

Intelligent right-sizing and workforce transition in consumer products

How to take people costs out of your business without impacting long-term value



The challenge

The current economic downturn is forcing consumer businesses to look hard at their costs. However, unlike previous downturns, and in part because of them, many executives have recognised the need to reduce headcount and costs in a more sustainable manner.

By reducing headcount indiscriminately, with little consideration of operational capability trade-offs or wider strategic agendas, organisations may struggle to maintain operational performance and respond adequately to market recovery. Consumer products businesses will have to think carefully about the scale and targets of any significant headcount adjustments.

Many companies have already realised the benefits of transforming and optimising their back office functions through outsourcing, off-shoring and technology innovation. Now the focus shifts to include core operations, where losing critical capabilities could have a direct impact on the short and long-term performance of an organisation and therefore carries greater risk.

Consumer products industry examples

Common views expressed by senior executives in the industry include:

- “I need to continue to grow market share and brand position whilst reducing cost.”
- “We have already outsourced all our transactional back office processes.”
- “Our supply chain and logistics function is very complex. We manufacture and distribute in multiple locations.”
- “Our finance processes are very complex – it is difficult to remove staff from that area.”
- “We can improve alignment of sales and marketing.”

Whilst cost reduction is becoming a way of life for many corporations, few have yet to effectively master the people and organisation challenges associated with the rapid, cost-driven changes.

- “With better governance arrangements we could avoid duplication and focus on the right priorities.”
- “We need to be clear on which functions should be centralised and which should be devolved to our local business units.”

In addition, there is the critical need to maintain brand reputation and “business as usual” throughout the transition process to take heads out of the business or redeploy/relocate them. Poor management of this process can have a negative impact on employee morale, future employee relations and reputation in the marketplace. Businesses need to focus on moving through the headcount reductions quickly and according to a clear process designed to keep employees focused.

Introduction to intelligent right-sizing and workforce transition

An intelligent right-sizing approach can help to protect the core skills and knowledge that will see a business through a prolonged period of market weakness. It involves:

- Identifying areas of the business where reductions are most appropriate and others where growth is necessary
- Managing operational trade-offs between each functional area
- Understanding the sustainability of proposed headcount reductions
- Addressing the specific internal and external drivers that impact the organisation
- Looking beyond the immediate cost savings and engaging a wider, long-term strategic agenda
- Focusing on much more than structure changes – to embed organisational change you need to challenge governance arrangements, business processes, individual and team roles and responsibilities, performance management, departmental interactions and interfaces.

Realistically, you will never be faced with just one condition or challenge. Any number of internal and external drivers may exert pressure on the distribution of resources within your organisation at the same time and drive the need to right-size your workforce.

Whilst cost reduction is fast becoming a way of life for many corporations, few have yet to effectively master the people and organisation challenges associated with such rapid, cost-driven changes. These challenges involve:

- a) The careful determination of what is the ‘right’ organisational construct for the next phase of your development – organisational right-sizing.
- b) An assessment of the effectiveness of your management of the change – workforce transition.

Typical factors driving the need for organisational change

Internal environment change	Response
Organic growth	Combat excessive headcount and associated operational inefficiencies that arise after sustained periods of growth.
New products and innovation	Utilise capabilities and funds from existing operations to enable new products and innovation.
Shift in strategic direction	Alter resource and capability profile in order to deliver new strategy and objectives.
Change within one department	Avoid structural inefficiencies by adapting all functions dependent on a department that has modified its structure or capabilities.

External environment change	Response
Recession	Reduce costs aggressively in response to changing market conditions and declining growth.
Change in competitor landscape	Create new capabilities and reallocate limited resources to reinforce key differentiating activities.
Change in customer behaviour and needs	Scale down redundant activity and reinvest in new capabilities to support alternative products and services.
Issue with a third party	Carefully allocate resource, responsibilities, capabilities and benefits across dependent organisations.
Merger or acquisition	Define optimal operating model and structure (including headcount) for merged entity, recognising relative capability strengths and weaknesses in each organisation.

Without a coherent people approach, reactive cost cutting often drives behaviours that deliver the wrong outcomes for the business.

Finding the right level of organisation change for your company – intelligent right-sizing

At Deloitte we believe that there is a 'right way' to configure every organisation that best enables the execution of its corporate strategy and responds to the changing internal and external environment. It is not just economic turbulence that drives the need for intelligent right-sizing. Your company will always be subject to your unique set of internal drivers as well as a number of specific external conditions. Recognising the organisational impact of these forces in the context of your business strategy provides the foundation for detailed capability analysis, allowing you to understand operational performance at a more granular level. From this you can determine the relative strengths and weaknesses in your workforce, distinguish core and non-core capabilities and ultimately identify the best opportunities for headcount reduction.

