High Performance Enterprise

Spotlight on Corporate-Wide Efficiency Programs

How to tackle your cost structure and drive top-line growth to sustain stability in times of economic downturn

Porsche Consulting
Strategic Vision. Smart Implementation.

Spotlight on Corporate-Wide Efficiency Programs

How to tackle your cost structure and drive top-line growth to sustain stability in times of economic downturn

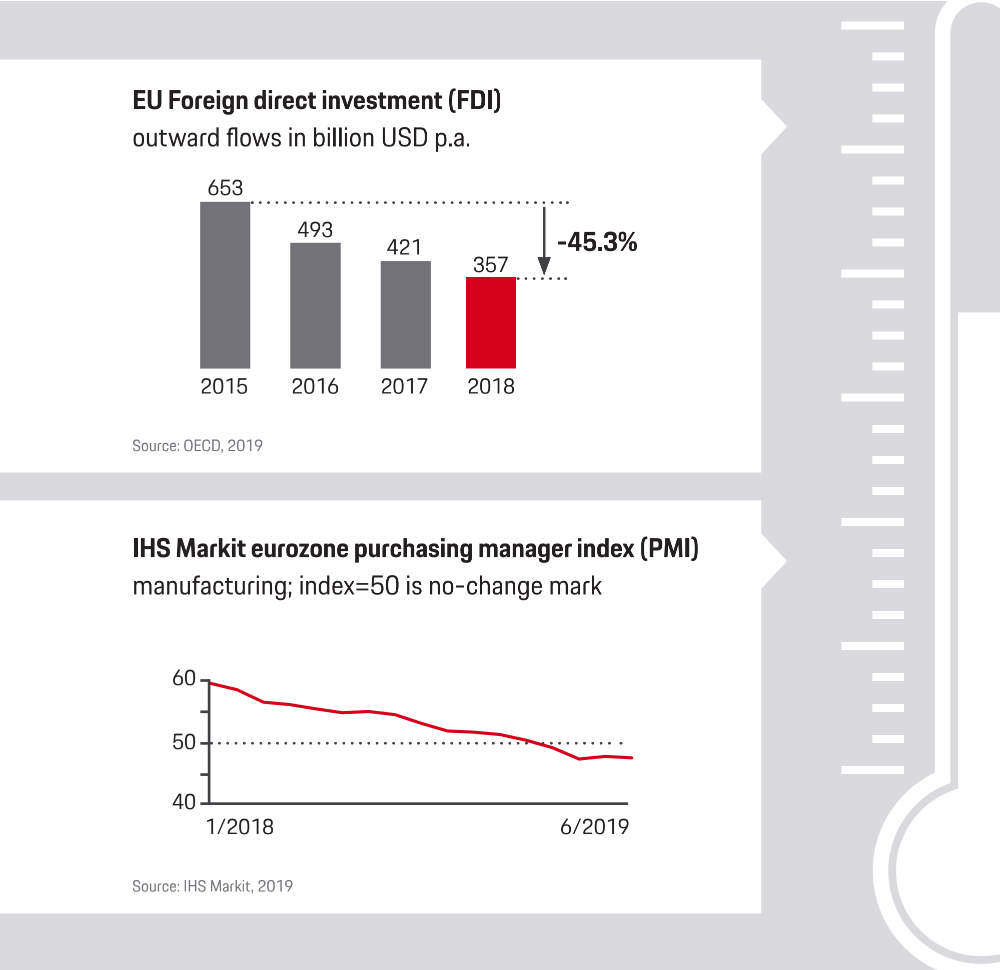


Figure 1. Development of selected economic indicators

Signs of an economic downturn are prevalent in Europe's economy and predominantly driven by political uncertainties. Adverse geopolitical factors and accelerated digitization require many companies to reassess their situation after years of stable growth. In addition, a potential interest rate turnaround is an impending threat for firms that have based their expansion strategy on high leverage. Without being too pessimistic, the impact of the increasingly fragile economic environment manifests itself in various indicators (figure 1). For instance, the amount of Europe's foreign direct investments has consistently declined in recent years. This development could indicate a lack in confidence in economic growth and is supported by the purchasing manager index for the European manufacturing business, which dropped below the 50.0 mark in February 2019. The reason is the decline of total order value and output, which has not recovered since.

