

Intelligent right-sizing  
Reducing headcount in  
a more sustainable way



# Introduction to intelligent right-sizing

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The current economic downturn is forcing companies 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.

So how does an organisation find the right balance between significant headcount reduction and sustained operational performance? What lessons have we learnt from the last recession?

In previous downturns, many companies have shed headcount in order to reduce costs, with varying results. Those who were most successful were selective in where they targeted headcount reduction, weighing up operational trade-offs between functions and often challenging long standing assumptions around their business. They also considered a wider strategic agenda to the immediate cost reduction demands, allowing informed retention of critical skills, capability and capacity. Costs fell but not at the expense of operational performance. As the market began to recover, they were well positioned to respond, leveraging these held skills and capabilities whilst others invested in time consuming and expensive rebuilding.

In difficult times, many companies have focused on transforming and optimising back office functions (specifically HR, Finance and IT). They have sought to capitalise on the benefits offered by improved technology, new service delivery models and the outsourcing or off-shoring of non-core capabilities. Whilst there is still room for incremental improvement, many of these operational efficiencies and FTE reductions have now been secured. Invariably, executives will have to start looking more fundamentally at where heads can be removed from core operations and capabilities. This presents greater risk and a marked increase in the degree of confidence required around the sustainability of delivering headcount reduction in specific functional areas.

The current global recession is severe – it is impacting all industry sectors and is likely to last for some time. The challenge presented is twofold: to reduce operational costs, often substantially, and to operate through a prolonged period of heightened market pressure. The intelligent right-sizing approach will help you to protect the core skills and knowledge that will see your business through these difficult market conditions. It involves:

- Identifying areas of your business where reductions are most appropriate.
- Managing operational trade-offs between each functional area.
- Understanding the sustainability of proposed headcount reductions.
- Addressing the specific internal and external drivers that impact your organisation.
- Looking beyond the immediate cost savings and taking into consideration your wider strategic agenda.



# Understanding the internal and external environment

It is not just economic turbulence that drives the need for intelligent right-sizing. Your company will always be subject not only to your unique set of internal drivers but also a number of specific external conditions. Recognising the organisational impact of these forces in the context of your business strategy provides the foundation for a 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.

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

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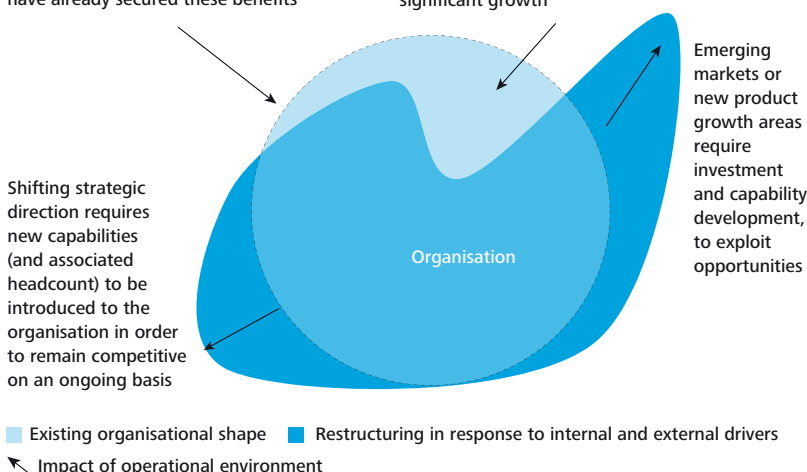
## Organisational response to operational environment

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

Shifting strategic direction requires new capabilities (and associated headcount) to be introduced to the organisation in order to remain competitive on an ongoing basis

Emerging markets or new product growth areas require investment and capability development, to exploit opportunities



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.

# How will your industry shape up?

## Telecommunications

On the back of a long growth cycle, telecommunications companies have now spent several years responding to mature market challenges such as client retention and customer migration. With further reduced customer demand during the downturn, margins will be squeezed and competition for a share of a smaller wallet will increase, leading to a necessary focus on tight financial control of operational costs. In an effort to compete and remain profitable, companies will need to work harder to control bottom line efficiencies at the same time as implementing new low cost technologies such as remote configuring and zero touch servicing.

