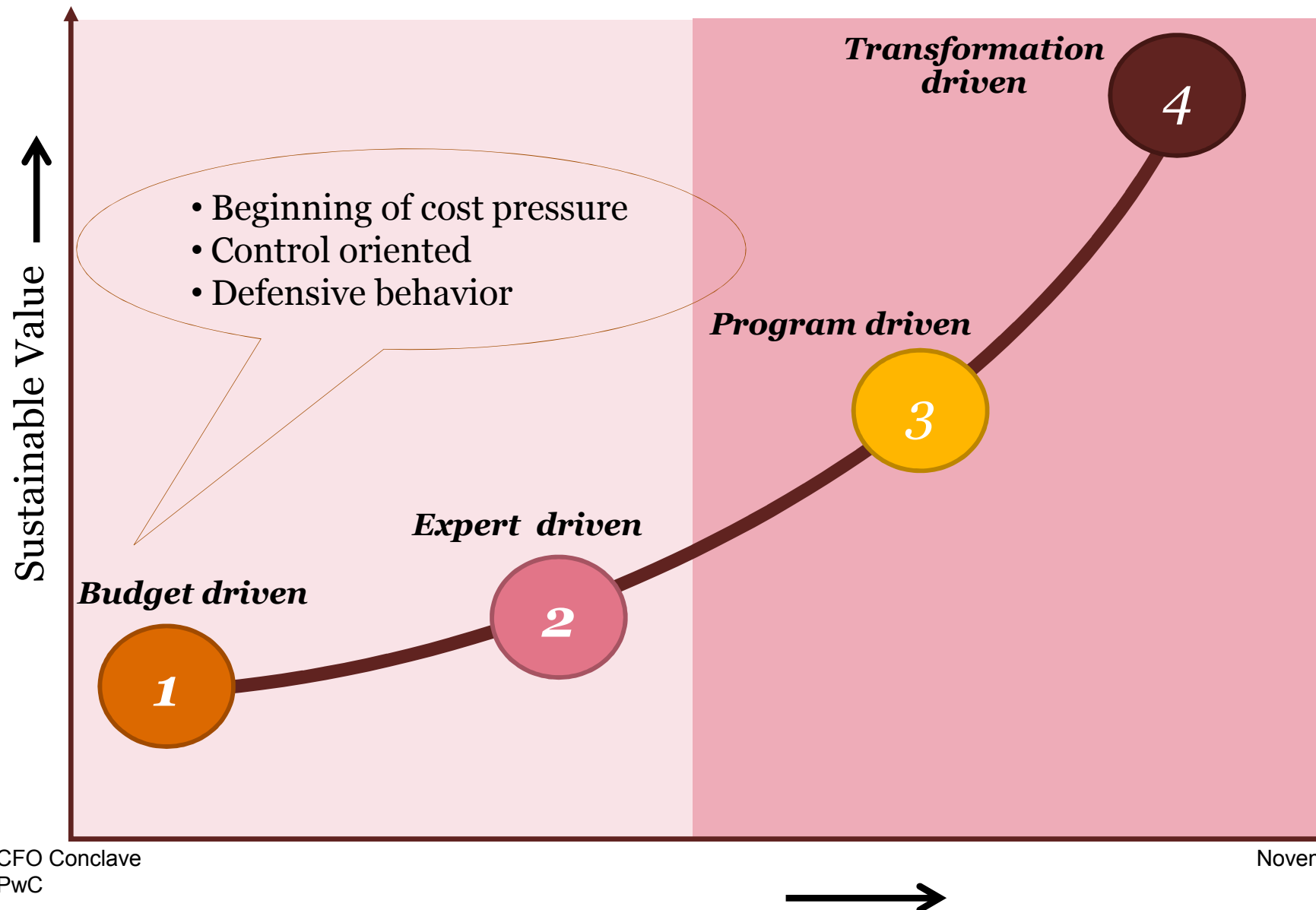
Driving Financial Performance in
good and tough times

