Quadrupling Your Odds in a Cost Transformation

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Companies face a persistent need to reduce costs and maintain a competitive advantage, but they often struggle to generate lasting results. In a recent BCG survey of companies that underwent a cost transformation in the past five years, only about 20% of cost programs succeeded. (See "About the Research.") That's equivalent to a sports team only winning one of every five games.

About the Research

Our survey drew responses from 2,080 people, spanning all industries, in six countries: China, Germany, India, Japan, the UK, and the US. Respondents were C-level leaders, heads of divisions or business units, directors, senior directors, managers, senior managers, and employees in non-managerial roles. All respondents had undergone a cost transformation program in the past five years.

A key challenge is that many leaders opt for simple, across-the-board cost reductions, such as all departments rapidly cutting 15% of headcount. At best, that kind of blunt-force approach may lower costs in the short term. At worst, it will hurt performance, reduce employee engagement, and fail to address the underlying issues—keeping the organization in a cycle of cost-cutting.

Cost pressures are growing due to tariffs, inflation, the need to invest in AI, and other factors, and companies need to act. In a previous publication, we discussed the evergreen drivers of cost in organizations, and we offered solutions for each. In this article, we identify specific steps that companies can take to address the evergreen cost drivers as part of a cost transformation. These steps require more deliberation and design than blunt, across-the-board cost reductions, but they can dramatically flip the odds of success. When implemented together, our research shows that they can increase the likelihood of a company succeeding in a cost program to about 80%—a four-fold gain.

Where Cost Reductions Go Wrong

Our data shows that across-the-board headcount and cost cuts are all too common. Among survey respondents, one out of every three cost transformations still use this approach. That may be understandable—these types of programs are fast to implement and don't require much planning or design. But they also have several significant drawbacks:

- *They don't allow for a thoughtful restructuring of the operating model to improve efficiency and effectiveness.* A critical component of a cost transformation is the design of the future-state company—realigning the operating model and organizational structure to the company's strategy and sources of competitive advantage, and resolving persistent pain points. Blunt-force reductions preclude coherent redesign, resulting in a slightly smaller organization with all the same inefficiencies and structural issues still in place.
- *They don't strategically differentiate among business units or functions.* Cost reductions shouldn't be spread evenly throughout the organization. Virtually all functions and business units will need to become more efficient, but some will need to make bigger reductions than others. In addition, some business units and functions may be more valuable to the company's future, requiring a net investment to build organizational capabilities as part of the program.
- *They disproportionately affect frontline employees.* Because these programs often don't address the operating model or leadership structure, reductions tend to fall more heavily on junior and front-line employees, while sparing those at the top.
- *They lead to the loss of important talent.* Managers who have direct insights on employees often aren't involved in program design or decision making. Consequently, decisions about where to cut don't reflect first-hand understanding of individual performance and potential. At the same time, some units may have stronger talent than others, with higher-potential employees that the company should try to keep—either in their current roles or reallocating them to roles in other parts of the organization.
- *They can be toxic to employee engagement.* When people feel a cost program isn't transparent or fair, doesn't optimize for talent, or will hurt company performance, employee confidence and engagement tank. Among the levers we assessed, blunt workforce reductions were ranked as the most disruptive, with a three-fold negative impact on employee engagement.

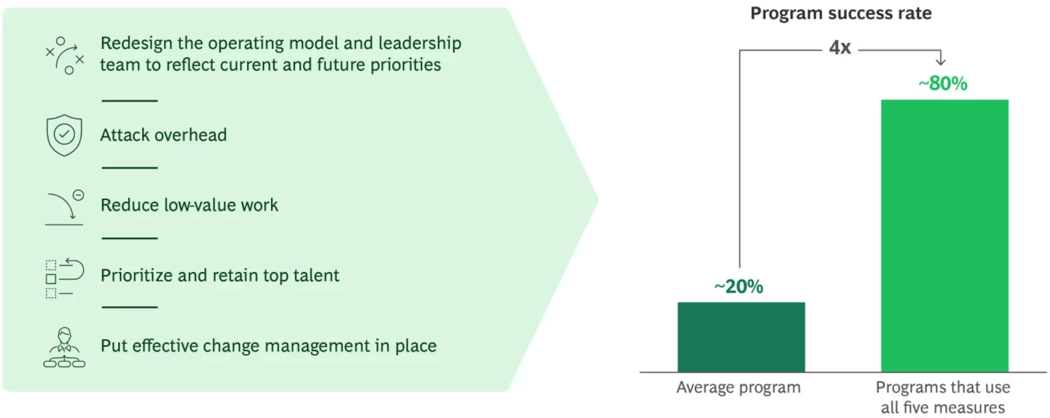
These reasons make blunt-force reductions in cost or headcount unsustainable. Cost inevitably rebounds, and companies rapidly end up back where they started—launching yet another cost-cutting program. Among survey respondents, half said their companies pursue cost programs every one to two years.