Porsche Consulting investigated 437 publicly listed, EU-headquartered companies in the industrial goods sector, with more than €500 million in sales (cumulative sales of the dataset amount to €3,673 billion, equals approx. the GDP of Germany). On average, profitability, measured in terms of EBIT as the percentage of total revenue, reached a plateau during economic prosperity in 2017/2018 and suddenly dropped by 1.6 percentage points in 2019 (figure 2).[1] Hence, numbers suggest that while some companies managed to increase their profitability during prosperity, the current economic cooldown directly hits inferior competitors' bottom line. Considering the rather pessimistic economic outlook reflected in the purchasing manager index, pressure on profitability of industrial goods players might even intensify. Thus, it is expected that many companies will rethink their approach to sustained performance and consider ways to implement enablers such as efficient cost and organizational structures, which are already reflected in current announcements of cost-reduction programs. In addition, measures to stimulate top-line growth are addressing the performance issue from another perspective. This white paper is focused on key success factors of efficiency programs and reveals why profitably growing peers are outperforming other market participants.

[1] Analysis is not adjusted for potential effects of seasonality

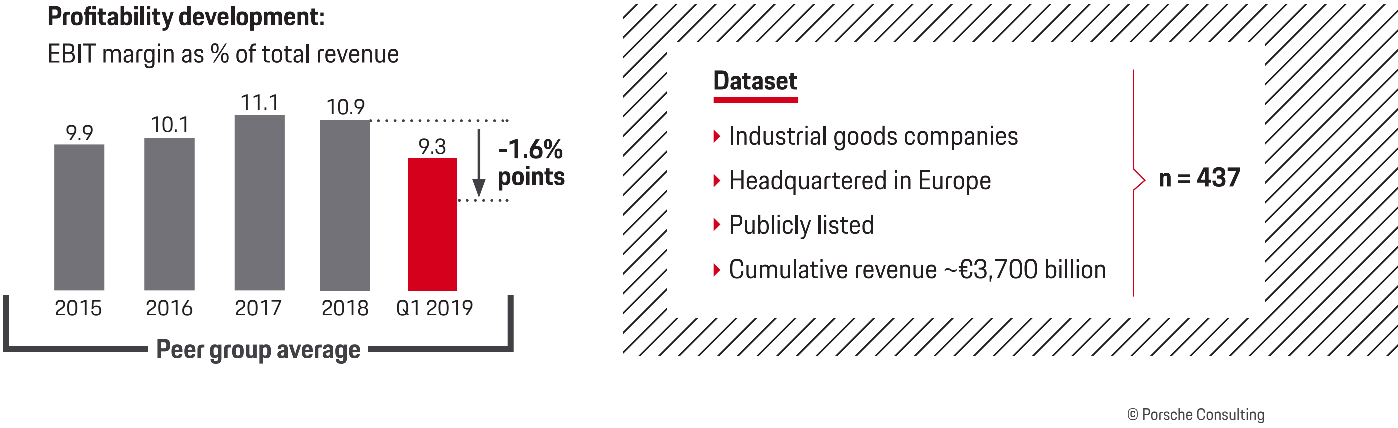


Figure 2. Profitability development over time for selected companies (Source: Capital IQ)

Efficiency program: Definition and value proposition

Increased efficiency serves various purposes, depending on the company's strategic challenge. An efficiency program is more complex than cost cutting. It entails activating relevant, client-specific levers in a meaningful manner that has a positive impact on profitability. There are three different efficiency program archetypes that can be distinguished based on the strategic challenge a company faces: stabilization, growth, and prosperity (figure 3).

