

# COST OPTIMIZATION STRATEGIES FOR RESILIENT GROWTH

Q&A with BDO's Management Consulting Leaders



The overall economic outlook is uncertain, costs continue to rise and supply chain disruption persists. How can businesses enable new growth and find competitive advantage?

Looking at the performance through previous downturns, companies that took proactive steps and pursued resilience strategies like cost optimization [performed better than the competition](#). The right cost optimization strategy can help your business to navigate a downturn while positioning the organization to grow when conditions improve.

We interviewed BDO USA's [Dimitrios Vilaetis, Managing Director](#) and [Ian Cooper, Principal in Management Consulting](#), about how to approach cost optimization amid economic headwinds.

## QUESTION: HOW SHOULD BUSINESSES APPROACH COST OPTIMIZATION IN THE CURRENT CLIMATE?

**Dimitrios Vilaetis (DV):** To understand the opportunities available, first analyze and categorize all business activities into three groups:

- ▶ Activities you cannot adjust at all (such as regulatory compliance)
- ▶ Activities you cannot stop, but can adjust
- ▶ Activities that you can adjust or stop as needed

Next determine your "highest-impact" activities to understand the areas of greatest opportunity. "Highest impact" is determined by the size of the activity and the percentage change in value that you can expect to achieve – whether cost reduction, efficiency improvements or another metric. After determining the desired change, you can build a plan to achieve those goals.

## QUESTION: SPEAKING OF COST REDUCTION, IS THAT THE MAIN WAY TO MEASURE THE SUCCESS OF COST OPTIMIZATION?

**Ian Cooper (IC):** Cost savings are one important metric, but likely will not be the only KPI to track in a cost-optimization initiative. Depending on the project, your KPIs may include metrics related to efficiency, profitability and customer service levels.

Specific KPIs and benchmarks will vary. Measuring success in pausing a product or service, for example, will differ from completing a more complex action, such as modernizing a legacy IT system. Pausing a product or service can create greater supply-chain efficiencies, while modernizing a legacy IT system can help improve access to data for better decision-making.

An innovative way to look at cost reduction is by building the organization's capability to analyze and take action on the Cost to Serve of each of its customers. When done well, this can lead to significant margin impact through customer segmentation, delivery model changes, and pricing improvement.

**DV:** There are two types of benchmarks to consider while measuring success. Financial benchmarks are key enterprise KPIs on outcomes or costs, while functional performance benchmarks measure the performance of a process or set of processes. Both types can be helpful in measuring the effectiveness of cost-optimization initiatives.

If you do not have benchmarks from previous initiatives, you should look to industry standards and competitors. You can research financial benchmarks in public company data, while functional benchmarks may require a benchmarking study.

## **QUESTION: WHAT PITFALLS SHOULD BUSINESSES AVOID WHEN PURSUING COST OPTIMIZATION?**

**DV:** Some costly areas of the business are necessary sources of competitive advantage. Products that are expensive to produce but sell for high margins, for example, may present opportunities to improve efficiencies in production or distribution. Discontinuing that offering altogether, however, could hamper growth.

If a business only focuses on cost cutting, it may miss other opportunities to drive value, such as process improvement. Improving processes requires some upfront investment, but provides ROI over time that more than pays for itself by freeing up employees, enhancing decision-making and improving efficiency.

**IC:** A common pitfall is cutting deep without changing the business processes or delivery model. Ideally, cost optimization supports long-term goals, including scaling down and scaling up, which typically require new ways of working.

For instance, we recently had a client who needed to accelerate cash collections. Over several decades of growth, they did not implement common processes, optimize their delivery model, or invest in digital transformation. In other words, they still relied on the same processes they had used when a tenth of their current size. In their case, building the right foundation for updated processes has been more critical to achieve long-term success than cutting costs.

## **QUESTION: HOW SHOULD BUSINESSES APPROACH COST OPTIMIZATION IN GOOD TIMES VERSUS BAD TIMES?**

**DV:** You should always customize your strategy to the current moment, whether times are good or bad. In a down market, you should focus on financing strategic investment opportunities. If you can spot changing customer behaviors or emerging demands, for instance, you can grow revenue or gain competitive advantage – even amid unfavorable market conditions.

To finance these investments, free up capital. Consider reducing fixed costs and moving to a more variable cost base. This can help you quickly scale up or down and reallocate cash to new opportunities. Tax optimization including R&D tax credits and other available incentives can also offset investment costs.

**IC:** In times of growth, you should prioritize accelerating growth, which means taking bolder actions to increase revenue and profitability. This can involve expanding geographies, targeting new customers and adding new products or services. Some businesses may build these capabilities in-house, while others use M&A to acquire new capabilities.

Even in good times, do not lose sight of cost optimization. When integrating a new acquisition, for example, look for opportunities to streamline costs and improve efficiencies.

## **QUESTION: WHAT ARE STRATEGIC OPPORTUNITIES FOR INVESTMENT IN A DOWN MARKET?**

**DV:** A downturn is one of the best times to innovate or pivot your business model. Major innovators – such as the sharing economy and streaming organizations – were born out of the 2008 financial crisis. Stay in close communication with your customers to understand their issues in the current market and see if you can spot patterns in their needs and pain points. Then, build new products or services to meet those needs.

You should also reconsider previous experiments in products, services and delivery models. Does it make sense to give them another shot under new market conditions? At the same time, it's key to remain strict about project performance. If an experiment is not working, don't be afraid to cut it and try something else.

Fail to innovate and you might get left behind. Traditional video rental companies were beat by new competitors that capitalized on the shift to streaming and e-commerce. Traditional taxi services have suffered major losses since rideshare platforms took off.

**IC:** Improving the customer experience should be a focus in both good and bad times. Digital capabilities like robotic process automation can help improve efficiency and maintain consistency of service. Demand-planning tools can inform inventory strategy and mitigate delays or other issues. Digital investments can also help businesses scale better than peers that lack these capabilities.

Other high-impact investments include modernizing highly technical or manual processes. Although some processes have observable high costs; keep an eye out for less conspicuous opportunities for improvement, such as pricing and revenue leakage.

To achieve long-term goals, you must balance improvement initiatives across people, processes, technology and data.

## POSITIONING FOR FUTURE GROWTH

Pursue cost optimization now to prepare for what comes next. Gaining a competitive edge during the downturn positions your business to take advantage of opportunities as market conditions improve.

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