Dear Reader,

It is our pleasure to present you with this summary of *Fit for Growth*, a new book that we recently launched globally.

*Fit for Growth* lays out our approach to implementing strategic cost management. This issue has gained increasing relevance all across the world, as global competition has become only more intense and growth more difficult to achieve. Indeed, many home markets are showing limited growth, while emerging markets are failing to provide enough respite.

We strongly believe that the fit for growth approach is especially relevant for companies in Russia, as the economy has moved to a new normal of low growth and has only now begun to slowly emerge out of the severe recession of the last two years.

The new normal is characterised by stronger competition and overcapacity in certain segments, as well as by consumers who have become more price sensitive and clients who have improved their procurement methods.

After the long period of sustained growth that preceded the recession, many companies are not set up in the right way—neither strategically nor structurally—to succeed in the new normal. These companies will therefore need to improve their capabilities in strategic areas, while simultaneously reducing costs.

This is a strong challenge and requires an approach beyond simple top-down cost reduction. It is critical that any cost reduction programme be structural in nature. This cannot be achieved by top-down cost reduction approaches that only stretch organisations to do more with less. In many cases, such cost reductions are reversed within two or three years.

We see ample room for cost reduction in our client base in Russia, for Russian and international companies alike. Typical issues in Russia include: low process maturity; a lack of cost transparency; a bottom-up view of required service levels and needs with the proper cost base; and siloed management of functions and business units with no clear, functional KPIs. In addition, many management teams are not fully aware of the saving opportunities and fail to set sufficiently ambitious goals that are then paired to an aggressive transformation strategy.

Significant savings can be achieved through a combination of improving real processes and reassessing the activities that are required for the business. Achieving this goes hand in hand with enablers such as introducing new trainings, redesigning the organisation, revising KPIs and incentives, and changing the company culture. All of this takes time and these programmes can only succeed if they are aligned with the strategy of the company and have the full support of the management team, including, above all, the CEO. Too often, cost reduction is delegated downwards and then seen as a mere nuisance, instead of as a strategic imperative for long-term survival.

This short booklet gives some examples of the fit for growth concept and of how it has been implemented.

If you are interested in learning more, the full book version of *Fit for Growth* is available. In addition, we would very much welcome the opportunity to discuss industry and Russia-specific examples with you.

Sincerely,
Martijn Peeters

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Martijn Peeters
Partner, Strategy & Operations
+7 (495) 967 6144
martijn.peeters@ru.pwc.com
“Whether a company wants to survive or thrive, it needs to know what, why, and how to cut constructively.”

Deniz Caglar, coauthor of *Fit for Growth*
In today’s globally interconnected, digitally disintermediated market, there is no safe harbor when it comes to the bottom line
Welcome to the new normal!

Sluggish global growth
Political uncertainty
Regulatory pressures
Digital disruption
Changing consumer expectations
Activist investors
Too many companies do not put their money where their strategy is

“Our strategy is not well understood across the organization.”

“The appraisal process has no clear consequences for managers who fail to support the company’s strategic objectives.”

“Funding for critical initiatives gets channeled in an ad hoc or informal manner.”

Source: *Fit for Growth Index profiler*
“The way management allocates its time is not driven by strategic objectives.”

“Our company does not have the capabilities required to win.”

“Low-priority initiatives get too much funding.”
Fit for growth companies do put their money where their strategy is...

**Execution**

**Aligned and engaged organization**
- Make the right decisions, faster
- Align incentives with strategy
- Build aligned culture

**“Smart” resource management**
- Invest in areas that really matter
- Run lean in areas that matter less
- Don’t wait for red flags to take action

**Clear strategy and strong capabilities**
- Clearly understand how you make money in your business
- Build world-beating capabilities to create value

**Strategy**
... which allows them to enjoy increased returns.

Note: Dots represent companies from across the globe, across different industries, for which we have assessed the degree to which they follow a Fit for Growth approach and determined their two-year TSR (August 2010 to July 2012). For more details, visit strategyand.pwc.com/ffgindexstudy

Source: Capital IQ database; Strategy& analysis
“The secret to unlocking growth is to make deliberate choices not only about what to cut, but also about where to invest.”