Both timeline and individual situation determine how to set up an efficiency program and which levers to address. Firms that operate on rough terrain due to unsteady performance and market pressure seek stability and typically focus on short-term measures and low investments. They are often unafraid to approach efficiency with unpopular measures to realize quick wins, such as aggressive liquidity measures or relentless restructuring. When firms strive for growth, appropriate measures target more impactful results, which are implemented mid-term since they are often more complex to operationalize. Firms that enjoy a comfortable situation in the market and strive for prosperity typically focus on measures that position them favorably in the long term. Porsche Consulting uses a proven framework to deliver a client-specific approach that defines the appropriate levers in consideration of the client's strategic challenge and timeline to drive measurable results. Once the rationale is defined, identifying and orchestrating impactful levers is at the heart of each efficiency program. Proven methodology suggests that reliance on inherent knowledge of potential and its levers, such as an existing database, is driving results quicker than a series of brainstorming workshops. The Porsche Consulting efficiency approach distinguishes between two dimensions of levers—cost optimization levers and top-line growth levers (figure 4). Here not in the scope: but, if a company should even have massive liquidity problems, cash optimizations must also be considered (e.g. inventory reduction).

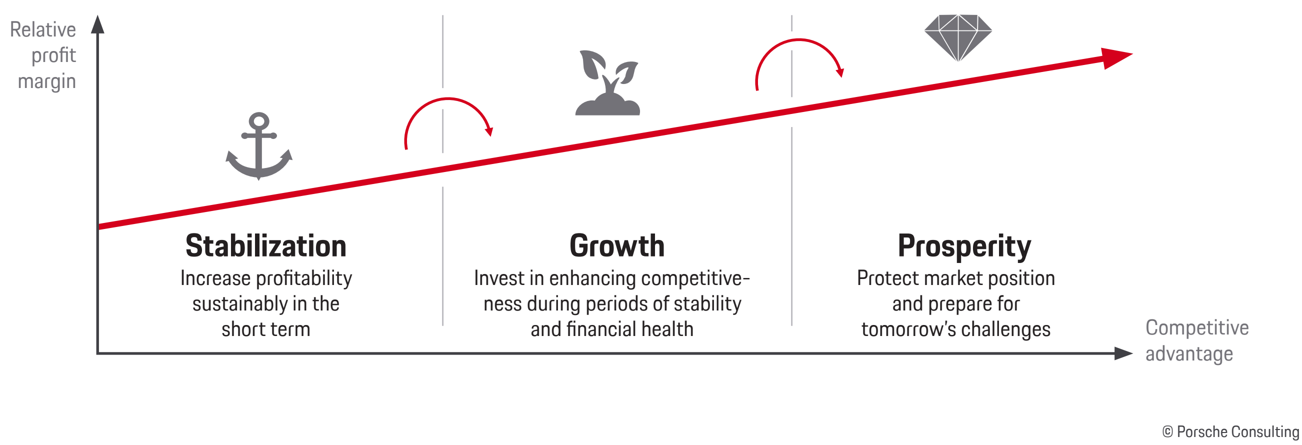


Figure 3. Strategic rationale triggers the type of efficiency program (Source: Porsche Consulting)