## Technology

Technology companies have also seen a period of significant growth and are now having to focus on controlling and reducing costs through consolidation. The industry relies heavily on investment, so companies need to remain transparent enough to combat wavering investor confidence. Operating models will need to shift even further towards an aggressive focus on rationalising costs and seeking innovation through international markets and off-shoring development. A key challenge for technology companies will be in balancing this essential cost reduction activity with the retention of sufficient capacity and core talent to enable effective response to the future market upturn.

## Media

Current economic conditions have presented considerable revenue challenges to media companies, particularly in relation to heavily reduced advertising and subscription rates, most noticeably in print media and broadcast media. Companies must now act to refocus the business towards those communities that present more sustainable revenue potential. New business models must promote wider audience contact, through distribution across multiple platforms and adoption of new technologies. Content development must be structured in a way that minimises duplication and allows adaptation to multiple media channels. Creative talent needs to be retained selectively in existing profitable areas and careful, informed investment is required in emergent media and content.

## Energy, Infrastructure and Utilities

The EIU market has been hit hard by the recession, especially in housing and energy demands. Decreased demand has seen significant numbers of projects shelved, cancelled or downgraded, presenting a quandary between retaining key talent and coping with the inflexibility of some longer term projects.

In the energy sector, the fall in the cost of oil has made some projects less viable, but there are opportunities to be had with the emergence of large, government-driven renewable energy infrastructure initiatives. Companies will need to judiciously restructure, reposition and form alliances to take advantage of such strategic shifts.

## Banking

Banking has been at the forefront of the current economic storm and as such the need to restructure is more immediate than in many sectors, as banks attempt to address issues such as a lack of confidence in the market and reorganisation following significant consolidation and integration. Previous continuous headcount growth must be reversed, while savings are sought in some of the more complex core functions since many back office, transactional capabilities have largely been outsourced or off-shored already. A keen focus on risk management and internal control will be key to banks' endurance.

## Insurance

The collapse of the housing, equities and commodities market has impacted heavily upon investment portfolios and insurance companies now face a battle to retain customers in a mature and competitive marketplace. Already the industry has begun to address historically inefficient operating models, but there is a legacy of slow institutional change that can impede such attempts. Companies will therefore need to be dedicated in driving assessments of front line service delivery, in terms of staff training, processes and technologies, and a move back towards right-shoring to ensure a seamless and positive interface with customers.

## Retail and Packaged Goods

We have seen a number of well known retail brands go into administration and competition on the high street has intensified, with significant impacts on demand even in the luxury end of the market. Companies will need to increase internal efficiencies to maintain profit margins as downward price pressure grates against raw material inflation and energy price volatility. Increasing market consolidation may also present opportunities for companies who respond quickly enough to changing (and waning) consumer demand by driving increased flexibility and efficiency in existing functions.

# Getting it right

Headcount reduction opportunities exist within every organisation in both core and non-core operations – with the right analysis, insight and planning, your company can be configured in a way that supports more effective execution of strategy, even in a tough market.

As unprecedented market conditions have increased the level of risk and complexity associated with large scale change, the challenge is to create a leaner, more efficient and fully flexible workforce without losing key talent or strategically aligned capabilities.

So, once you have assessed the effects of your operational environment, how do you begin to implement your plans? Successful right-sizing initiatives depend on the following conditions:

## Keeping the medium-term strategic agenda in focus, beyond simple immediate cost-cutting imperatives

This can avoid some approaches and decisions that lead to sub-optimal outcomes. For example, one transport client experienced an exodus of middle management when offering redundancy. When a major medium-term initiative was launched, many of the required strategic capabilities no longer existed within the business, leading to considerable operational performance issues.