Vinay Couto, coauthor of *Fit for Growth*
You, too, can be fit for growth
**Fit for Growth** is a strategic approach to cost management

**Fit for Growth** connects:

- Choices about costs
- Investment in capabilities
- Organizational and cultural evolution

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**Company’s strategy**

Clear articulation of the capabilities that really matter to strategy and ability to win in the market

1. **Focus on differentiating capabilities**
   - Invest in sustainable and differentiated capabilities funded by improvements in the cost structure

2. **Align cost structure**
   - Develop a clear cross-organizational cost agenda, making deliberate choices from the front line to the back office

3. **Reorganize for growth**
   - Implement an organization model, processes, and systems that unlock potential and agility for growth

4. **Enable change and cultural evolution**
   - Create an environment and evolve the culture to embed and sustain change in the organization’s DNA

**Fit for Growth** works because it helps you make deliberate, holistic choices in the context of your company’s strategy.

* Fit for Growth is a registered service mark of PwC Strategy& LLC in the United States.
1. Focus on differentiating capabilities

**Capability** /kə-ˈpa-ˈbi-lə-tē/

A well-designed combination of processes, tools, knowledge, skills, and organizational design that delivers a specific outcome. Your capabilities system is the group of three to six distinctive capabilities that differentiate you from other companies and that allow you to deliver on your value proposition. These critically important capabilities do not stand alone. They are part of a mutually reinforcing system.
2. Align cost structure

Deploy your investments (costs) against your key competitive strengths — your few differentiating capabilities — protecting “good costs” while pruning “bad costs.”

Good costs

= expenses that are vital to the future growth of the business

Bad costs

= expenses that divert resources from building and expanding critical capabilities
3. Reorganize for growth

Build an organization that can sustain cost reductions and that enables managers to drive growth.

Don’t just work on the lines and boxes, but change the way the organization works.

There are four building blocks that define an organization and its effectiveness

Read more about the four building blocks of an organization’s DNA at www.orgdna.com
4. Enable change and cultural evolution

Put your culture to work: Help people change what they do and how they do it, by focusing on a few critical behaviors.

Such culture-led change is better at getting people ...

ready
willing
able
committed
to change
**This is different from what you’ve done in the past**

*Fit for Growth* is about enabling growth, not just cutting costs

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The leadership imperative: Three critical questions for CEOs
How do I energize my organization for a transformation?

The CEO must make the case for change. Make it candid and compelling. Only you can explain to people the reality that the business is facing. If you don’t tell them, they’ll never accept it.

Align the top. Senior management must invest in the case for change: Members must be unified, aligned, and committed. Every executive must have a stake in the whole transformation, not just his or her individual piece of it.

Declare amnesty for the past. Anchor the disruptive change you’re launching in a positive, strategic vision for the future. There is nothing to be gained by looking backward and casting blame.

Showcase quick wins. Give your people early “trophies” — i.e., cuts that generate significant savings with relatively minor transition costs. Quick wins demonstrate momentum, as well as commitment to the transformation program.
How do we achieve both cost fitness and growth?

Put everything on the table.
True sacrifice includes even such sacred cows as company jets, executive dining rooms, and CEO pet projects — maybe even corporate giving and some employee benefits. The whole organization has to get the message “we’re all in this together.”

Challenge the what, how, and how well.
Address the root causes of high costs, not just the symptoms. Look at structural issues such as your chosen markets, current product portfolio, and operations and support footprint.

Balance cost cuts with capabilities investment.
Too many CEOs believe they can cut first and worry about growth later. Not true. Cuts and investments go hand in hand. If you don’t identify and nurture your differentiating capabilities, you will stunt your newly slimmed-down organization.
How do I manage the transformation so it’s enduring?

Set up a parallel organization. Establish a dedicated Program Management Office (PMO) to oversee a single, cohesive transformation program, rather than assigning disparate expense reduction projects.

Communicate before, during, and after. If you want people to achieve big things, you must communicate frequently, using clear language. In the midst of disruptive change, people deal much better with reality than with ambiguity.