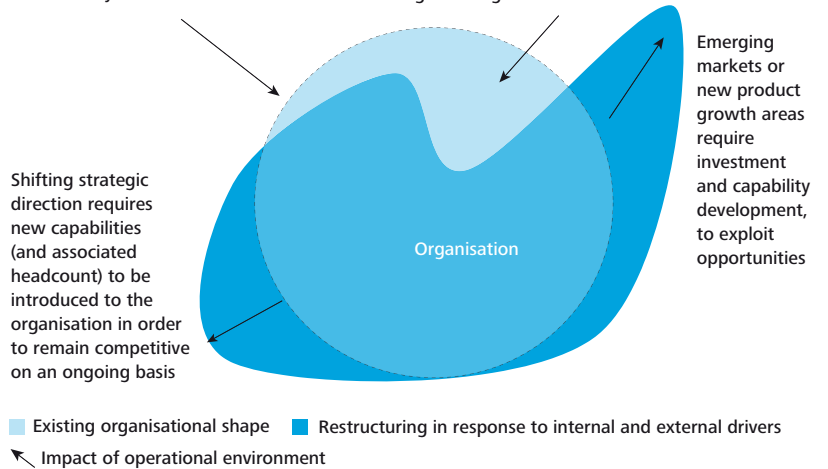
Comprehensive approach to organisation design

At Deloitte, when working with you to reshape your organisation, we consider much more than just structure. Our organisation design methodology ensures that you receive a comprehensive and operation-ready blueprint for managing your business. Additionally, our team of experienced consumer products industry professionals will bring the relevant insights to bear on any future designs.

Organisational response to operational environment – Intelligent right-sizing

Back office optimisation provides for low risk cost reduction but increasingly only marginal benefit. Many organisations have already secured these benefits

Major economic downturn demands more aggressive cost reduction and the need to reduce headcount after a period of significant growth



Intelligent right-sizing is developed in the context of the organisation's strategy. It ensures headcount reductions are managed across core and non-core business activities and enables future business needs. The key internal and external operational environment challenges for right-sizing vary by industry and no two companies are the same.

Organisation design – more than just structural change



The current need for cost reduction in core operations, the increasing market pressure for a shrinking wallet, the need for sustainable business performance and the agility to respond quickly at the first sign of market recovery, present a challenging agenda for any executive team. Determining whether you have the essential skills required to intelligently right-size your business is an important first step.

- Deep organisation design experience**
 With one of the largest dedicated organisation design teams in Europe working across a diverse range of industries, we have the necessary skills and experience to effectively redesign an organisation and identify opportunities for headcount reduction.
- Breadth and depth of capabilities**
 At Deloitte we have unrivalled breadth and depth of capability across the consulting practice and wider firm. Our team has strategy, process, systems and human capital expertise, which can be complemented by our wider tax, audit and corporate finance advisory services where required, to successfully redesign an entire organisation.
- Practical understanding of human capital**
 We have the largest dedicated Human Capital practice in Europe, with expertise in change management, workforce analytics and core human resource advisory work. Securing the emotional buy-in of staff and stakeholders to change presents a considerable challenge and the actual process of transitioning people from the business should not be underestimated.
- Industry experience enabling sustainable headcount reduction**
 Our extensive organisation design experience across all industries means that we can generate executive level confidence in the recommendations that we develop and can ensure that headcount is reduced in the most appropriate and sustainable way.

Efficient management of the transition – minimising disruption to business as usual

Identifying the shape of the organisation and targeted headcount reductions is just the first step in the process. The efficiency with which the change is implemented can have a great impact on the ability to move through the headcount reduction process quickly and to capture the available cost savings. Companies have to navigate a minefield of complexity including:

- Union consultation requirements.
- Employee representative negotiation.
- Management of selection processes, redeployment processes and exits.

The Deloitte approach to **Workforce Transition** ensures that risk is managed, legal requirements are complied with, adequate resources are available to effect the transition and the business is supported during the process.

The challenge in managing transition

The scale of the activities involved in managing the exit process is often underestimated. Document and letter generation and the management of the various employee representative and individual meetings can be burdensome.

Pre-planning is essential to ensure the HR function is adequately staffed to manage the workload. Efficient management of the transition process is essential to move through the change rapidly while minimising disruption. This requires strong programme management of the liaison with legal advisors, development of redundancy and relocation plans and the staff selection and assessment process.

To protect operational efficiency of the business the process must be supported by the development of robust retention plans for key talent and an employee communications plan under which the key messages are clearly defined and leaders are aligned behind those messages.

