

## SG&A Cost Reduction: Six Steps to Sustainability



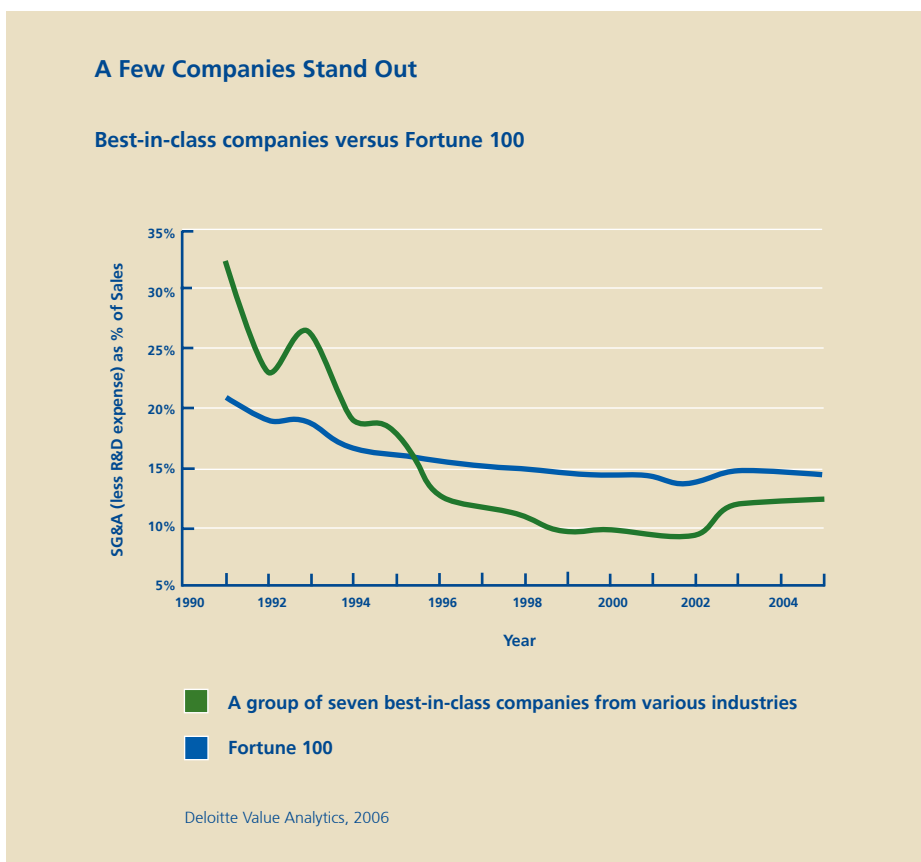
No enterprise cost reduction or enterprise transformation effort is complete without some consideration of selling, general, and administrative (SG&A) expenses. Because SG&A touches every part of the enterprise, finding a way to lower SG&A costs goes a long way toward cutting overall spend. In fact, a number of high-performing companies in recent years have taken SG&A cost control to heart, consistently decreasing SG&A as a percentage of revenue at an average rate of 1% per year over the past decade.

These companies know that SG&A is important. They know that scalability of SG&A is important. They know that the sustainability of SG&A is important. And they know that the approach yields significant cost reductions: For the 50 largest U.S. companies, reducing SG&A by just 0.5% will save \$258 million. Depending on their dedication to change, executives can slash SG&A costs up to 40%.

What's their secret? Not workforce reductions. Instead, top performers focus on three primary objectives:

- Reassigning staff from transactional to more value-added work, such as planning, decision support and business performance management.
- Lowering indirect expenses, such as procurement and travel, companywide.
- Creating a flexible cost structure.

Top performers' improvement efforts cross all SG&A functions and business units – not just functions like HR and finance – as well as geographies, because making improvements ad hoc or in silos doesn't make a broad enough impact. They've also determined where key processes add value. What's more, multiple improvement levers match the business strategy and can be leveraged across a set of SG&A functions,



often including shared services centers, process reengineering, strategic sourcing, controllable expense reductions, ERP implementations, and quality and process management.