Keep the weight off. Don’t declare victory at the finish line and then ignore signs that the organization is reverting to old habits. Keep the PMO intact, and keep reinforcing new policies, procedures, and resource allocations until the new habits stick.
Set the objective.

Put a stake in the ground: Define a stretch target that quantifies the program’s expected benefits and a time frame for achieving it.

This target:

• Is determined from the top down by company leaders
• Is informed by company objectives, external benchmarks, and shareholder expectations
• Crystallizes the challenge for the entire organization
• Encourages people to think aggressively and creatively about what they can change

Identify differentiating capabilities.

Focus your investments on what defines your company and makes you different from the competition.

Identify your company’s three to six differentiating capabilities (the things that you do better than your competitors and that allow you to outperform):

• Be precise, so you know where to focus
• Look across the entire company, not just within silos
• Focus on a few capabilities — you can’t be world class at everything

Cost reductions cannot be arbitrary or be made “across the board”; executives must play favorites:

• Cut aggressively in areas that don’t distinguish you from the competition
• Reinvest in capabilities that contribute to competitive advantage and enable you to outperform
Growing stronger.

**transformation look like?**

Select cost reduction levers.

Find the funds for reinvestment by questioning:
- What you do
- Where you do it
- How you do it

**What do we do?**

- Portfolio rationalization
- Zero-basing capabilities

**Where do we do it?**

- Business operating model
- Outsourcing
- Footprint optimization

**How (and how well) do we do it?**

- Process excellence
- Spans and layers
- Digitization
- Strategic supply management
Case study: *Fit for Growth transformation of a European bank in distress*

**Situation:**

- A large European bank suffered significantly during the 2008 financial crisis and was kept afloat only by state guarantees — which were steadily shrinking.
- Restructuring requirements: massive balance sheet reductions, withdrawal from several business segments and most international locations, dismissal of more than a third of the workforce, and reduction of administrative cost by more than €600 million.
- The goal: Reposition as a bank for local and regional entrepreneurs; keep employees engaged; increase client satisfaction; ready the new bank for growth.

**Solution:**

- Used lean management to transform the organization, reduce workload, realize the targeted cost reduction, and make organizational improvements.
- Started building lean capabilities in two pilot departments, followed by gradual rollout across the organization.
- Established a community of internal lean experts — “navigators” — via a train-the-trainer program; active employee involvement was key to sustainability (i.e., a culture of continuous improvement, empowerment, and personal responsibility).

**Results:**

- Overall productivity improvements ranged from 10 to 38 percent, depending on the department, with an average of 24 percent.
- Client satisfaction improved measurably, with increased “share of wallet” and future referral potential.
- Operational risks were reduced significantly, driven by process redesign, e.g., clear handshakes between front, middle, and back offices; new checkpoints and controls; and improved data quality.
- Lean culture empowered and motivated employees, built pride among them, and inspired them to go the extra mile while developing a self-learning organization and a common language for continuous improvement.
“All spending is investment. Every cost is a choice.”

Deniz Caglar, coauthor of *Fit for Growth*
The cost reduction levers

Use a combination of cost reduction levers to free up resources that will boost your unique advantage — and be sure to cut costs through a capabilities lens.
Cost lever: Portfolio rationalization

“Decide what business you should be in.”

Time needed: 
～ 1 year

Savings potential: 
20 to 30 percent of spend

What is it?
Portfolio rationalization identifies where (in which categories, products, customers, channels, geographies) complexity is driving high costs and helps you take out both the costs and the underlying drivers of complexity. It reduces complexity that is not differentiated or adding value, while building a capability of managing the “good complexity” that drives profits.

Strategies to balance revenue and complexity costs to maximize value

- **Reshape revenue curve**
  Shift to more profitable SKUs, customers, channels. Increase prices selectively.

- **Reshape cost curve**
  Manage high volume and low volume differently. Differentiate service levels based on profitability.

- **Shift cost curve down**
  Reduce overhead costs. Reduce operational costs (e.g., footprint, process improvement, sourcing).