CFO Conclave
24-26 November 2011

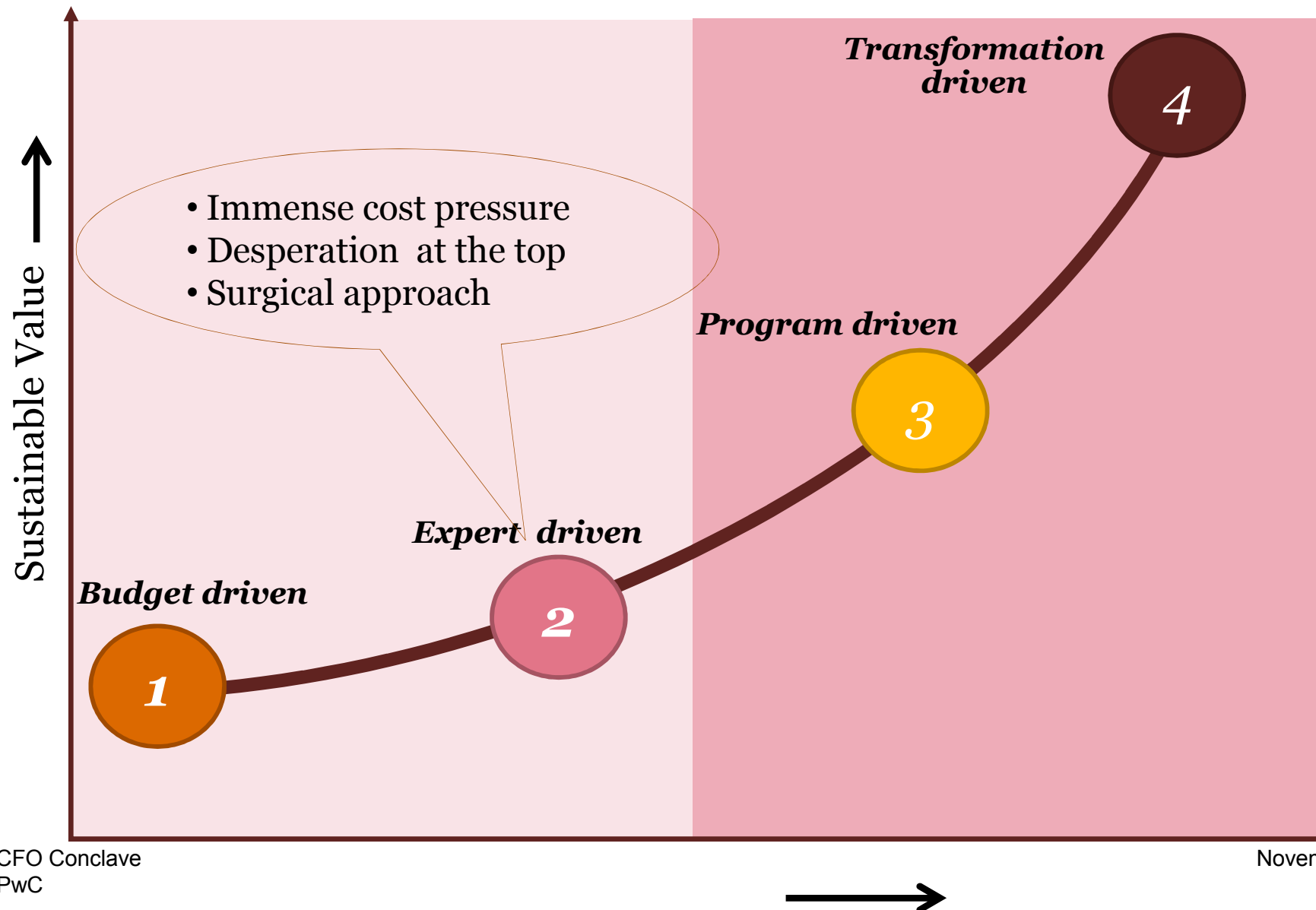
Agenda

- Evolving maturity levels in cost leadership
- Why some organizations succeed while others don't
- Science and art of managing cost optimization
- Practitioner's experience – Learning from others
- Q&A