How can you follow the top performers' lead to create a lean yet flexible SG&A cost structure? In our experience, there are six steps that consistently lead to lasting business results:

1. Use a systematic approach for improvement.
2. Look to the company's business model and corporate strategy for direction.
3. Distribute work based on the type of business value it generates.
4. Eliminate unnecessary work.
5. Focus aggressively on controllable expenses.
6. Create the environment and structure necessary to implement change through a comprehensive communications and change leadership process.

**For the 50 largest U.S. companies, reducing SG&A by just 0.5% will save \$258 million.**

Here's how we've seen organizations take these steps:

**1. A Systematic Approach: The Opportunity Assessment and the Business Case for Improvements**

Companies often tackle SG&A cost reductions by implementing across-the-board cuts without fully understanding the potential impact on their business. To attain growth, cost reductions and restructuring must be based on an opportunity assessment and a high-level business case for savings and improvement opportunities.

To reduce costs systematically, first establish a baseline of performance – the company's starting point – to determine the size of the improvement opportunity and to measure whether improvements are actually realized.

Next, identify opportunities for improvement by scrutinizing how key work processes deliver value and how well leading practices are currently employed.

Once you understand where you are and where you want to go, define specific short- and long-term improvement initiatives, including changes in organization, process and technology. Finally, develop an implementation plan to institute the changes, with clear accountabilities and measures of success.

**A Systematic Approach to SG&A Restructuring and Cost Reductions**

Establish baseline → Identify opportunities → Recommend improvements → Develop action plans

Key Steps			
<ul style="list-style-type: none"> <li>• Understand value drivers</li> <li>• Establish baseline</li> <li>• Train team</li> <li>• Develop hypotheses</li> <li>• Understand ongoing initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Review organization</li> <li>• Review key assets</li> <li>• Review controllable expenses</li> <li>• Review key processes</li> <li>• Review ongoing initiatives and key processes</li> </ul>	<ul style="list-style-type: none"> <li>• Short-term opportunities</li> <li>• Long-term opportunities</li> <li>• Performance targets</li> <li>• Redesigned organization and key processes</li> <li>• High-level validation</li> </ul>	<ul style="list-style-type: none"> <li>• Develop implementation plans</li> <li>• Develop communications plans</li> </ul>
Key Components			
<ul style="list-style-type: none"> <li>• Kickoff and training</li> <li>• Baseline staffing and expenses</li> <li>• Project schedule</li> <li>• Interview schedule</li> </ul>	<ul style="list-style-type: none"> <li>• Interview findings</li> <li>• Hypotheses and improvement concepts</li> <li>• Internal and external benchmarking and best practices</li> </ul>	<ul style="list-style-type: none"> <li>• Proposed organizations</li> <li>• Improved processes</li> <li>• Controllable expenses reduction</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation plans</li> <li>• Measurement and control systems</li> </ul>

## 2. Build on the Business Model: The Foundation for Lasting Business Results

A company's business model prescribes not only how business units will associate with each other and with corporate headquarters, but also how SG&A functions operate throughout the company. Any SG&A improvement program must take into account how the company's larger business model affects the SG&A infrastructure, both when looking for improvement opportunities and when recommending solutions to existing problems.

There are four basic business models. On one side of the spectrum is the holding company; on the other, the integrated operating company. Most companies fall in the middle – either the strategic control or the strategic guidance model.

An integrated operating company typically exerts highly centralized management control over a set of operating units, each of which has very limited strategic and operational autonomy. A holding company, in contrast, consists of a number of relatively autonomous, stand-alone business units. The vast majority of SG&A services are provided centrally in an integrated operating company, while SG&A at holding companies tends to be localized at each business unit.