Best practices:
- Assume that there is portfolio complexity that can be rationalized: Look for symptoms and you will likely find significant opportunity
- Be pragmatic: Don’t “boil the ocean”; only dig into the true costs where you anticipate you will find the problem
- Don’t label a product or customer as “strategic” too quickly or easily
- Take out fixed costs and support infrastructure immediately: This allows you to maximize impact and keep complexity from creeping back
- Make portfolio rationalization a routine, and a capability: Monitor and clean up your portfolio continuously
Cost lever: Zero-basing capabilities

“Justify what to keep, not what to kill.”

What is it?
Zero-basing is an essential tool that forces management to justify all costs, based on strategic priority, value added, and business necessity. Nothing is funded just because it was in last year’s budget.

Time needed:
6 to 18 months

Savings potential:
20 to 35 percent of spend

A capabilities-based cost structure

Best practices:
- Demonstrate commitment from the top: Model new attitudes toward spending, challenge the way things get done, inspire behavior change
- Define fit-for-purpose stretch goals: Use zero-basing as a tool to meet the top-down savings targets established for the program
- Adopt new ways of working: Prioritize competitive differentiation, and optimize efficiency everywhere
- Exhibit ongoing discipline: Sustain the benefits by establishing an annual process to look at new or incremental costs through the zero-basing lens
Cost lever: Business operating model

“Redefine where critical work gets done.”

**Time needed:**
12 to 24 months

**Savings potential:**
15 to 25 percent of spend

**What is it?**
Your business operating model defines where critical work gets done, how organizational units are structured, and how people work together. The goal is to align your operating model with your strategy so it directly supports your differentiating capabilities.

**Best practices:**
- Be holistic: Go beyond cost reductions to ensure that your new operating model enables the strategy and brings your differentiating capabilities to life
- Establish checks and balances: Limit the power of any one organizational unit
- Lay out a strong business case: When moving an activity from one part of the organization to another, overcome internal resistance by providing a strong rationale
- Define a clear road map: Spell out how the new system will work, how decisions will be made, and how decision makers will get the necessary information
Cost lever: Outsourcing

“Let external providers generate value for you.”

Time needed: 6 to 18 months

What is it?
Outsourcing enables companies to hand off necessary but non-differentiating business processes to external service providers. These provider companies deliver value by leveraging their technical platforms, process expertise, process standardization, continuous improvement, economies of scale, and labor-cost arbitrage.

Savings potential: 5 to 50 percent of spend
(more savings with IT and back-office processes; less with manufacturing, transportation, and warehousing)

Typical breakdown of savings from business process outsourcing (BPO), by source

Best practices:
- Define objectives: Outsource only when performance is measurable and an external provider can be held accountable for achieving clearly defined objectives
- Establish an “internal case to beat”: Determine the best possible result you could achieve by transforming a process internally; use that as a baseline for outsourcing decisions and negotiations
- Aim for win-win contracts: Work toward an outsourcing agreement that is fair to both parties
- Continue to be involved: Actively manage your external service providers, because ultimately you still own the results

Note: BPO represents processes in finance, human resources, sales back office, and customer service.
Cost lever: Footprint optimization

“Rethink your operations and office locations.”

What is it?
Footprint optimization aims to improve the effectiveness of your location network: how well your locations (manufacturing plants, distribution centers, service points, R&D centers, administrative and support offices) work together, how cost-effective they are, how well they support the company’s strategy, and how adaptable they are to changing markets and customer requirements.

Time needed:
12 to 24 months

Savings potential:
15 to 20 percent of spend

Four network archetypes

Best practices:
- Start with a market-back approach: Focus on customer demand and service-level expectations; work backward from there to design the optimal footprint
- Analyze scale and complexity effects: Balance the lower unit cost that would result from centralization with the increased complexity it may bring
- Understand labor / automation trade-offs: Base your automation choices on volumes and local labor rates
- Be comprehensive: Make sure to include total costs of new footprint (labor, transportation, inventory, and facilities), as well as all attendant risks and support requirements
Cost lever: Process excellence
“Simplify work and minimize bureaucracy.”

Time needed: 3 to 15 months

What is it?
A process excellence initiative can identify the true sources of customer value in a product or service; determine which processes create that value; and simplify or eliminate other processes.