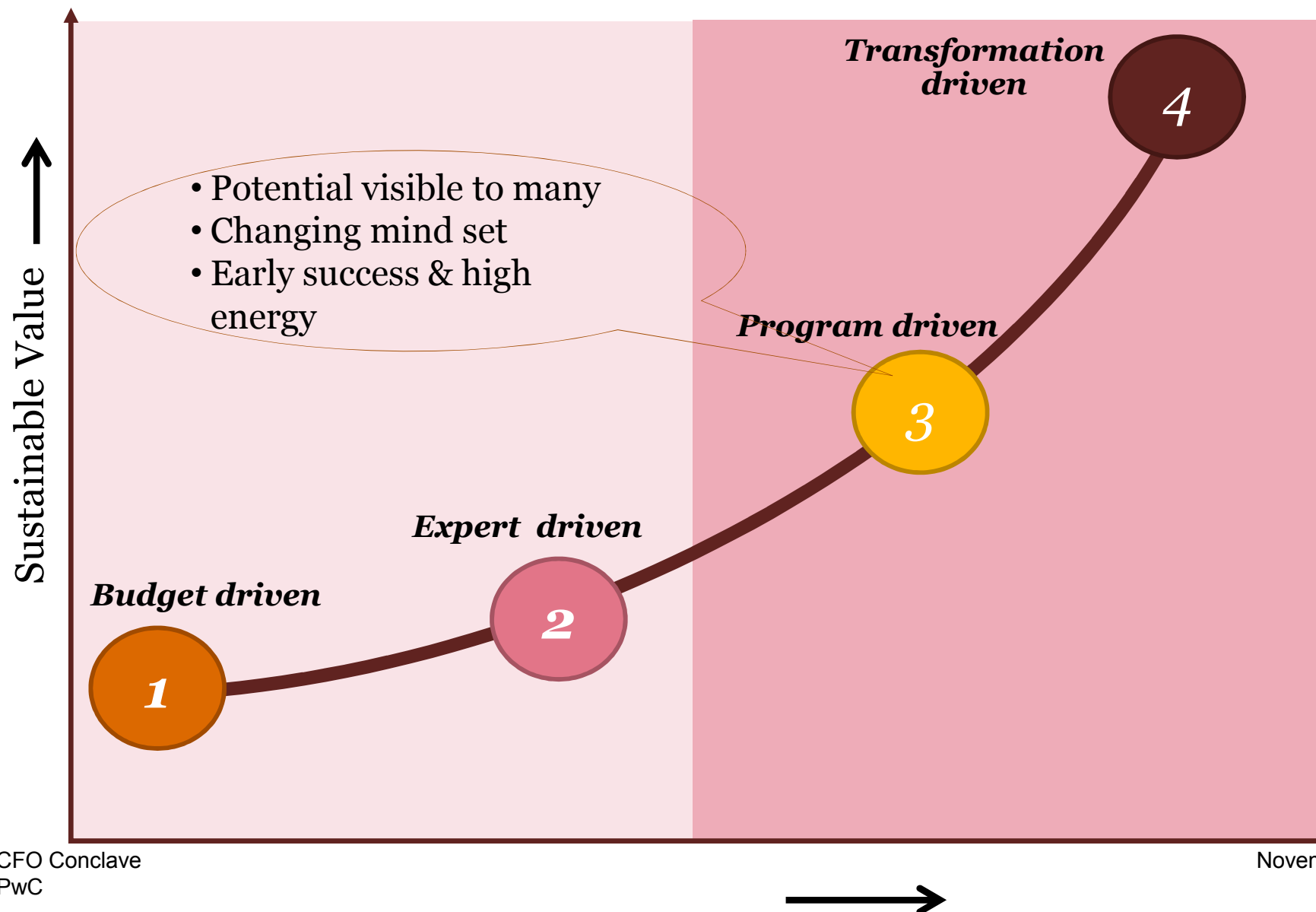
Extent of cost achievement depends on the “Approach” organizations take