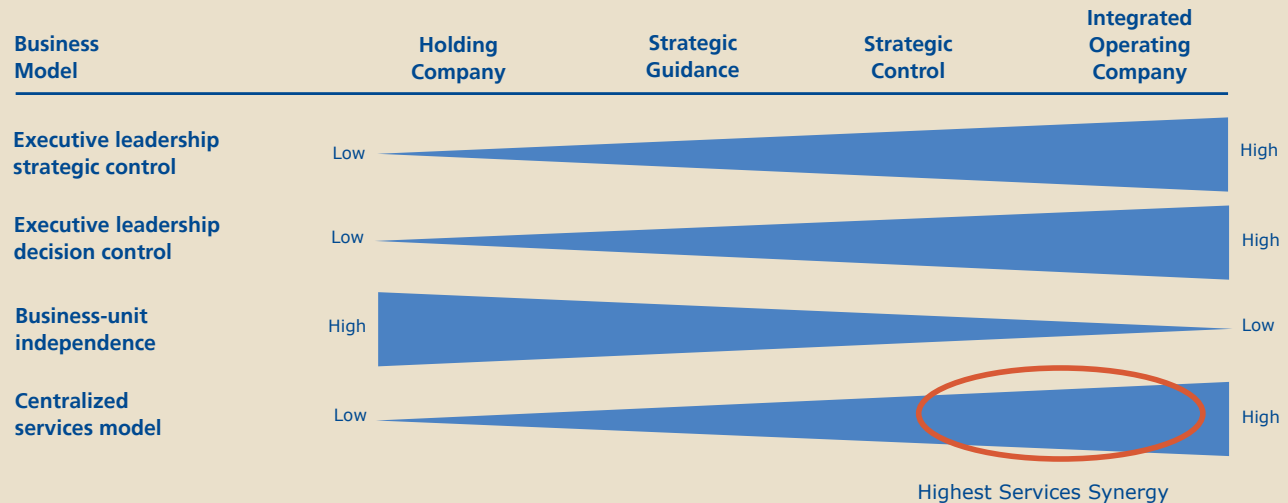
The strategic control and the strategic guidance models lie in the middle. In the strategic control model, the operational model is one of a general management team, and a significant portion of SG&A services is provided centrally. The strategic guidance model also has a general management team, but typically provides centralized SG&A services only on an as-needed basis.

**Understanding four basic business models and how they apply to a company is key to sustaining SG&A change.**

Although SG&A effectiveness can be achieved under any business model, the integrated operating company model offers many potential SG&A cost-reduction benefits and opportunities to improve efficiency. The integrated operating company model allows SG&A to take advantage of economies of scale and set up leveraged service units to reduce enterprise-wide redundancies, yielding greater efficiencies at a competitive price. In many cases, companies find that a strategic control model provides the right balance of business unit autonomy and centralized efficiency, fostering innovation, creativity and entrepreneurship while at the same time benefiting from the synergies of belonging to a large company.

### A Company's Business Model Facilitates an Optimal SG&A Delivery Strategy

A shift toward an integrated operating company results in higher SG&A efficiencies, although effectiveness can be achieved under any model



Source: Deloitte

## Case Study

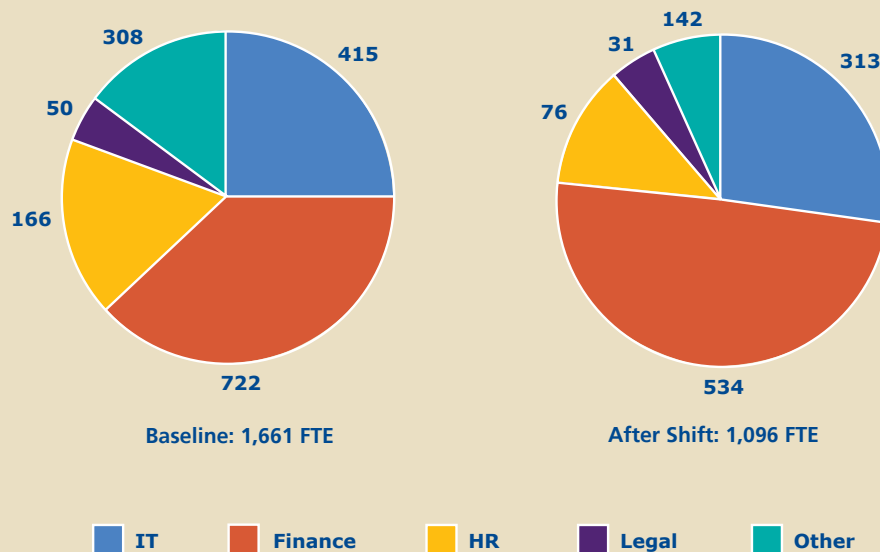
### Shifting from a Holding Company to a "One Company" Vision