	Lever	Typical situation	Concept	
01	Reassess structural alignment	The structure has unbalanced spans and layers, unclear responsibilities, duplicate tasks, and lack of consistency	Harmonize in a process-oriented manner and define clear spans and layers, responsibilities, and collaboration models	< 12 months[2] / Cost
02	Optimize compensation & benefits	High salaries and benefits due, for example, to poor negotiations and historically developed approach to pay raises	Adjust compensation, e.g. through reinforcing variable salaries based on savings realized in optimization initiatives	< 12 months[2] / Cost
03	Product portfolio streamlining	Products are unprofitable due, for example, to over-engineering, and lead to additional costs in R&D and manufacturing	Streamline the product portfolio under consideration of contribution to margin, strategic relevance, and external reputation	< 12 months[2] / Cost
04	Reduce sourcing costs	High purchase prices due, for example, to poor negotiation skills and limited assessment of broader sourcing options	Issue requests for new quotes or invitations to tender, renegotiate and wisely leverage economies of scale	< 12 months[2] / Cost
05	Professionalize capacity & demand management	Limited production capacities and high production costs due to insufficient capacity and demand management	Balance—i.e., smooth and level—capacities in consideration of customer demand	< 12 months[2] / Cost
06	Reconsider in-/outsourcing	Lack of focus on core competencies as well as historically grown degree of vertical integration	Assess core vs. non-core skills under consideration of industry benchmarks. Rely on specialized, cost-effective service providers	> 12 months[2] / Cost
07	Implement lean administration	Complex landscape of decision-making processes, incl. high number of meetings and workflows with numerous interfaces	Optimize processes, in order to eliminate redundancies and increase agility; develop new meeting structure with focus on decision-making	> 12 months[2] / Cost
08	Initiate digital process redesign	High manual effort and capacities bound in workflows and transactional processes due to limited IT-support	Redesign digital workflows and consider robotic process automation, enhanced by artificial intelligence	> 12 months[2] / Cost
09	Headcount adjustment	The personnel budget is historically grown and does not reflect the actual workload of individual departments	Model the realistic realistic headcount required to fulfill tasks by department based on personnel capacity simulation tools	> 12 months[2] / Cost
10	Optimize product costs	Expensive products due to focus on function development and low level of standardization	Define market price based on cost target, using cheaper materials, components, and tools; consider module management	> 12 months[2] / Cost
11	Increase product prices	No regular review of the pricing strategy and missing realization of individual pricing opportunities	Apply markup on pricing for products in high demand to improve performance while limiting the risk of account erosion	< 12 months[2] / Top-line growth
12	Focus on promising customers	In times of high demand, sales reps very often tend to focus on clients that are easy to handle	Analyse the client portfolio and identify inactive clients to provide updates with regard on services and products	< 12 months[2] / Top-line growth
13	Set up effective sales management	Short-term sales increase required: need to generate an immediate top-line impact	Start sales incentives (i.e., commissions, bonuses) for highly profitable products to support effective sales management	< 12 months[2] / Top-line growth
14	Build new target groups in existing markets	While being market leader in a specific segment, turnover and profits stagnate within the current client base	Segment the market to identify new target groups; use relevant advertising for awareness; reconsider the sales channel strategy	< 12 months[2] / Top-line growth
15	Run ad-hoc campaigns	Lack of dedicated marketing campaigns to push demand, e.g. caused by tight cash management negatively affecting sales activities	Drive demand by aggressively raising awareness and promoting the offering, new product releases, or special offers	< 12 months[2] / Top-line growth
16	Realign sales incentive program	Sales force is required to outperform the market but is mainly driven by volume instead of profitability	Implement a sustainable incentive strategy based on profit contribution instead of volume	> 12 months[2] / Top-line growth
17	Expand sales channels	Today's route-to-market model does not deliver target revenues	Increase understanding of route economics and optimize service costs; assess new go-to-market models, such as direct sales online	> 12 months[2] / Top-line growth
18	Revamp brand strategy	Client perception for a brand is low compared to peers due, for example, to lack of interest in the offering's benefits	Promote awareness about the organization's offering for the prospective target group	> 12 months[2] / Top-line growth
19	Reshape sales accountability process	Long sales cycles with low productivity, close rates, and contracted amounts	Develop a strong growth plan, for example, stretch targets based on client statistics; invest in tools and trainings to lift sales force to the next level	> 12 months[2] / Top-line growth
20	Pursue venturing	Presence in saturated markets requires speedy access to unfamiliar markets; "patient money" is available	Review the sales partner strategy to enhance market performance; select venture strategy for joint delivery	> 12 months[2] / Top-line growth

Figure 4. Top 20 efficiency levers based on Porsche Consulting project experiences

[2] Typical time frame within which levers are becoming effective (indicative)

10 success factors drive the success rate of efficiency programs

Companies very often fail to realize efficiency targets, even though they might have set realistic targets and identified appropriate efficiency levers to deliver results. One of the common reasons is the underestimation of the radically transformative nature and inherent vulnerability of corporate-wide efficiency programs. Based on the assessment of transformative engagements, summarized the most important success factors that help to navigate the process safe and sound.