The Factors That Truly Matter in a Cost Program

Our research—combined with experience supporting clients—points to five steps that can address evergreen cost drivers. This approach goes beyond simple, broad budget cuts to redesign the operating model, organization structure, and key positions for the future-state company. If applied collectively, these five levers flip the likelihood of a cost program's success from about 20% to 80%. (See Exhibit 1.)

EXHIBIT 1

Five Measures Can Help Companies Flip the Odds of Success in a Cost Transformation



Source: BCG Org Cost Survey 2024 (n=2080).
Note: Success rate is the share of survey respondents who reported that cost program was "very successful."

Redesign the operating model and leadership team.

The first success factor in a cost program is thinking through the post-transformation operating model—what the company does, how it creates value, and which activities and capabilities are essential to that model. (See “Case Study: Changing the Operating Model Improves Business Performance.”) From that baseline, the company can start to modify the organization’s structure accordingly, including the senior leadership team. Companies that start cutting costs without first taking these critical steps will miss major efficiency opportunities and may not be able to achieve their targets without degrading performance.

Case Study: Changing the Operating Model Improves Business Performance

An industrial company we worked with wanted to redesign its operating model as part of a broader transformation to reduce costs and become more customer-centric, focusing less on selling equipment and more on developing tech-enabled products and services.

The company ran in-depth diagnostics of HR data and compared that to external benchmarks to quantify cost-saving opportunities. It also defined top-down targets for the enterprise. A cross-functional team with stakeholders from HR leadership, corporate strategy, business leadership, and finance developed three potential operating models and recommended one as a clear best option, which the CEO and board approved.

The project resulted in a leaner organization with a more customer-focused operating model and stronger business performance accountability. The company is on track to meaningfully increase revenue and overall profit.

The organizational redesign should impact senior management positions—meaning the top three levels of management. Companies that address senior leadership structures are far more likely to report success in a cost program. Conversely, failing to make changes to the top-level structure and team can foreclose opportunities further down in the organization; some activities and roles will remain in place simply because they are under a particular leader’s remit.

Attack overhead.

Overhead is a perennial challenge at most companies. Because overhead generates more overhead, it is one of the four evergreen cost drivers we see in our client work. (We define overhead as headcount not directly tied to developing products, delivering services, or generating revenue.) For that reason, a disproportionate focus on overhead functions is critical to sustainably reduce costs. Companies that include all support functions in scope double their likelihood of implementing a successful program.

Tactically, reducing overhead also means reducing “hidden” but identifiable sources of burden in both business units and support functions. Excess layers; managers with overlapping responsibilities; senior roles that demand extensive staff support; internally focused activities; and “mirrored” coordinator, planner, and project manager roles that monitor the work of others are all sources of burden—and present opportunities to significantly reduce cost with minimal impact on organizational performance.

Reduce low-value work.

Next, companies should look at work that bogs down employees and doesn’t lead to real value. (See “Case Study: Eliminating Redundant Work Unlocks $100 Million in Savings.”) To identify low-value work, companies need to take both top-down and bottom-up approaches.

— Case Study: Eliminating Redundant Work Unlocks $100 Million in Savings

An energy company we worked with had already undergone a cost program, which reduced spending but didn’t make the organization more efficient or effective. To improve, the leadership team launched a second program focused on non-value-adding work. They mapped all activities in the company to spot redundancies, identify critical work, and determine the positions required to accomplish that work. They then redesigned the organization around those positions and eliminated roles associated with redundant work.

Through that process, the company unlocked $100 million in sustainable savings, with the majority impacting the bottom line within the first year.

Top-down, senior leaders should identify the processes, activities, and “internal products” that can be stopped. Leaders can also look at efficiency improvements through technologies like generative AI. Bottom-up, companies can ask employees directly—through surveys and other mechanisms—about the work they do that consumes time but doesn’t deliver real value. This could include outdated policies, unnecessary steps, certain types of reporting and compliance, and any other tasks that don’t deliver a meaningful impact.

In many cases, comparing how different departments and business units handle certain processes can identify best practices, along with variations and wasteful steps that can be eliminated.

Prioritize and retain top talent.

Just as a poorly implemented cost program can erode engagement, a well-implemented program—even one that eliminates a significant number of positions—can improve engagement, provided companies prioritize the retention of their best people.

Effectively addressing talent requires two elements. First, companies need to be thoughtful and deliberate in how they implement headcount reductions. This entails giving managers input into the makeup of their future teams and being upfront about the criteria they will use to assess employees. These criteria should be applied fairly and based on objective criteria.

Second, organizations should do their best to reallocate promising talent during the program. Companies need to create a process so that high-caliber talent already in the organization gets fair consideration for roles in other departments and for newly created positions. Reallocating talent in this way ensures that companies aren’t making unnecessary people-separations. Instead, they keep their best talent over time, building trust across the workforce by positioning them for internal opportunities.