**Situation:** A leading Fortune 500 communications equipment provider went into the cost-reduction and organizational restructuring process as a holding company, then shifted to an integrated company model to yield significant cost reductions.

**Results:** A headcount reduction of 563 (34%) full-time equivalents (FTEs) that netted payroll and benefits savings of \$34 million.

Before the shift to "one company," the SG&A functions were in the United States and Canada and included MIS, finance, HR, legal and other administration (facilities, graphics, purchasing, environmental health and safety, security, quality, telemarketing and real estate). The new model created the Finance Shared Services Center for North America, as well as a defined service-delivery strategy for SG&A functions that clarified roles and responsibilities at the corporate and divisional levels. The service-delivery strategy laid out what functions would be centralized at the corporate level as opposed to what work would be done in divisions to drive out redundancies. The company also reengineered the planning and budgeting process to improve information and decision-making across all divisions.

#### A shift to an integrated operating company model resulted in a 34% reduction in SG&A FTEs



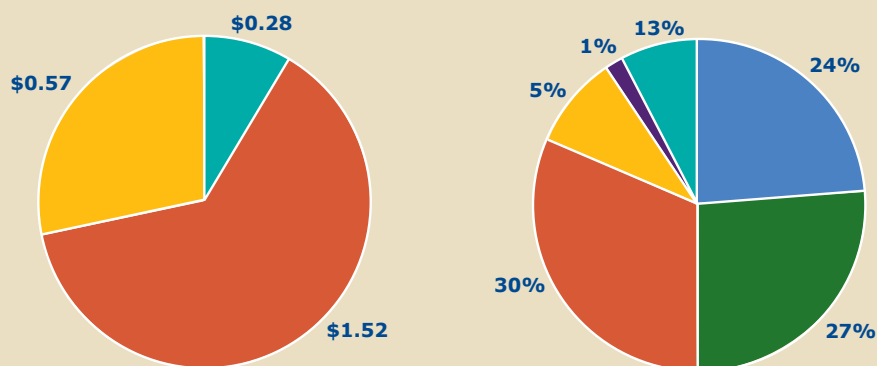
## Case Study

### A Shift Toward an Integrated Operating Company Model Yields a Large Payroll and Benefits Savings Opportunity

- Situation:**
- Fortune 1000 equipment leasing company
  - Challenge to leverage scale across multiple business units
  - Challenge of focusing strong independent culture and concern over management's resolve to change
  - Key performance measures may be driving wrong behaviors
  - Need to define organizational structure with clearly defined roles, responsibilities and activities

- Solution:**
- Restructure with SG&A defined broadly as including finance and administration; purchasing and logistics; IT; sales, marketing and customer service; service technicians and engineers; and production
  - Strategic rationalization in key areas, such as customers, vendors, SKUs and pricing programs

With a \$2 billion+ baseline and over 36,000 employees, a very large salary and benefits opportunity exists

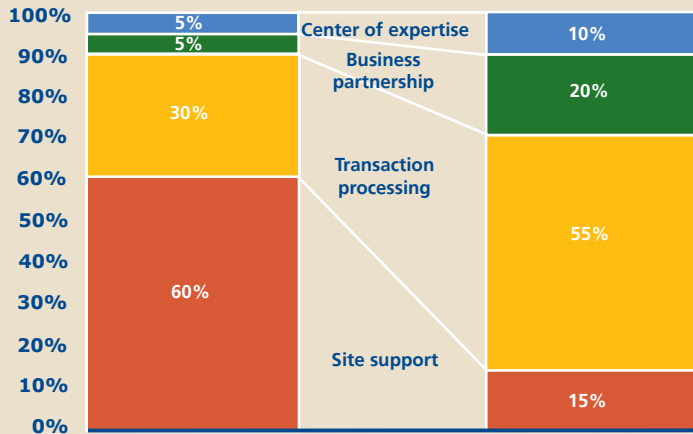


Dollar values in billions



## Comparing the Current State of Most Companies to That of Leading Companies

The distribution of resources before rationalization is typically focused more on nonstrategic processing than on knowledge-based activities.