Savings potential: 10 to 20 percent of spend

Today’s operational challenges

| Percentage of COOs responding to an issue as most, second-most, or third-most challenging |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Understanding what customers value | Changing direction | Managing complexity | Building excellence in a few cross-functional capabilities | Recruiting and developing talent | Managing trade-offs in global, regional, and local operations |
| Most challenging | Second-most challenging | Third-most challenging |
| 63% | 61% | 55% | 50% | 46% |
| 14% | 15% | 20% | 21% | 16% |
| 32% | 23% | 17% | 16% | 24% |
| 17% | 23% | 18% | 13% | 7% |
| 23% | 18% | 17% | 13% | 4% |
| 32% | 23% | 17% | 13% | 7% |
| 14% | 23% | 18% | 17% | 4% |
| Source: PwC 2015 Global Operations Survey

Best practices:
- Isolate waste by segmenting processes across three key dimensions: activities that create value a customer is willing to pay for; activities that don’t create value for customers but are necessary to operate a business; and activities that add no value at all
- Target processes that can generate early wins, which help fund later stages of the transformation program
- Obtain and trust the data: Anecdotal information often obscures the underlying issue; use data-driven insights to make strategic decisions that are certain to create value
Cost lever: Spans and layers
“Flatten and empower the organization.”

What is it?
Addressing spans and layers — reducing organizational layers and management overhead — is one of the most effective tools for cutting costs, simplifying decision making, improving flexibility, enhancing responsiveness, and unleashing innovation.

Time needed: 3 to 4 months

Savings potential: 10 to 15 percent of spend

Organizational redesign techniques

Best practices:
- Avoid simplistic targets: Use the right size and number of organizational building blocks for your company; avoid generic targets, such as “no more than five management layers” or “no fewer than five direct reports”
- Start at the top: Work with the CEO to redesign the top three levels of the organization so they can create a model for others to follow
- Design fulfilling career plans: Use horizontal moves and increased compensation to reward managers faced with fewer classic upward promotion opportunities
- De-program micromanagers: Train the next generation of middle managers to delegate more decisions to the front line, where relevant information resides
**Cost lever: Strategic supply management**

“Extract more value from your purchases.”

**Time needed:**
6 to 12 months

**What is it?**
Strategic supply management is a holistic approach that seeks to maximize value in procurement rather than just “optimizing the buy.” It addresses all price, cost, demand, and value levers for non-labor spending.

**Savings potential:**
5 to 10 percent of spend

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### Five approaches for capturing savings

<table>
<thead>
<tr>
<th>Savings capture approach</th>
<th>Description</th>
<th>Levers impacted</th>
<th>% spend affected</th>
<th>Expected savings</th>
<th>Time to achieve savings</th>
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</thead>
<tbody>
<tr>
<td>Rapid sourcing</td>
<td>Capture immediate supply-side savings in centrally driven categories and from nonstrategic suppliers</td>
<td>Price</td>
<td>&lt;10%</td>
<td>4%-8%</td>
<td>1-2 months</td>
</tr>
<tr>
<td>Strategic sourcing</td>
<td>Launch broader strategic sourcing efforts to capture the maximum opportunity across supply and demand levers</td>
<td>Price, Cost</td>
<td>30%-40%</td>
<td>10%-20%</td>
<td>2-3 months</td>
</tr>
<tr>
<td>Policy changes</td>
<td>Reduce/redirect spend through enhanced policies and compliance (particularly for indirect or otherwise discretionary spend)</td>
<td>Demand</td>
<td>10%</td>
<td>20%-30%</td>
<td>1-2 months</td>
</tr>
<tr>
<td>Supply chain optimization</td>
<td>Analyze end-to-end supply chain cost drivers and work with suppliers to eliminate waste</td>
<td>Cost</td>
<td>20%-30%</td>
<td>8%-12%</td>
<td>3-4 months</td>
</tr>
<tr>
<td>Design to value</td>
<td>Optimize the design of products and services to better align cost with the value created</td>
<td>Demand Value</td>
<td>30%-40%</td>
<td>10%-25%</td>
<td>6-9 months</td>
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### Best practices:

- Collaborate across functions: Require participation across the company to attack costs at the source and move up the value chain
- Put in place joint accountability: Share accountability for savings goals with budget owners to improve collaboration and ensure tough spend choices
- Request unrestrained change: Empower the procurement team to challenge embedded resource allocations, organization roles, and decision rights that lock in unnecessary costs
Cost lever: Digitization

“Make technology a game changer.”

