How to reset costs and reshape your business for growth

A *Fit for Growth* guide to respond to and emerge stronger from the COVID-19 crisis
CEOs were already juggling cost challenges before the COVID-19 outbreak. Then the world’s 20 largest economies went on lockdown within an eight-week window. Optimism for a quick recovery has evaporated and one big question looms: How to prepare for a future that will be forever changed, but is still not fully known?

Most companies will work to protect the bottom line, while also building more resilience and agility into the organization.

But while cost-cutting is necessary, it will not be enough. Even worse, done the wrong way, it can harm a company’s chances of survival.

Leaders also have to pivot value propositions, figure out ways to grow and identify new sources of revenue to find their place in the future. This involves cutting costs in a way that doesn’t harm the business, while redirecting costs to the drivers of growth: the capabilities that differentiate a company.

The global pandemic has upset past beliefs and models about costs. On one hand, costs that were once fixed in the minds of business leaders have become more variable (think office space), while capabilities that might have been differentiators in the past are now just table stakes (automation and collaboration technologies). So much has changed that strategies may need to shift in new ways to redesign the business and cost structure for more enduring strength and agility.

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**Fit for Growth for the new normal**

*Fit for Growth* provides a powerful and complete approach to be ready for the new normal and emerge stronger.

### Develop a clear-eyed strategy

- Revisit your strategy and be clear on your must-haves to win in the future – regardless of any economic scenario

### Double down on your differentiating capabilities

- Sustain your focus on your strategy growth pillars/must-haves that will be relevant in any economic environment

### Radically transform your cost structure

- Revisit your entire cost structure to establish short-, mid-, and long-term actions to fundamentally adjust for the future

### Reimagine your operating model

- Reimagine how you organize and collaborate – using technology accelerators and strengthening resilience

### Accelerate your cultural evolution

- Actively engage the organization to define the required behaviors to build on cultural strengths and own the actions to shape the future
Develop a clear-eyed strategy

New normal considerations will require all businesses to reassess strategic priorities across the value chain.

### Commercial strategy
- Pricing adjustments to account for increased costs and/or changes in volumes
- Evolving sales processes and tools for increased remote selling and digital channels
- Optimizing discounting, incentives and credit terms to enable restart and glide path to the new normal

### Portfolio strategy
- Revisiting and refreshing product and solutions portfolio to ensure relevance in post-COVID-19 world
- Assessing if any industry and market trends have accelerated (e.g., e-commerce, digital models)
- Evaluating life cycle and profitability of business and market positions
- Identifying opportunities to pick up growth-enabling assets

### Operational strategy
- Quantifying changes in real estate and workforce strategy (e.g., increased remote working, facility utilization)
- Assessing supply chain strategy (e.g., supplier resiliency, revisit make vs. buy, distribution costs)
- Adding resiliency into the business model (e.g., reevaluate footprint and manufacturing strategy)

### Workforce strategy
- Designing new employee health and wellness policies and guidelines (e.g., tracking of potentially impacted staff, paid sick leave policies, healthy working guidelines)
- Implementing changes in shift policies, work hours, working norms and practices and remote work policies

### Regulatory strategy
- Evaluating government programs to assess pros and cons of participation and impact
- Incorporating potential long-term shifts in policy that may impact choices on footprint, workforce, tax and overall strategy

### Financial strategy
- Resetting financial targets given additional costs of operations (e.g., due to new health and safety norms, operations costs)
- Establishing cost and cash management discipline the across company
- Optimizing the balance sheet to build sustainability

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Double down on your differentiating capabilities

Zero-base your entire cost structure to reset future cost and clarify where to invest and how to pay for it

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**Not required**
Legacy investments and activities that no longer support the go-forward strategy

- Executive travel benefits
- Local IT help desk
- Local call center
- Manual order management

**“Lights-on”**
Bare minimum activities needed to “keep the lights on” in the business

- Real estate
- HR and finance back-office
- Indirect procurement
- Customer call center

**Table stakes/entry ticket**
Basic competencies/activities required by everyone to participate in the industry

- Quality management
- Customer insights
- Collaboration technology
- Web-based self-service
- General accounting

**Differentiating activities**
Activities that provide you with a competitive advantage and/or are needed for future differentiation

- Online commerce
- 360° customer experience management
- Digital operations
- Performance management

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**Eliminate**
Resist the temptation to continue because of a commitment to legacy

**Aim for cost levels below competition**
Be better than benchmark

**Cut costs to keep a “good enough” quality**

*Warning:* What you thought was differentiating may now be table stakes

**Invest at levels above peers to gain a competitive advantage**

*Warning:* Benchmarks will shift in this period – aim to be the benchmark, not a follower

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<table>
<thead>
<tr>
<th>Current-state cost structure</th>
<th>Possible new cost structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>30–40%</td>
<td>30%</td>
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<tr>
<td>50–60%</td>
<td>15–20%</td>
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<tr>
<td>30%</td>
<td>30–40%</td>
</tr>
<tr>
<td>5–15%</td>
<td>15–25%</td>
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</table>
Radically transform your cost structure

Carefully structure cost actions over the short-, mid and long-term to prevent excessive and/or insufficient reactions