### Typical Current State

Transaction processing not optimized via centralization

Site support focused mainly on transaction processing, with little focus on business partnership

Less focus on business partnership and centers of expertise

### Better Practice

Transaction processing centralized for increased efficiency and effectiveness

Site support of transactions that are unique to the business or closely tied to core operations

More focus on business partnership and centers of expertise

## 3. Distribute Work According to its Value

Crucial to any cost-reduction effort is to understand what work gets done, how it adds value, and where that work should be located within the organization. In our experience, there's typically a huge gap between where most companies currently perform work and where that work should be performed for greater efficiency and flexibility.

Historically, companies have allocated 90% of their administrative resources toward transaction processing and site support, 5% toward expertise services, and 5% toward business partnership-type services. This distribution of resources is overly weighted toward nonstrategic processing and shortchanges knowledge-based activities. Benchmarking a company's work allocation against those of leading companies can further highlight the opportunity for change. For example, a Fortune 1000 specialty retail company realized that it spent 90% of its time within divisions focused on transactions and site support and only 10% on strategic issues. Leading companies, however, were found to spend 70% on transactions and site support and 30% on strategic issues.

### The Lean Staff Model: Potential Organizational Structures, Sizing and Savings

A Deloitte methodology called the "lean staff model" has proven particularly successful in scrutinizing how key work processes deliver value. The lean staff model uses a 2 x 2 matrix to categorize each SG&A function and process along two dimensions: its *method of adding value* and its level of *business independence*.

Along the *method of adding value* axis, work is divided into tasks that add value through low-cost or business unit knowledge and defined service levels, and work that adds value through either management involvement or knowledge transfer. Transactional activities such as accounts payable, for example, add value through low-cost knowledge and a well-defined set of services. This differs from a more expertise-based activity, which delivers value through the work's quality and/or analysis. Consider compensation design: The goal isn't to conduct the work at the lowest cost but rather to design a program that meets the company's needs.

## Functional Decomposition Matrix (2x2)

### Method of Adding Value

Standardization/  
Efficiency/Defined Service

Management Involvement/  
Knowledge Transfer

		Method of Adding Value	
		Standardization/ Efficiency/Defined Service	Management Involvement/ Knowledge Transfer
Business Independence	Specific Division/Location	<b>Site Support</b> <ul style="list-style-type: none"> <li>Distributed to location(s)</li> <li>Service focus</li> <li>Specialized services</li> <li>End-use intensive</li> </ul>	<b>Business Partnership</b> <ul style="list-style-type: none"> <li>Aligned with function/unit</li> <li>Line/management focus</li> <li>Knowledge and know-how transfer</li> <li>Decision/action intensive</li> </ul>
	Generic/ Companywide	<b>Transaction Processing</b> <ul style="list-style-type: none"> <li>Consolidated organization</li> <li>Operational focus</li> <li>Standardized services</li> <li>Process intensive</li> </ul>	<b>Center of Expertise</b> <ul style="list-style-type: none"> <li>Organized by knowledge set</li> <li>Expertise focus</li> <li>"Onetime" expertise</li> <li>Issue/opportunity intensive</li> </ul>

Source: Deloitte

On the *business independence* axis, work is classified based on whether the services are generic to the business or specific to a business unit or division. Payroll, accounts payable and salary-review programs, for example, all tend to be generic. Planning and analysis, on the other hand, would be specific to each business unit.