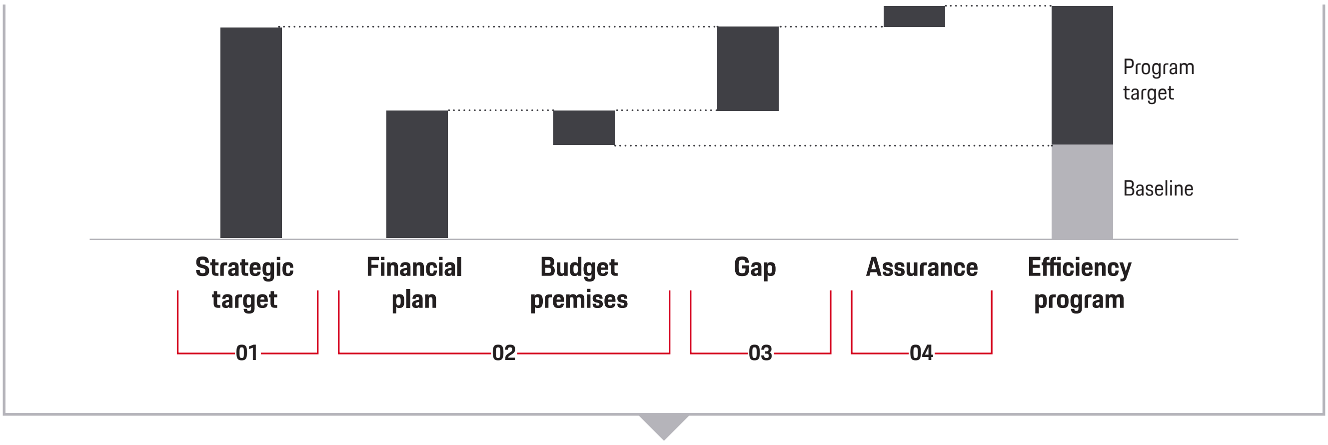
01// Plan ahead

Launch a corporate-wide efficiency program early on and proactively. Planning ahead alongside thoughtful and inclusive preparation fundamentally drives the success rate of efficiency programs. Sustainable efficiency measures often come with extensive lead times, for example, when optimizing the existing IT environment. As a result, companies that ignore this best practice might find themselves in need of severe actions down the road. This is easier to accomplish in times of prosperity and has another advantage: employees and the works council will more likely be willing to actively support the program rather than blaming the top management for not having encountered a forthcoming crisis. Regardless of your situation, it is worthwhile to plan for relevant employees up front and manage them carefully during all phases of the program. Efficiency programs require significant resources at high utilization rates based on target and scope. Nominating employees to identify, elaborate on, and implement measures is therefore key. If neglected, efficiency measure implementation can absorb resources in a manner that affects performance due to shortfalls in staff capacity, culminating in severe shortcomings in daily business. Performing a realistic, long-term capacity plan and accounting for required add-on resources in time helps to address this issue up front.

02// Set the target

Kick off your efficiency program with both a clear ambition and a quantifiable target (figure 5). The target setting ought to be facilitated by the finance department with CFO oversight. The starting point to determine the efficiency program target is the strategic profitability goal. The delta between currently forecasted profits and the strategic target determines the gap. Besides this gap, the program target includes budget premises and efficiencies that are not yet backed by specific measures. The target also incorporates an assurance to account for meltdowns and delays of financial effects as well as specific realization discounts. The reason is that potential estimates determined from an outside-in perspective are typically not entirely realized. Finally, it is crucial that the management board signs off the target potential in full confidence.

Profit KPI (e.g., in €)



01

Quantify strategic target

- Financial evaluation of strategic goals
- Extrapolation and forecast of revenue and costs

02

Analyze financial plan & budget premises

- Analysis and challenge of planned revenue and cost development
- Consideration of budgeted premises and efficiencies

03

Determine gap

- Determination of gap between financial plan and strategic target
- Transparency of additional improvement

04

Assure achievement

- Allow for meltdowns and delays of financial effects
- Consideration of specific realization discounts

Figure 5. Four-step approach to derive the financial program target (Source: Porsche Consulting)

03// Ensure accountability and commitment

To instill acceptance and commitment, allocate the overall program objectives to individual targets specific to function or unit. In addition, milestone-oriented incentive systems have proven to significantly drive accountability over the course of the efficiency program. Breaking down the overall objective is based on external benchmarking (e.g., how efficient are best-in-class competitors?), internal financial analysis (e.g., what potentials derive from historical numbers and internal best practices?), and expert interviews. These are used to validate targets, identify additional potential, and foster acceptance. Figure 6 depicts an example of function-specific targets that would then be incorporated into the corresponding managers' target settings and the respective incentive systems.