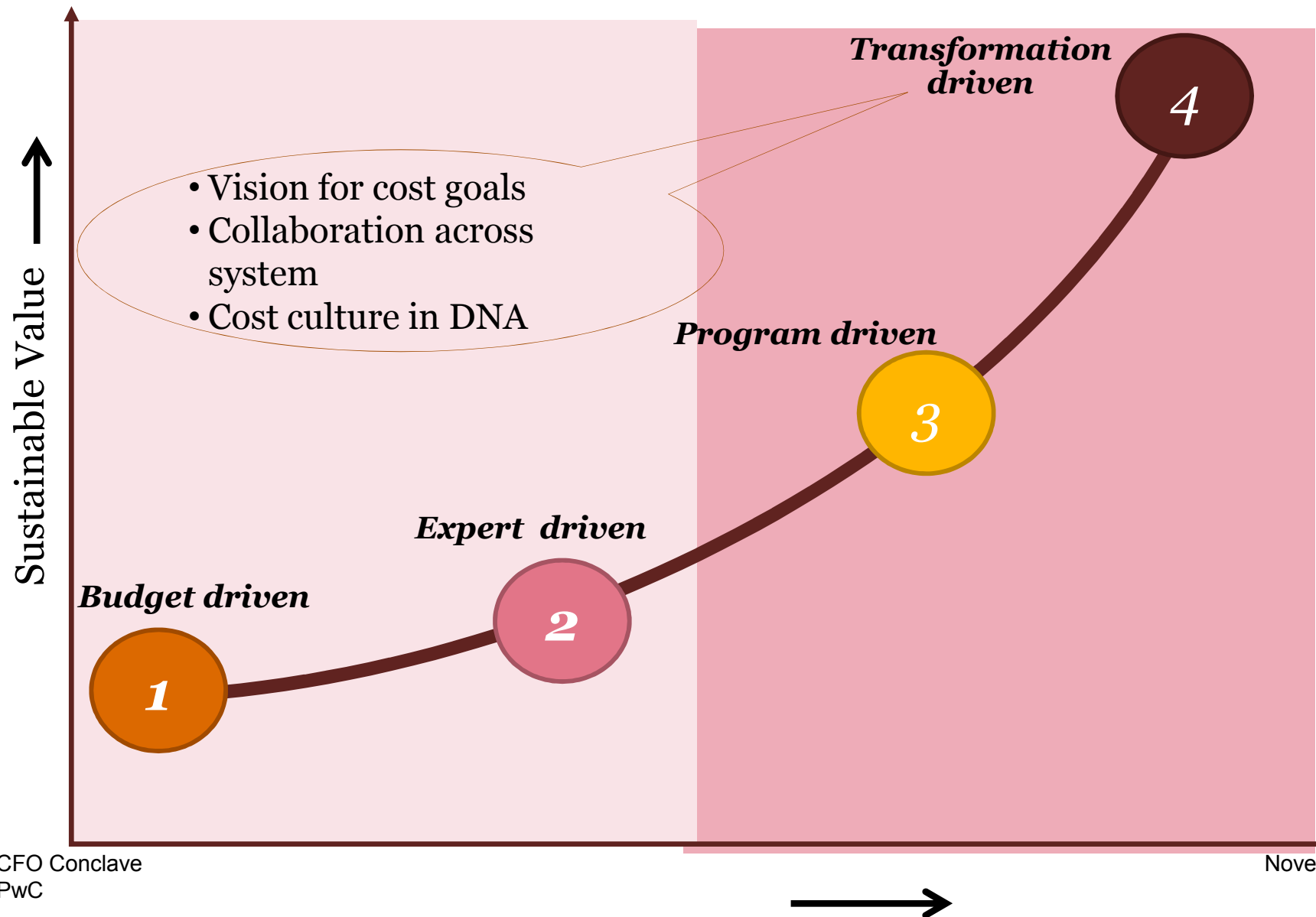
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Group Exercise – “Why some Organizations succeed and some don’t in achieving cost leadership?”

Take 5 minutes to discuss the following within your table :

All tables with odd numbers to discuss

- Your experience (current / past or your competitors / peers) of the organizations that have managed costs well all the time
- Top three factors that make these organizations succeed in cost management

All tables with even numbers to discuss

- Your experience (current / past or your competitors / peers) of the organizations that have struggled with costs most of the time
- Top three factors that make these organizations perform poorly in cost management

What differentiates the winners from others...