Time needed: 1 to 3 years

Savings potential: 20 to 25 percent of spend

What is it?
Digitization uses technology to automate manual processes — from the factory floor to the back office. Reducing costs, improving quality, accelerating production, and replacing manual interventions, it applies to both internal processes (e.g., using RFID to manage inventory) and interfaces with customers, suppliers, and other outside parties (e.g., mobile apps, online banking).

Best practices:
• Focus on outcomes: Don’t merely automate manual processes; instead, drive efficiency and cost savings, or build new capabilities
• Bring a digitization mind-set to the transformation: Identify opportunities to use technology early in the cost transformation, and optimize processes with digitization in mind
• Prioritize and commit: Focus on initiatives that are essential to your Fit for Growth program — you won’t have the resources and talent to take on all potential digitization initiatives
• Act decisively: If there is (or isn’t) a business case for automation, act accordingly — don’t let analysis of cost, benefits, and risks become a chokepoint

Case study: Financial-services company

Situation
• A global company employed 10,000 people in its back office.
• Processes were highly manual.
• The company’s outmoded, custom IT infrastructure wasn’t scalable.

Solution
The company made a shift to a fully digitized, data-centric business model. It:
• Built a new, non-proprietary cloud-based infrastructure.
• Digitized key internal processes.
• Added new digital customer interfaces.
• Automated 70 percent of its total workload.

Results
• The company is on track to realize its $1 billion savings target.
• The company achieved nearly 100 percent availability of IT systems.
• Operating costs and risks declined while leverage and quality improved.
• The company is more nimble and responsive to changing markets and customer preferences.
Case study: End-to-end Fit for Growth transformation at a leading U.S. retailer

Situation:

- A retailer lacked a solid strategy, while facing a depressed retail economy and saturated market — its lack of customer knowledge created a disconnect between store offerings and customer expectations.
- The company was pursuing aggressive expansion through acquisitions, new offerings, and store openings, even as same-store revenue growth was slowing.
- Labor costs were increasing and SG&A expenses were rising faster than revenue, threatening competitiveness.
- The goal: Be more customer-centric; grow market share; reduce hierarchy and costs in a sustainable way; distinguish capabilities that fuel competitive advantage from those that don’t; invest in projects that can fuel growth.

Solution:

- Benchmarked the retailer’s performance.
- Assessed the company’s organizational effectiveness by leveraging the OrgDNA Profiler®.
- Redesigned headquarters organization to increase effectiveness.
- Reduced non-procurement spend.
- Increased productivity (in-store staff and field management).
- Redesigned organization to drive growth.

Results:

- $1 billion in cost savings across all business areas.
- 40 percent increase in stock price within 18 months.
- Identified and invested in key capabilities: improved customer intelligence, online retailing, marketing, merchandising.
“Constructive cost cutting is a good business habit — it’s much better to maintain the roof when the sun is shining.”

Vinay Couto, coauthor of *Fit for Growth*
Sustain the change
The three phases of a transformation

Phase 1: Diagnostic and case for change

8-12 weeks

Opportunity identification
- Identify differentiating capabilities
- Analyze cost and capability competitiveness across value chain
- Identify improvement opportunities in capabilities, cost structure, and operating model
- Develop initiatives and build the business case
- Define and agree on operating model

Complex and/or cross-functional opportunities
Quick wins and accelerators

Fast-track implementation

Becoming fit for growth: A typical journey
Phase 2: Detailed design
(Capabilities, organizational, processes, and system design)

3-6 months

**Detailed solutions design**
- Develop blueprint for new capabilities: organization structure, business processes, and systems
- Implement top-level organization structure
- Select locations, outsource partners, choose technology platforms

**Implementation plan**
- Develop detailed implementation plans
- Launch test pilots
- Develop PMO/tracking

Phase 3: Execution

6-18 months

**Execution/further opportunity evaluation**
- Execute action plans
- Monitor progress and make required adjustments
- Evaluate further opportunities for cost reduction

First-wave opportunities implemented

Big-ticket opportunities implemented

Benefits
- Fast-track implementation
- First-wave opportunities implemented
- Big-ticket opportunities implemented
The do’s and don’ts of running a large cost transformation

When true transformation is needed — dramatically reshaping the company’s cost structure and organization — business-as-usual approaches are insufficient.