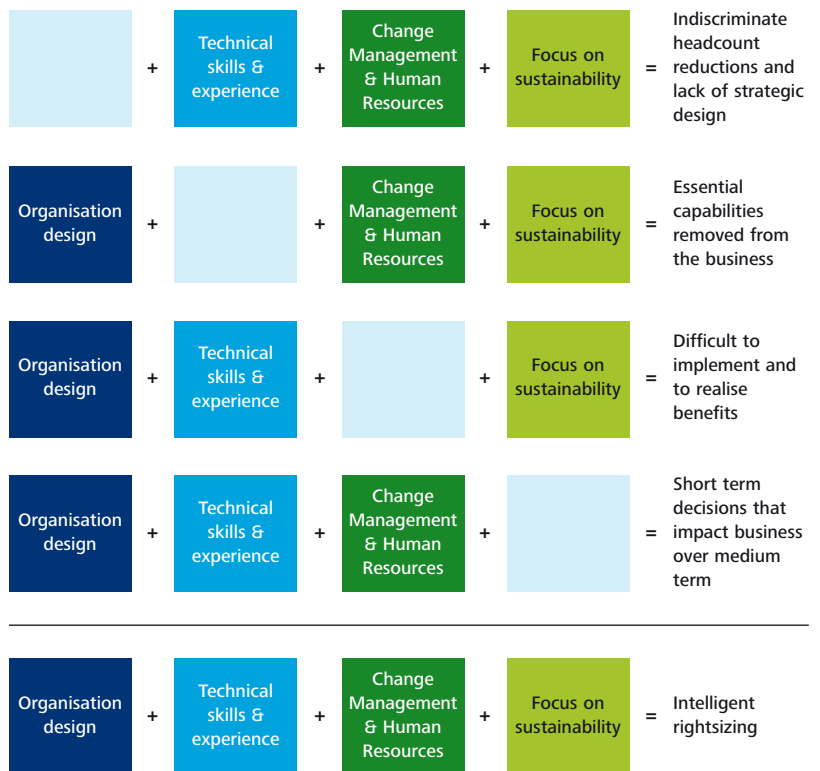
## Applying clear operational insight into performance and vital capabilities to drive decision-making

For one major client, a key task was to create, for the first time, an accurate view of both demand volumes/scenarios and the associated supply of skills and resource. This enabled significant reductions in the workforce, while maintaining a degree of confidence that the resulting operations were appropriate and sustainable.

## Making informed and creative decisions on where capability is expendable or potential opportunities for useful re-deployment exist

Whilst many areas of an organisation are likely to contract, some units may remain unchanged or even grow.

### Essential intelligent right-sizing components



Seeking to retain flexibility as part of right-sizing can be beneficial to both the business and the employee, as internal re-deployments can protect key skills and people, while providing development opportunities and building these skills for when growth, expansion or entrepreneurialism return to the agenda.

## Implementing headcount reductions quickly

When a decision is made to implement, do so swiftly, decisively and with clear purpose. Some communications and reactions may be difficult to deal with, but it is important that you minimise disruption and allow retained employees to get on with the task at hand without distraction. Specialist managed exit experience will help to transition staff out of the business in a structured and effective manner.

## Tight management of capability decline

When headcount has been reduced, or is reducing, it is imperative that you maintain a clear 'line of sight' of how the operations are responding and where capability or capacity has been diminished. Not only does this inform management of how strong or vulnerable the current position is, but it also equips them to take advantage when new opportunities present themselves.

# Why Deloitte?

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.

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## Our experience

During the course of an eight month review for a large executive agency in central government to restructure its national tier functions, we identified the opportunity to reduce headcount by over 33%. Establishing combined Deloitte/client design teams for each function not only improved the quality and practicality of the detailed design recommendations, but also meant that stakeholders across the agency were able to take ownership for outputs well in advance of implementation.

Working with a global drinks retailer who were dealing with the implications of decentralised management from acquisition, we identified and implemented fundamental changes to the management model. In an environment where there was significant geographical resistance to change, having the sponsorship of the CEO from the beginning was critical to the success of the project.

While working with a global mobile telecoms operator to develop a new operating model, we were asked to help reduce headcount and cost in an underperforming mature business unit. We completed detailed capability analysis to identify core and non-core capabilities in the context of business strategy, which allowed more intelligent identification of headcount reduction opportunities. With our involvement, headcount costs were reduced by almost 40%, while additional savings were realised by moving capabilities to regional or group level in other business units.

We helped a global bank to redefine the role and purpose of its corporate centre (and determine how to support development and execution of strategy more effectively across the group). We performed detailed activity and cost analysis, which provided direction to shift the centre's focus of activity, migrate to a lower cost environment and reduce headcount in non-core areas by around 30%.

We were also able to develop a new, more transparent cost allocation and recharging model between the centre and the wider group.

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