To improve efficiency and reduce costs, companies need to reallocate resources to have fewer employees in transaction processing and more in business partnership, and reduce the overall number in both. The lean staff matrix can provide a road map for how this can best be accomplished.

Transactional activities that are generic across the entire company, represented by the lower left corner of the lean staffing

matrix, almost always benefit from being centralized in a transaction-based shared service center. Moving transactional processes such as payroll, accounting, and IT support out of individual business units and into a shared services center lowers costs by reducing redundancies and enabling economies of scale, while improving the consistency of output by centralizing management.

### Sample Decomposition Matrix: Marketing Function for a Retail Company

#### Method of Adding Value

		Standardization/efficiency/ defined service	Management involvement/ knowledge transfer
Business Independence	Specific Division/Location	<p><b>Site Support</b></p> <ul style="list-style-type: none"> <li>• Customer/in-store communication – execution</li> <li>• Promotional communication execution</li> <li>• Ad hoc reporting on an exception basis</li> <li>• P.O.S. data collection</li> <li>• Grand openings</li> <li>• Graphic production vendor selection</li> </ul>	<p><b>Business Partnership</b></p> <ul style="list-style-type: none"> <li>• Credit promotions development</li> <li>• Event development and implementation</li> <li>• Customer/in-store communication development and implementation</li> <li>• Brand definition and communications</li> <li>• Provide input to marketing survey criteria</li> <li>• Implementation of loyalty and retention programs</li> <li>• Promotions development and evaluation</li> <li>• Media plan development and implementation</li> <li>• Advertising creative work</li> <li>• Vendor selection for creative work</li> </ul>
	Generic/Companywide	<p><b>Transaction Processing</b></p> <ul style="list-style-type: none"> <li>• Media buying vendor selection</li> <li>• Standard reporting</li> <li>• Data management</li> <li>• Graphic production</li> </ul>	<p><b>Center of Expertise</b></p> <ul style="list-style-type: none"> <li>• Credit promotions development and approval</li> <li>• External data collection</li> <li>• CSI marketing strategy and policy</li> <li>• Marketing event analysis</li> <li>• Marketing analysis and research</li> <li>• Internal and external benchmarking</li> <li>• Credit promotions development and approval</li> <li>• Public relations</li> <li>• Community relations standards and direction</li> <li>• Special CEO projects</li> <li>• Develop criteria for marketing surveys</li> </ul>

Outsourcing or even offshoring the shared services center can yield additional savings. Just as important, a single shared services center is much more scalable than its equivalent housed within multiple business units. Moving to a shared services model for transactional activities allows a company to adjust its related SG&A spend more quickly in response to business and environmental changes. Taking tax strategies into consideration can further improve the business case for either insourcing or outsourcing.

Similar in concept is the "center of expertise," a centralized resource designed to handle any type of specialist activity that is not transaction-based, such as tax planning, treasury, or internal audit. Represented in the lower right corner of the lean staffing matrix, these activities can carry a high price tag for the specialized knowledge they require, but the expense can be offset by applying that knowledge to as many different parts of the organization as necessary. A centralized internal audit function is a good example of

a center of expertise: A dedicated group of specialists can be deployed to each part of the enterprise in turn, eliminating the need for each division to maintain its own internal audit department.

Specialist activities that require site-specific input, such as marketing, finance, or HR, may be best described as "business partnership" activities, represented in the upper right quadrant of the lean staffing matrix. These activities cannot be placed in a center of expertise due to their specificity to a particular part of the organization.

## Case Study

### A Scalable Model Eases Future Acquisition and Divestiture Transitions

**Situation:** When a Fortune 500 communications equipment company discovered that work was being performed in the divisions that could be performed at the corporate level, it made changes. The mission: Drive out redundancies. The existing service model reflected extensive replication of IT functions and management responsibility across multiple locations.

**Solution:** Upon restructuring, the company centralized IT management at the corporate level, and the necessary customer-facing functions, such as application development and telecommunications, stayed at the division level. The results: the ability to scale functions (and processes within the functions) as work is added or removed from the system due to an increase or decrease in "internal customers," and a clear organizational and process model into which future acquisitions can be quickly merged.