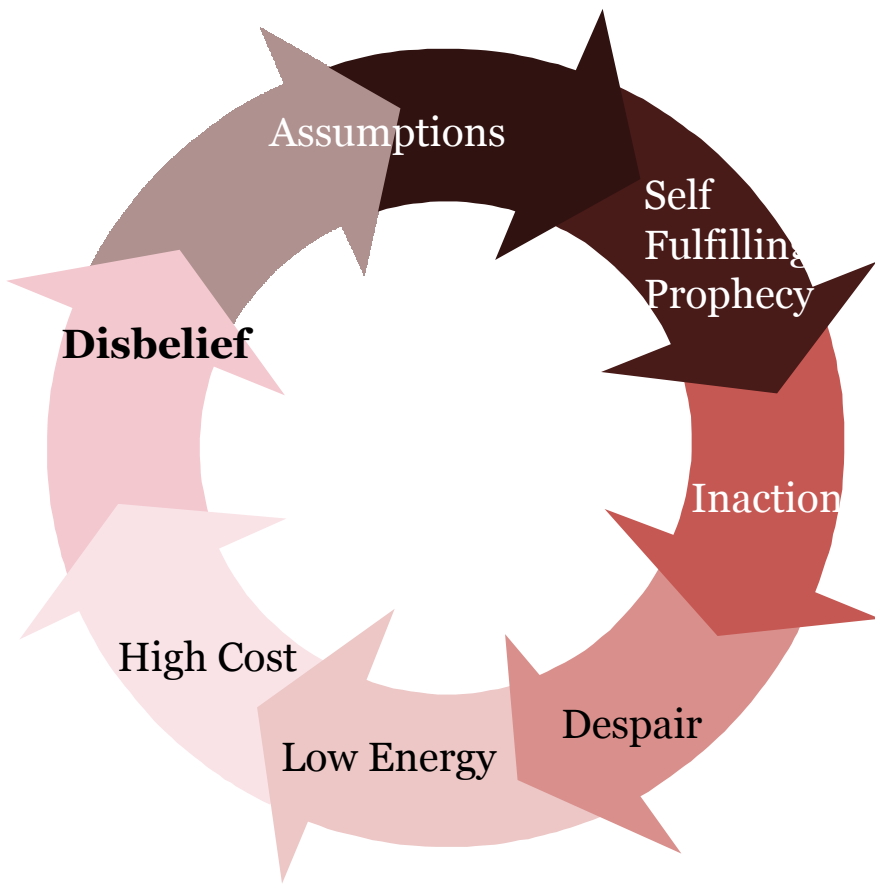
Cost Winners

- Demonstrated values in cost orientation
- Structured approach
- Using state of the art tools and techniques in driving cost efficiency
- Reward and recognition supports the initiative
- Rallying point to focus organization energy
- High energy level and higher risk taking

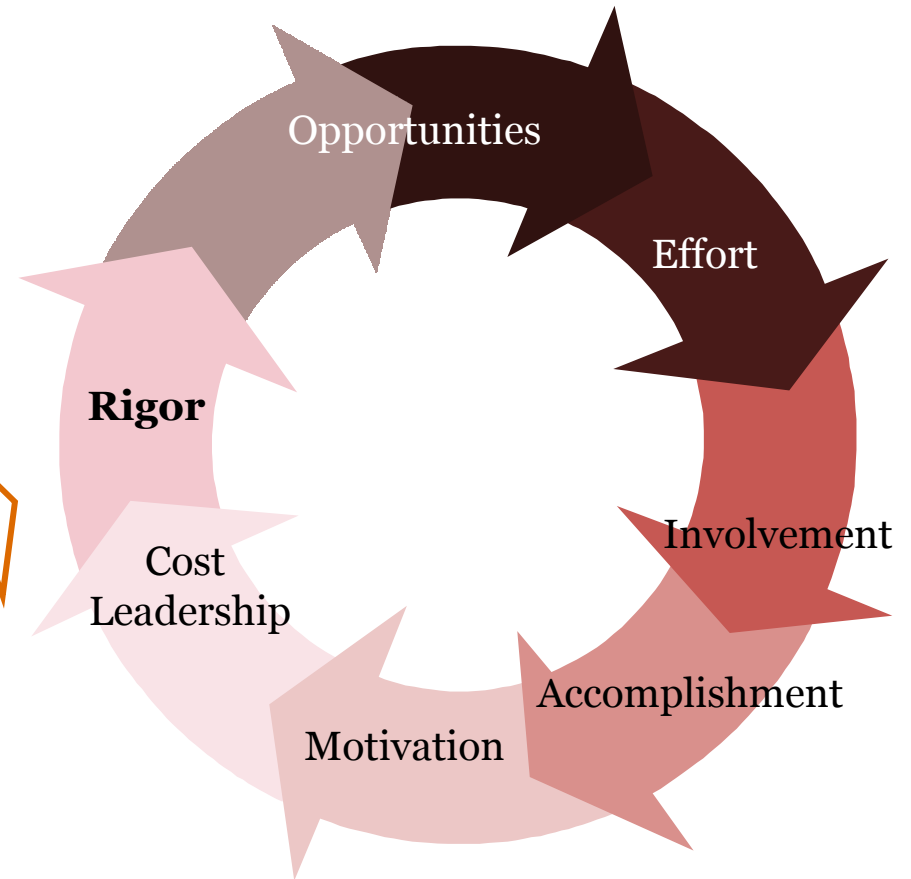
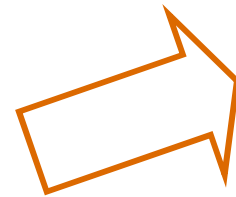
Cost Laggards