<table>
<thead>
<tr>
<th>Time</th>
<th>Respond to the crisis</th>
<th>Optimize post-crisis</th>
<th>Transform for the future</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Quick wins and cash management focus</td>
<td>Optimize for operational excellence</td>
<td>Transform to a more resilient operating model</td>
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<tr>
<td></td>
<td>▪ Supply chain stabilization</td>
<td>▪ Optimization of supply chain processes</td>
<td>▪ Consolidation and centralization of supply chain functions</td>
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<td></td>
<td>▪ Working capital optimization</td>
<td>▪ Supply chain resilience</td>
<td>▪ Logistics and supply chain automation</td>
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<td></td>
<td>▪ Immediate operational cost measures (&quot;quick wins&quot;)</td>
<td>▪ Restructuring across the value chain</td>
<td>▪ Operating model redesign</td>
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<tr>
<td></td>
<td>▪ Elimination of non-core activities</td>
<td>▪ Operational efficiency focus</td>
<td>▪ Digitization, automation, offshoring and outsourcing across the value chain</td>
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<tr>
<td></td>
<td>▪ Top-line stabilization</td>
<td>▪ Service offering rationalization</td>
<td>▪ M&amp;A to reshape portfolio and gain assets at a lower cost post-crisis</td>
</tr>
<tr>
<td></td>
<td>▪ Customer engagement</td>
<td>▪ Pricing optimization and resetting</td>
<td>▪ Rationalization of products and markets</td>
</tr>
<tr>
<td></td>
<td>▪ Aggressive focus on cash</td>
<td>▪ Sales and marketing footprint reset</td>
<td>▪ Operating model revamp</td>
</tr>
<tr>
<td></td>
<td>▪ Immediate flextime measures for the workforce and government programs</td>
<td>▪ Organizational restructuring</td>
<td>▪ Optimization of technology landscape</td>
</tr>
<tr>
<td></td>
<td>▪ Outsourcing and offshoring</td>
<td>▪ Restructuring across the value chain</td>
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**Est. cost impact (cumulative)**

- **Top levers**
  - 15–25%
  - 20–35%
  - 30–45%
Reimagine your operating model

The crisis provides the opportunity to consider improvement levers to reset and accelerate your operating model.
Accelerate your cultural evolution

Actively engage the organization and own the actions to shape the future

Finally, successful execution hinges on engaging the organization to understand the new normal and sign-on

- **Show empathy**
  - Acknowledge how people feel – understand the human impact on them
  - Visibly demonstrate care for people in the decisions you make and how you implement actions for change
  - Share the “why” behind your business decisions

- **Assume responsibility**
  - Take personal ownership of the required transformation
  - Acknowledge reality and focus on the next best decision
  - Align leadership incentives to push for performance

- **Be courageous**
  - Stand in your purpose and values to help defeat fear and uncertainty
  - Take bold decisions
  - Use the opportunity to accelerate necessary actions, even if unpopular

- **Act with urgency**
  - Drive toward actionable insights and analyses and be decisive
  - Use the future to shape the present – act deliberately
  - Be willing to adapt strategies and align resources quickly

- **Engage the team**
  - Be transparent in sharing the situation, challenges and opportunities
  - Invite people to shape the ideas and contribute solutions
  - Involve leadership at all levels to engage and communicate

- **Be transparent**
  - Keep employees connected and engaged
  - Continuously frame the case for change and communicate authentically with straight-talk
  - Reassure stakeholders with actions, but also showcase realistic outlook

Source: Strategy&’s “Leadership in a Disruptive Age”
An accelerated approach

The *Fit for Growth* approach helps generate first results quickly – while shaping the path to emerge stronger.

**Secure business and people**
- Understand cash/liquidity positions
- Support employee physical well-being
- Establish crisis management PMO

**Accelerate diagnostics**
- Optimize working capital position
- Engage risk customers/receivables
- Stabilize supply chain and operations

**Launch short-term actions**
- Assess activities and zero-base cost structure
- Shape product portfolio and organization actions
- Assess automation agenda

**Launch mid-term actions**
- Complete opportunity assessments
- Design operating model and detail organization structure
- Develop implementation plan

**Shape mid-term actions**
- Detail structural transformation
- Launch transformative M&A and asset measures
- Design target processes and execute technology agenda
- Execute and manage plan

**Stabilize the business**
- Scenario plan
- Baseline and analyze spend
- Identify immediate cost actions

**Plan for the future**
- Implement immediate cost actions
- Shape pricing and customer terms actions
- Tighten working capital execution

**Shape structural transformation**
- Launch priority “no regrets” actions (e.g., sourcing and automation)
- Initiate portfolio actions
- Shape footprint redesign, including operations, shared services and real estate utilization

**Week 0**
- Launch priority “no regrets” actions
  - (e.g., sourcing and automation)

**W1**
- Initiate portfolio actions

**W4**
- Shape footprint redesign, including operations, shared services and real estate utilization

**W6**
- Assess activities and zero-base cost structure

**W12**
- Complete opportunity assessments

**W24**
- Design operating model and detail organization structure
- Develop implementation plan

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The power of digital assets

The *Fit for Growth* approach leverages a suite of digital assets, deployed virtually, to enable rapid analysis and actionable insights.
Strategy& is a global strategy consulting business uniquely positioned to help deliver your best future: one that is built on differentiation from the inside out and tailored exactly to you. As part of PwC, every day we’re building the winning systems that are at the heart of growth. We combine our powerful foresight with this tangible know-how, technology, and scale to help you create a better, more transformative strategy from day one.

As the only at-scale strategy business that’s part of a global professional services network, we embed our strategy capabilities with frontline teams across PwC to show you where you need to go, the choices you’ll need to make to get there, and how to get it right.

The result is an authentic strategy process powerful enough to capture possibility, while pragmatic enough to ensure effective delivery. It’s the strategy that gets an organization through the changes of today and drives results that redefine tomorrow. It’s the strategy that turns vision into reality. It’s strategy, made real.

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