Before restructuring						After restructuring						
Corporate	Division 1	Division 2	Division 3	Division 4	Division 5	Corporate	Division 1	Division 2	Division 3	Division 4	Division 5	
*	*	*	*	*	*	Application maintenance	*					
*	*	*	*	*	*	Application development	*					
*	*	*	*	*	*	Desktop support	*					
*	*			*		Help desk	*					
*	*	*	*	*	*	Telecommunications	*					
*	*	*	*	*	*	Network	*					
*	*	*	*	*	*	Server operations	*					
*	*	*	*	*	*	DBS/warehousing	*					
*	*	*	*	*	*	Security	*					
*	*	*	*	*	*	MIS management/ business-unit liaisons	*					

\* Location of management responsibility  
 Where function is being performed

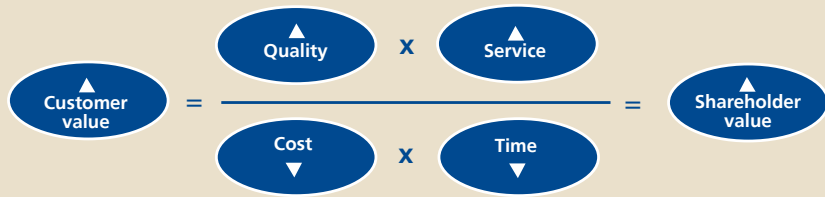
**To improve efficiency and reduce costs, companies need to reallocate resources to have fewer employees in transaction processing and more in business partnership, and reduce the overall number in both.**

They also require a greater degree of knowledge transfer and/or management involvement than can be housed economically in a transaction-processing center. Generally, we find that these activities generate the greatest return on investment when local personnel have appropriate freedom of action under the overall direction of a central authority. Properly balancing local customization against centralized standards is key, as is the appropriate assignment of responsibilities between business unit and corporate personnel.

Finally, the upper left quadrant of the lean staffing matrix represents the irreducible amount of "site support" activity – transactional processes specific to each business area – that must occur in any organization. These can include anything from photocopying and reception desk staffing to on-site technology support. In our view, these and other site support activities should be housed locally on an exception basis only, in situations where management has determined that there are good and sufficient reasons *not* to centralize them in a transaction-processing center. In many cases, starting with the assumption

### The Value Equation

Focus on what needs to be done to gain the greatest impact on value



Source: Deloitte

that all transaction-processing activities can be centralized and looking for exceptions can yield bigger, more sustainable cost reductions than treating centralization as the exception to the rule.

Applying the lean staff model to specific functions, along with key performance metrics, can identify further cost-saving opportunities within each function. Consider a finance function's lean staff matrix for a technology company. A great deal of transactional work, such as travel and entertainment (T&E), accounts payable, inventory accounting, fixed-asset accounting, and general accounting, took place in individual business units. A lean staff model centralizes these activities in the transaction processing quadrant. Now, the sites have partial responsibility for those activities that require site support. Knowledge activities, such as internal audit, treasury management and tax planning, were moved into a center of expertise. And the business partnership segment expanded to include such activities as management reporting.

### 4. Reengineer Inefficient Processes and Eliminate Unnecessary Work

Another major component of building a scalable SG&A base is to eliminate processes that don't add value and streamline those that do as much as possible. The following questions can help determine whether an activity adds value:

- Could this activity be eliminated if some prior activity were done differently?
- Could this activity be eliminated without compromising the quality of our product or service?
- Is this activity required by a customer, and will that customer pay for it?

Reengineering processes is not only about reducing costs, but reducing the time it takes to perform, improving service delivery and increasing quality. When all these components are in balance, shareholder value results – as does customer satisfaction.

Work that cannot be eliminated may be a candidate for reengineering. For example, technology offers many opportunities for streamlining or even replacing labor-intensive activities.