- State of denial
- Contentment
- Resistance to learn from others
- Functional silo
- Strong legacy culture
- Lack of review on costs
- Presumptions and assumptions on feasibility to try new things
- Status quo mind set

It is all about moving the organization from vicious cycle to virtuous cycle



Vicious Cycle of Poor Performance



Virtuous Cycle of Leadership

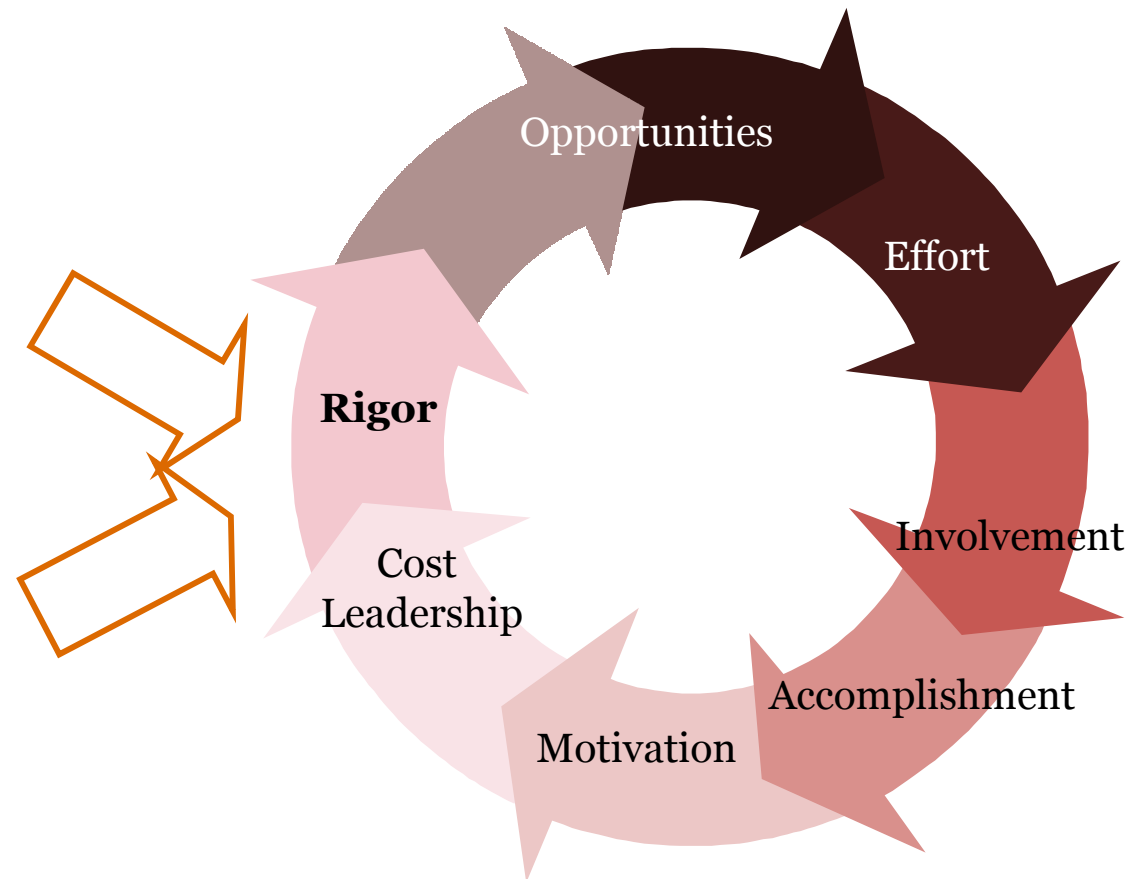
Making this transition is both “Science” and “Art”

- Tools & techniques
- Methodology
- Cost management strategies
- Design of intervention

Science

Art

- Structure
- Rewards & Recognition
- People & Motivation
- Governance mechanism
- Environment



Virtuous Cycle of Leadership

Applying Science is relatively easier as it calls for learning the right tools & get the right methodology