Allocation of overall target (e.g. in €m, dummy values)

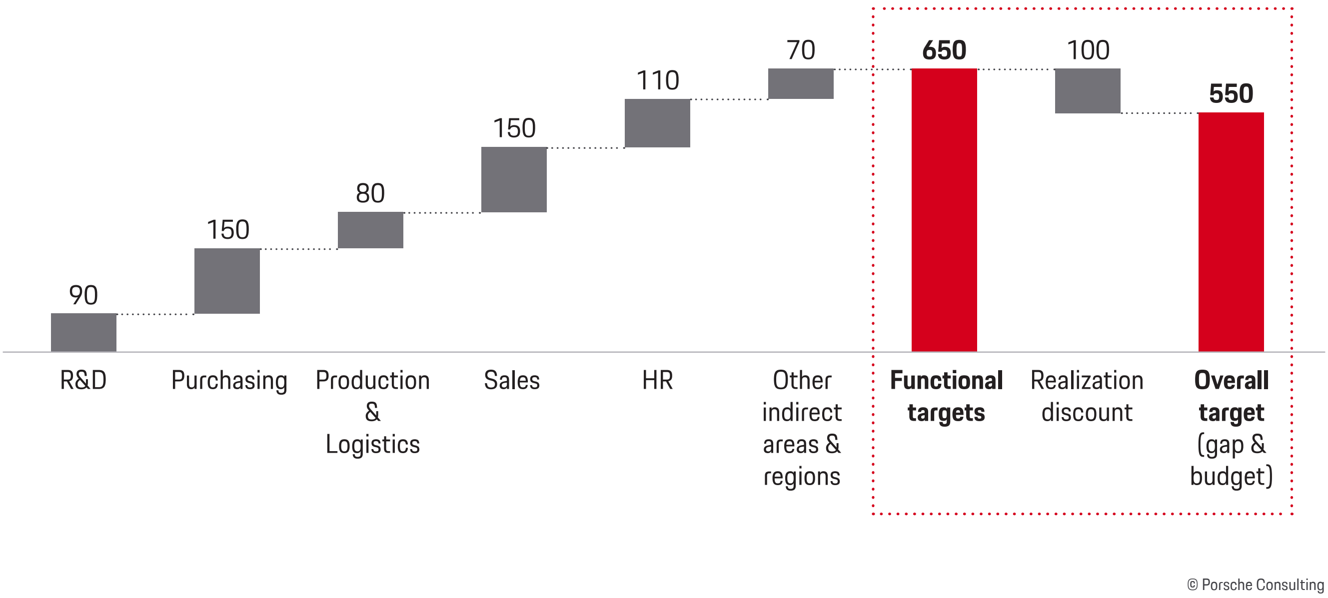


Figure 6. Individual, function-specific targets facilitate commitment to the overall target (Source: Porsche Consulting)

04// Stimulate C-level ownership

Perform sprint weeks with top-management participation to stress importance, accelerate pace, and get instant decisions. A lack of active C-level involvement has turned out to be a showstopper in program settings that require rigid planning and execution. Porsche Consulting has successfully piloted sprint workshops, an approach where relevant top-tier managers are taken at least three times during the program to an off-site location to work together for a week. While the first sprint is dedicated to key decisions regarding organizational levers, the second and third sprint are then used to identify, elaborate, and decide on the efficiency measures as well as ensure operationalization of the concept. The major advantage is that the customary procedure of seeking a decision from the steering committee is replaced by an operating mode that integrates top management in the decision-making from the very beginning of the process. This approach has proven to bear the potential to reduce the number of committees and support velocity and appreciation of the entire program.

