BCG

Weekly Brief

February 07, 2023

Gaining the Upper Hand on Costs

To BCG's network around the world,

Leaders are well aware of the difficult balance they're facing when it comes to rethinking costs. They need to quickly expand margins, or at least avoid their erosion. And they need to keep pushing strategic ambitions forward, such as digital transformation, climate and sustainability, and talent management.

When companies get that balance right, cost reduction is not just about survival. They gain an all-important competitive cost advantage, generating a thriving business on all dimensions. How can they make this happen? Our BCG team working on this challenge has developed a systematic approach integrating a people and an operational lens, offering four potential transformation pathways.

The choice of pathway depends on the company's current financial and operational state, as well as its level of resilience and organizational capabilities. The first two may be best in situations when targeted cost reductions can help a company stabilize its declining or volatile margins. The third and fourth are more holistic, part of a larger plan to make the organization leaner, more resilient, and more efficient overall. Leaders can pursue some of these moves at the same time, or else adopt them in a strategic sequential order, according to their needs and goals.

1. **Optimize procurement spending,** reducing external costs and improving procurement processes without making major organization changes. This is particularly important now, as input costs are soaring.

   Example: To do this without sacrificing quality, a global auto equipment manufacturer digitized its procurement process, improving its ability to renegotiate and manage contracts. **The impact:** a 12% direct-product cost improvement and a boost to margins.

2. **Streamline the organization,** enhancing organizational effectiveness to create a slimmer, nimbler workforce.

   Example: One US-based transportation firm took this approach, committing to a top-level realignment and an improved talent strategy focused on sourcing and hiring the scarce talent needed to fill strategically critical growth roles. **The impact:** a 20% decrease in inefficient work, the reduction of two managerial layers, and more than 5% of team members promoted or restaffed in new functions.

3. **Rewire processes**—often using digital and AI—to maintain core functions while growing and succeeding with a lower cost base.

   Example: A global oil and gas company, wanting to address slow and costly decision making, undertook an end-to-end process reorganization, restructuring and upskilling teams. **The impact:** a vastly improved planning and execution timeline—from eight months to four months for scoping and project definition—and a total cost savings of $1.5 billion per year.

4. **Strategically transform operations,** holistically covering all cost dimensions, including direct and indirect costs, and prioritizing longer-term impact. These transformations might involve efforts such as complexity optimization, network redesign, digital supply chain integration, and Industry 4.0 updates.

   Example: A European beverage company conducted a holistic transformation of its operations, with a focus on production efficiency and footprint optimization along with product portfolio harmonization. **The impact:** a $500 million estimated impact from the overall program, along with a 10% reduction in supply chain costs.

Again, it's about more than survival. A competitive cost advantage effectively sets companies up to invest in their own future growth and the satisfaction of their people. With the right pathways—or combination of pathways—the savings potential can be significant and the competitive advantage well worth the effort.

Until next time,

Christoph Schweizer
Chief Executive Officer

Further Reading

[Building Resilience Through Competitive Cost Position]

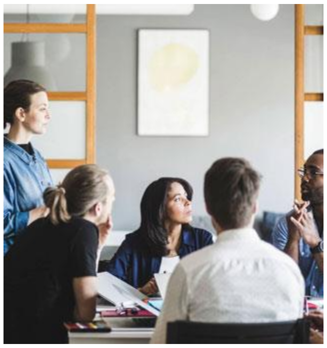
The best organizations know how to turn adversity into opportunity. In this edition of BCG's Executive Perspectives, we look at how leaders can respond to today's unprecedented uncertainty by building a competitive cost advantage.

READ MORE →

[If Disruption Is the New Normal, Operational Resilience Is the New Necessity]

BCG's new benchmark reveals that only 10% of companies are truly prepared for supply chain disruptions. Where does your company stand?

READ MORE →



Why Leaders Can’t Let Up in Transformations

The business environment just keeps getting tougher, but transformation is still an imperative. A new BCG survey confirms that five measures can make a big difference in results.

READ MORE →