Put effective change management in place.

Because cost programs at large companies are often complex, with many moving parts and interdependencies, effective change management is critical to success. This entails baseline measures like a program management office, along with clear and consistent communication from leaders to managers and frontline employees. It also requires broader measures to motivate and mobilize employees so that they buy into the program and willingly adopt new behaviors and ways of working.

In successful cost programs, leaders set the overall vision while ensuring that people at all levels engage in the process as well. This gives employees a stake in the firm's success and some shared ownership of the outcome. They understand the core reasons behind the program, offer input, make suggestions for continued efficiency gains, and adopt a mindset of continuous improvement even after the formal program ends. In that way, companies can apply change management principles to help build a cost-aware culture. But accomplishing this requires a concerted effort from management to clarify the "why" of a cost program, and to offer a clear picture of the target future state.

A Smarter Approach to Implementation: Distributing Decisions to Managers

Across all five of these measures, companies should keep a core principle in mind: cascading decisions downward layer-by-layer in the organization.

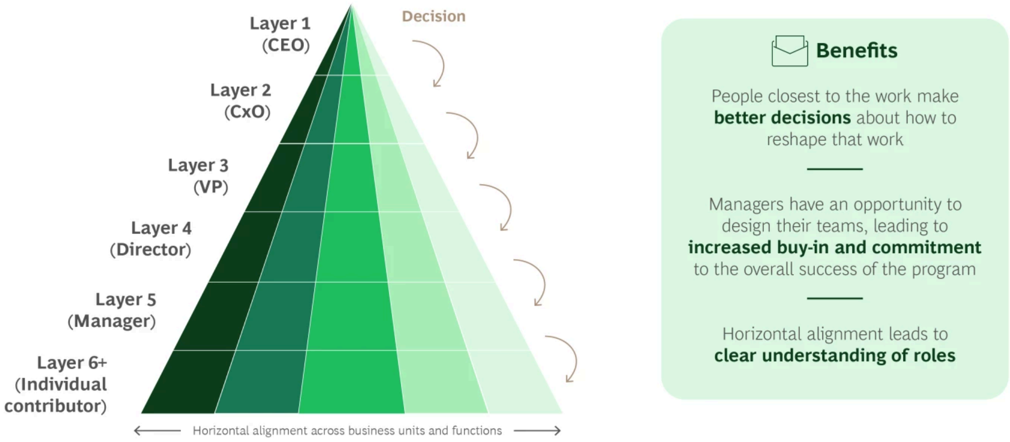
All too often, senior leaders determine the detailed plan for a cost program, directly impacting people who are many levels below them. But leaders often don't have visibility into those layers, leading to missed opportunities and poor decisions. In addition, managers and frontline employees won't feel any ownership of the outcome if they have no say in designing solutions.

Communication delays are a factor as well: top-down approaches can lead to long gaps between when decisions are made and when they are finally implemented, leading to stress and uncertainty. In our survey data, only about 40% of managers and individual contributors said that changes in processes and roles were clearly communicated to them in top-down cost programs.

In our experience, pushing some decisions down to middle layers and below can generate a better overall result. In this approach, senior leaders set high-level objectives and delegate authority for achieving those goals down to the next level in the organization (with appropriate constraints and monitoring). This enables unit leaders and managers—those with the most direct, firsthand insights into their needs and teams—to make decisions about team structure, who to retain for individual roles, and how to redesign daily work in order to increase efficiency. (See Exhibit 2.)

EXHIBIT 2

Cascaded Ownership and Decision Making in a Cost Program Lead to Better Outcomes



Source: BCG analysis.

Our research found that few companies design their structures this way, yet the benefits are sizable:

- *Smarter design.* People closest to the work (and to the workers) have firsthand knowledge about their teams and talent that senior leaders simply don't have. Giving those people direct input into the process leads to better decisions and better outcomes.
- *Better employee retention.* In a distributed-decision approach, managers and employees were 50% more likely to say that their company made an effort to retain top talent.
- *More cohesive rollout.* When decisions cascade to lower levels of the organization, changes to the operating model are more systematic, leading to greater buy-in and helping to embed new behaviors.
- *Greater understanding and clarity.* When companies use a distributed approach, middle managers and employees were 20% to 30% more likely to say they understood the objectives of their company's program, along with new priorities, the rationale for decisions made as part of the program, and changes to individual roles and processes.

Cost pressures are only intensifying, but companies need to resist the urge to make undifferentiated cuts to the workforce. By taking a more thoughtful, deliberate approach and applying the five principles discussed here, companies can increase their odds of a successful cost program. In this way, they can dramatically reduce costs and—just as importantly—increase their resilience and agility, equipping them to compete over the long term.

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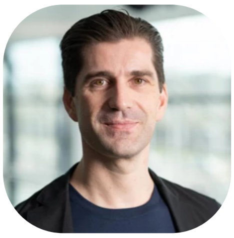

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