05// Establish performance culture

Create a cultural setup that stimulates and acknowledges outstanding performance of involved managers and employees. When environments change, employees need reorientation. The reorientation process can be significantly accelerated if the efficiency program is embedded in an enabling cultural framework that focuses on implementation and results to address the inherent challenges of efficiency programs. Hence, the applied leadership style must enable autonomous work to create a sense of ownership and responsibility but also support managers when driving issue resolutions from top down in order to keep pace, as with enforcing unpopular actions. Empowerment is thus essential for proactive decision-making of the middle management. Finding the right balance between employee-oriented collaboration and management-driven decision-making is key. A central element to performance culture is a team that is staffed in a diversified manner in terms of skills, characters, and perspectives. For example, the central project management office (PMO) requires at least three different types of characters: The head of the PMO should be dynamic, assertive, and bold in order to keep pace high, accelerate implementation, and drive stretch goals. A project management officer with broad business knowledge (generalist) is relevant as the role requires overseeing cross-functional measures, which often play a significant role in holistic efficiency programs. It is wise to include a transformation specialist—an open-minded individual with strong communication skills and a high level of empathy. Finally, the management accountant takes care of plausibility checks, consistent methodology, accuracy of results from a financial perspective (e.g., financial effects), and triggering potential countermeasures in a timely fashion.

06// Use digital tools

Drive success by using efficient digital tools along the entire program lifecycle. During the analysis phase, advanced tools help to collect and analyze data from different sources and in various formats. For instance, process-mining software provides the opportunity to map system-based process flows, identify issues such as process duplication, and propose initiatives and measures that are linked to KPIs, which can then be tracked in a balanced scorecard. Other solutions facilitate organization-driven analytics, such as hierarchy levels and span of control, which are particularly valuable for large corporations. In addition, cloud-based project management tools further increase efficient execution as they supersede the time-consuming process of manually creating and amending GANTT charts and status reports on PowerPoint slides. Various tools exist in the marketplace to provide a one-stop solution for PMOs, thereby enabling them to focus on value-add activities: milestones and critical path, task management, dashboard overviews, suggestion scheme, measure effect planning and tracking, status reports, and the like.

07// Balance your levers

Find the right balance for “great leaps” and incremental steps. Carefully calibrating the mix of efficiency measures along this continuum is key to keeping the team on track. Always ensure that the set of levers includes some visible quick wins in terms of P&L effects to be realized within a few weeks. Doing so will help keep morale and motivation longer at peak. For example, Porsche Consulting developed a shared service-center concept for procurement with an implementation timeline of one year for an industrial goods client. In order to safeguard morale along the way, the Porsche Consulting engagement team helped the client produce immediate, quantifiable results through process improvements. Celebrating this first-stage win with the project team created a great spirit of achievement, companionship, and optimism.

08// Check your interfaces

Go for the blind spots—the hidden costs that typically build up at organizational interfaces. Interdisciplinary processes with blurry responsibilities characterize these blind spots, which often yield significant efficiency potential. The product creation process of an industrial goods player is a meaningful example: although procurement is generally responsible for supplier selection, Porsche Consulting engagement teams regularly encouter situations in which R&D departments tailor technical specifications for purchased parts to advantage their preferred suppliers, thereby essentially eliminating procurements' scope of action. Such unrealized potential, stemming from unrealized leverage in purchase prices, can only be detected and addressed when looking at the interfaces of end-to-end processes, such as product development and order to delivery.

09// Keep stakeholders posted

Strive to turn followers into fans by making sure that all stakeholders understand what needs to be done and why. Use a thought-through communication strategy with aligned messaging that is synchronized with key project milestones or committees. Creating a sense of urgency is a powerful way to move from resistance to willingness to contribute. Use it carefully, however, to preserve credibility for the program. Claiming that the company is in severe trouble while generating sustainable profit margins might easily backfire as shareholders claim higher returns. Consider developing a target group–oriented communication strategy instead, one that addresses the concerns of stakeholders with truthful but differentiated messages. Let involved business units know why their contribution matters and how it affects their environment and the company. Respond with feedback and acknowledgement, if appropriate and suitable to the purpose in the respective setting, as with some sort of competition. Key advantages of this approach are minimization of attrition, acceleration of change, and enhanced program performance.