Such transformations typically:

• Include 5 to 10 simultaneous, large-scale initiatives
• Cut across business lines and functions
• Affect the entire organization
• Require a programmatic approach: meticulous planning and execution over 12 to 24 months
**Do**

- Be hands-on
- Use a dedicated team of your best people to manage the transformation
- Push every work stream to meet or exceed objectives
- Err on the side of over-communicating
- Stay ahead of the program by anticipating issues and next steps

**Don’t**

- Let siloed thinking get in the way of sharing ideas
- Disband the Program Management Office too early
- Allow transformation teams to shortchange design — take time to document and explain new responsibilities and working relationships
- Allow executives to say “I’ll get to my number” and then shortcut the transformation process
For people on the receiving end, cost management exercises can feel like a roller-coaster ride out of control.

In the beginning of the program, when you set the direction for the restructuring, there is a lot of uncertainty and people have many questions about the vaguely described “project.” Emotions range from anxiety, to skepticism, to some optimism.

Then, when you enter the detailed design phase, anxiety about job security increases and people tend to be more concerned about the company’s future. Morale often is low given all the uncertainty people face.

Once you enter the execution phase, the dreaded head-count reductions are actually executed, and are accompanied by an emotional fallout for both those who are let go and those who experience their friends and colleagues leaving. But there’s also optimism for the future and the new model, coupled with some confusion about the new ways of working.

A solid change program is needed to address this emotional roller-coaster and to help employees make the transition from the current state to the future state. For large-scale change to succeed, the leadership team needs to work
with and within the company’s culture to motivate and mobilize employees.

Instead of trying to change the culture outright, advance the culture you have. Focus on the “critical few.” Identify a critical few behaviors that you want to spread throughout the organization. Empower a critical few managers and employees who have the behaviors you want to see more of. Leverage a critical few emotionally resonant attributes tied closely to the identity of the company.

A recent PwC Strategy& survey about change management showed that:

Bringing more informal elements to bear in the transformation significantly increases the program’s success and sustainability.

Companies that leverage the existing culture are more than twice as likely to deliver sustainable change, compared with those that don’t.
How to stay fit for growth

The positive impact of most cost-cutting efforts is short-lived, as individuals revert to past behaviors and spending habits.

As normalcy returns, so can costs and head count.

How do you keep the spirit alive? How do you make cost consciousness an organizational capability and a shared mind-set, rather than a bunch of rules that are resented and resisted?

Look to the following strategic, operational, organizational, and cultural levers to help you sustain the change.
Fit for Growth levers to drive sustainability

Focus on differentiating capabilities
- Revise resource allocation to funnel investment to strategic priorities
- Incorporate zero-basing / stretch objectives into planning
- Include feedback loop to reset planning assumptions and reallocate resources

Transform cost structure
- Build “continuous improvement capability”
- Have cross-functional teams own end-to-end process budgets

Reorganize for growth
- Put in place flat and empowered org structure to create ownership mentality
- Clarify roles and decision rights to empower individuals to drive cost reduction
- Change incentives to drive and sustain savings

Enable change and cultural evolution
- Model frugal behaviors at the top
- Recognize employees for cost-conscious behavior
- Link costs to benefits for customers and society and to competitiveness in order to get employees energized about cost management
- Empower employees to identify savings themselves
“Make the changes sustainable — and your latest round of cuts could even become your last.”

Deniz Caglar, coauthor of *Fit for Growth*
Engage with experience

For decades, Strategy& and PwC have been helping clients transform their costs in a strategic way and become fit for growth
How to get started

Our five-minute *Fit for Growth* Index Profiler allows you to assess your firm’s readiness for growth, compare your company against results from across your industry, and visualize the payoff from managing cost in a more strategic way:

strategyand.pwc.com/ffgindexprofiler
Additional resources

**Fit for Growth: A Guide to Strategic Cost Cutting, Restructuring, and Renewal**

A great companion as you travel the path to becoming fit for growth

[strategyand.pwc.com/ffgbook](strategyand.pwc.com/ffgbook)

“Is Your Company Fit for Growth?”