Generic Diagnostic Tools

Spend waterfall
Competitor benchmarking
Total cost of ownership
Cost driver analysis
Consumption analysis
Leakage analysis

Diagnostic tools – RM cost

First principle costing
Volume/Weight rationalization
RM tierization
Proprietary toolkit
Specification analysis
Vendor rationalization
Target costing

Diagnostic tools – Other Spends

Work content analysis
Network analysis
Borrowing rate rationalization
Mode-mix analysis
Value engineering
Technology change analysis

Diagnostic tools – sourcing strategy, structure and systems

Sourcing structure mapping
Spend categorization
Make vs Buy analysis
Vendor performance management tool

Redesign tools

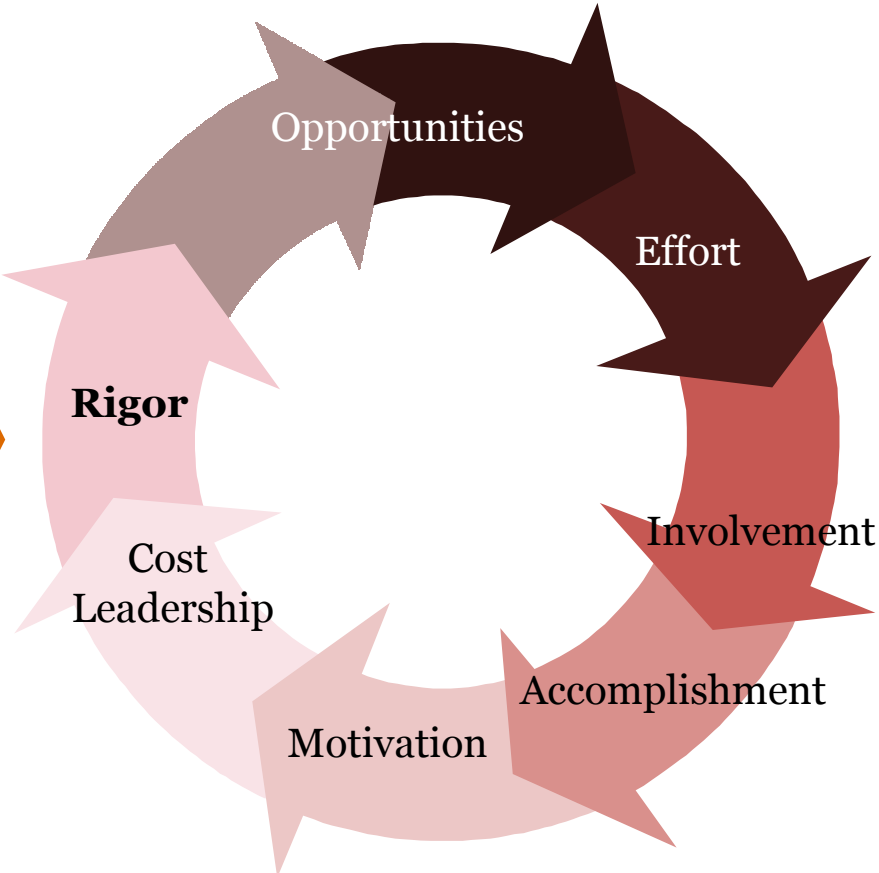
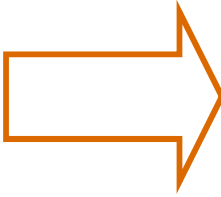
Vendor geography mapping
Vendor structure redesign
Vendor Pitch Book
Vendor negotiation plan
Reverse auction
Standardization

Implementation tools

Primacy Matrix
Analytical Hierarchy Process
Benefit Scorecard
Service Level Agreement

Rigor, the starting point, needs a trigger -

Strong case for change
Compelling rallying point
Some thing new and novel



Virtuous Cycle of Leadership

Strategies for cost reduction form the core of the rallying point

1 Zero based Costing

2 Target Costing

3 Value Engineering

4 Value Analysis

5 Partnership Value Program

6 Design-led Cost Optimization

Enabling Virtual structure plays a critical role in achieving and sustaining success

Any such transformational initiative will need

- Sponsor
- Champions
- Facilitators
- Teams

More importantly the leadership will need to

- Talk the Thought
- Walk the Talk
- Demonstrate through V-A-M-R (Values-Measurement-Action-Reward)

Thank you!

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