10// Make it sustainable

Use the momentum to make sure that your efficiency gains are not one-off. First, leverage your insights by developing a blueprint to retain the knowledge you gained over the course of the project. This kind of "ready-to-start" blueprint should reflect company-specific best practices in terms of approach and methodology but also any kind of lessons learned, for example, in terms of project management and communication. Accompanied by an early warning system, including internal and external economic indicators, it will save you a lot of time and help you avoid pitfalls when initiating an efficiency program in the future. Second, establish a continuous mode of efficiency improvement, typically by introducing a business process management approach with annual productivity targets. Companies can thus realize the vision of "growth without growing," or enabling profitable growth with existing personnel capacities and structures. This approach has been proven successful for Porsche AG over many years and is considered one of the key success factors in Porsche's leading position regarding profitability within the automotive sector.

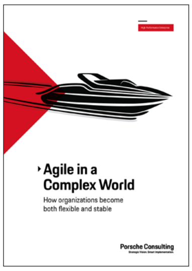
Summary and Outlook

Corporate-wide efficiency programs are about activating relevant levers in a meaningful manner that have a positive impact on the bottom line to sustainably increase profitability.

Efficiency programs are a complex endeavor, regardless of the company's situation, and require thorough planning, swift execution, and rigorous tracking to support a company's stabilization, growth, or prosperity.

Based on current market trends and their effects on today's economy, the number of efficiency programs is expected to grow significantly over the coming months, since they are necessary and of paramount importance to sustain growth and retain a favorable position in a competitive environment.

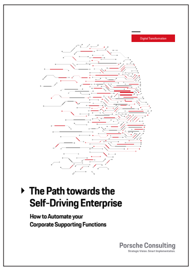
Further reading



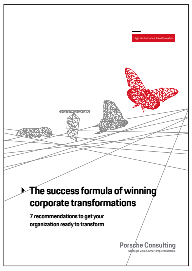
Agile in a
complex world

Financial
planning in
disruptive times

Thinking from the
customer`s point
of view



The self-driving
enterprise



High
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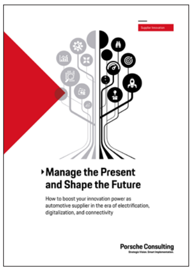
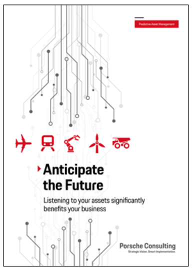
transformation

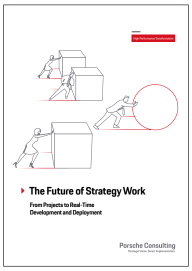


Manage the
present and
shape the future

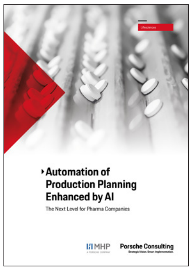


Anticipate
the future

Business process
management
reloaded



The future of
strategy work



AI-automation
of production
planning

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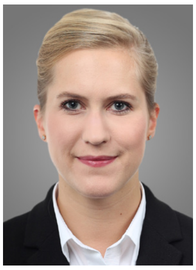

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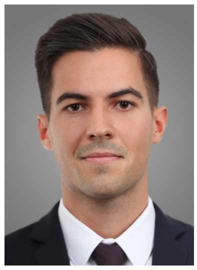

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Porsche Consulting

Headquartered in Bietigheim-Bissingen, Porsche Consulting GmbH is a subsidiary of the Stuttgart-based sports car manufacturer Dr. Ing. h.c. F. Porsche AG. Founded in 1994, the company currently employs 600 people and is among the top 10 management consultancies in Germany (Lünendonk analysis). Active around the globe, it has offices in Stuttgart, Hamburg, Munich and Berlin as well as in Milan, São Paulo, Atlanta, Belmont (Silicon Valley) and Shanghai. Following the principle of "Strategic Vision, Smart Implementation," its experts support companies worldwide primarily with their major transformations, the improvement of their performance, and enhancement of their innovative capacity. Their clients are large corporations and medium-sized companies in the automotive, aviation and aerospace industries, as well as industrial goods. Other clients originate from the financial services, consumer goods, retail, and construction sectors.

Strategic Vision. Smart Implementation.

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