Foundational article in *strategy+business* that takes a look at how a more strategic approach to costs can help you prepare for the next round of expansion

[strategy-business.com/isyourcompanyffg](strategy-business.com/isyourcompanyffg)

“How Ready Are You for Growth?”

Article in *strategy+business* that introduces the *Fit for Growth* Index and shows that following a *Fit for Growth* approach correlates with superior company performance

[strategy-business.com/howreadyforgrowth](strategy-business.com/howreadyforgrowth)

**Fit for Growth** microsite

More on how companies unlock performance by managing costs in a more strategic way on our *Fit for Growth* microsite

[strategyand.pwc.com/fitforgrowth](strategyand.pwc.com/fitforgrowth)
About the authors

Vinay Couto is a recognized thought leader with PwC’s Strategy& in the people and organization strategy practice. He is a principal with PwC US and is based in the Chicago office. He is a leader of the global *Fit for Growth* platform.

Dr. Deniz Caglar is a leading practitioner of strategic cost management with Strategy& in the people and organization strategy practice. Based in Chicago, he is a principal with PwC US. He has deep expertise in organization design, corporate function efficiency and effectiveness, shared services, and outsourcing/offshoring.

John Plansky is a former principal with PwC US, where he was recognized as a leading practitioner of financial services for Strategy&, PwC’s strategy consulting business. He specializes in restructuring the global information technology function and back-office operations to enhance value for financial institutions.

They are the principal architects of *Fit for Growth* and the authors of many publications on the topic. Collectively they have 70 years of experience in helping companies succeed in challenging markets.
Responses to Fit for Growth

“What I love about this book is how accurately it captures the business world in which we live. Based on their vast experience, the authors offer valuable perspective on how to ensure your organization’s competitive fitness for the future.”

— Richard Ashworth, President of Pharmacy and Retail Operations for Walgreens

“Fit for Growth expertly and succinctly details how organizations need to work, think, and act differently to align their growth agendas with their cost agendas and ensure profitable and sustainable growth.”

— Kristi Savacool, CEO of Aon Hewitt LLC

“Fit for Growth reminds us that strategic clarity and coherence set companies apart, but that choices on efficiency and focus are required to drive investments in strategy and maximize shareholder returns.”

— Sean Connolly, President and CEO of ConAgra Foods

“Fit for Growth is a comprehensive guide for any organization searching for accelerated growth, especially in a low-growth environment. The book’s practical examples provide clarity on how efficiency, cost consciousness, and strategy can be combined in a stimulating way.”

— Dr. Wolfgang Büchele, CEO of Linde AG
“Fit for Growth provides excellent insights on how to strike the right balance of driving a growth agenda while staying cost competitive, including not only a conceptual framework but also hands-on, practical, and highly relevant implementation guidance.”

— Dr. Rainer Martens, Member of the Executive Board and COO of MTU Aero Engines AG

“Fit for Growth provides excellent guidance to executives who want to drive profitable growth and align winning strategies with a sound cost structure and operating model. Tangible examples and practical techniques show how to provide the leadership required in a forward-thinking, cost-effective, and operationally sound organization.”

— Sandra M. Volpe, SVP of Strategic Planning, Communications, and Contractor Relations for FedEx Ground

“Fit for Growth is a blueprint for reigniting growth and unlocking value that has been tested in many of the deepest trenches — a real reminder that growth is about purpose, simplicity, and discipline.”

— John Berisford, President of S&P Global Ratings Inc.
Strategy& is a global team of practical strategists committed to helping you seize essential advantage.

We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

These are complex and high-stakes undertakings — often game-changing transformations. We bring 100 years of strategy consulting experience and the unrivaled industry and functional capabilities of the PwC network to the task.

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We are part of the PwC network of firms in 157 countries with more than 223,000 people committed to delivering quality in assurance, tax, and advisory services.

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