An approach to People Transition



Key activities for HR team

Employee assessment	Legal Review	Consultation	Analytical support
<ul style="list-style-type: none"> • Job description and role definition • Critical talent identified 	<ul style="list-style-type: none"> • Put in place legal advisors • Central co-ordination of legal advice 	<ul style="list-style-type: none"> • Identify consultation bodies • Create consultation plan • Central co-ordination • Central setting of messages 	<ul style="list-style-type: none"> • Calculate transition costs • Head count tracking

The aim of the messaging should be to refocus employees on their day to day activities as quickly as possible. Key to the process is early engagement with unions and/or employee representatives and consultation with them using clear and honest communications.

Deloitte HR service offerings – ensuring that changes ‘stick’

Deloitte’s Human Capital practice has a wide range of service offerings and a large experienced team that play a vital role in making sure that people-related cost reduction activities are managed sensitively and effectively and that change will endure the test of time. The Human Capital team supports cost reduction programmes by offering the following services:

Headcount reduction and benefits tracking

Identifying opportunities for ‘smart’ radical headcount reduction and organisational design. Tracking headcount reduction throughout the process to ensure benefit realisation.

Selection

Developing fair selection processes to support the smooth exit of staff and assisting with preparations for employee representative and union consultations.

Retention

Creating retention strategies for key talent to retain the right behaviours, capabilities and skills through a period of downsizing and uncertainty.

HR advisory services

Advising on effective people strategies including HR policies, training, performance management and reward.

Cost conscious culture

Developing and embedding a cost conscious culture across the organisation where leaders and teams are focused on continuous improvement and long-term cost control associated with the people aspects of the business.

Change management and communications

Identifying the people barriers to cost reduction programmes and establishing change management strategies and communications plans to support people effectively and minimise any impact on business as usual operations and customer service.

HR transformation

Re-engineering HR processes and structures to take cost out of this support function.

Deloitte can advise and support your business by providing professional teams with deep industry expertise

As a professional services company with expertise in every aspect of cost reduction we can bring in tools and skills from around our business to help your organisation achieve its cost reduction goals.

The cost reduction services detailed in this document focus primarily on the benefits to be achieved through carefully managed headcount reduction, effective organisation design and professional transition to a new shaped organisation. These offerings are only a small selection of the comprehensive range of cost reduction services offered across the breadth of Deloitte. Here are a selection of the other services that can be introduced to your business as appropriate:

Cash and Liquidity

Deloitte’s holistic approach supports clients in proactively managing their company’s finances within this unprecedented financial and economic climate.

We can conduct an initial Rapid Assessment to identify opportunities to cut cost, improve cash management and address liquidity issues (and related financing challenges).

Bankruptcy and restructuring

Our restructuring advisors can support management teams and lender groups, and our licensed insolvency practitioners act in a formal capacity to implement solutions for insolvent businesses and individuals. Typical projects include:

- Independent Business Reviews.
- Restructuring and M&A advice for companies/lenders seeking to renegotiate facilities and/or terms.
- Solvency advice to directors of companies in distress.
- Administration orders, liquidations, voluntary arrangements, bankruptcies.
- Security review and contingency planning.

Outsourcing and off-shoring

Outsourcing and off-shoring of IT and other important business processes offers organisations the potential to dramatically reduce the costs of internal support functions whilst improving the levels of service which they provide to the business. Key services include:

- Client side advisory.
- Off-shoring.
- BPO Vendor consulting.
- Partnering for transformation.

Tax services

We can help companies realise as much value as possible from their tax line through a series of initiatives across all taxes that are designed to free up cash or reduce the tax burden.

Many initiatives will generate direct above the line benefits (e.g. VAT savings, employer tax savings) and even reductions in corporation tax should also generate above the line improvements through reduced financing costs. There are also a number of currency borrowing opportunities which generate direct above the line improvements.

Typical areas of focus will include deferring gains, monetising losses, ensuring maximum value is driven through capital allowances, ensuring tax payments and repayments are scheduled as efficiently as possible and more high value ideas aimed at generating permanent corporation tax, VAT or employer tax savings.

Pension/Benefits funding

We offer clients a full range of integrated, commercially focused and innovative solutions that draw on our extensive experience in the pensions market and focus on cost reduction and risk management.

We work with companies on the strategy, design, implementation and management of their employee benefit plans, advising on funding and investment issues and supporting them in robust negotiations with plan trustees and regulators.

M&A Support

Deloitte offers more M&A services than any single provider. These include a full range of both buy-side and sell-side services including due diligence, debt advisory, post merger integration, competition and regulatory analysis.

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Without a clear approach to the transition of people out of the business and into other roles, organisations run the risk of people being unclear about their role and focusing on the fear of job loss rather than business as usual. This can lead to a damaging dip in productivity.

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