### Identifying Opportunities and Areas of Focus Through Process Analysis and Benchmarks

Benchmarking can provide valuable insights into any reengineering effort, especially when the results show there's noticeable room for improvement. For example, when a technology company compared its finance organization with median and top-quartile benchmarks, it found that its total finance costs ran at \$40 million but that the median benchmark's costs were \$30 million – 1.5% of revenue as opposed to 2.1%. Headcount

also differed drastically: 250 at the median benchmark as opposed to 406 at the client site. The company ultimately decreased costs to \$26 million – 1.3% of revenue – and headcount shrank to 260, positioning the company between median and top-quartile benchmarks.

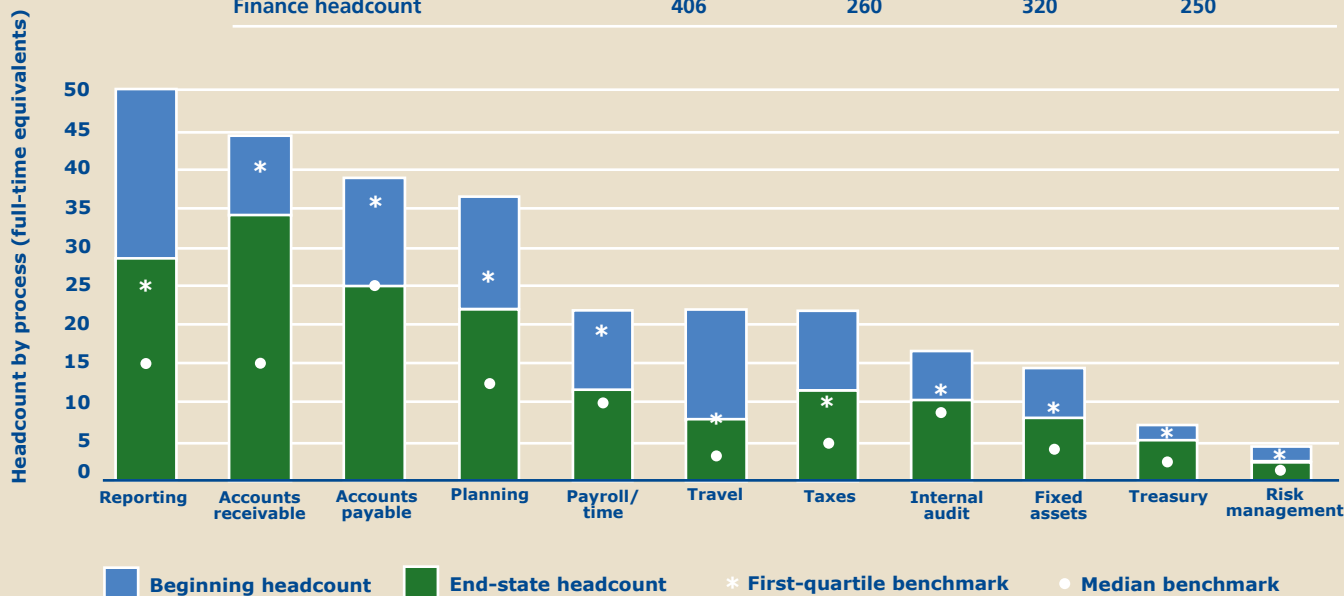
The major improvement levers that this company pulled included implementing a common financial system to automate reporting, centralizing all transaction processes, leveraging best practices and reengineering the planning process.

### Analyzing Processes for Cost-Reduction Value and Feasibility

Because not all areas can be reengineered, we suggest that companies prioritize them based on two dimensions: *value* and *likelihood of success* (feasibility). *Value* is the ability to meet the objectives, both quantitative and qualitative, whereas *likelihood of success* includes ease of implementation and ability to overcome organizational and change management issues. The processes to tackle first are the ones that fall into the high-value/highest-likelihood-of-success portion of the matrix.

#### Process Analysis and Benchmarking: Identifying Opportunities and Areas of Focus

	Technology company		Benchmark	
	Beginning state	End state	Median	First quartile
Total cost of finance (in millions)	\$40	\$26	\$30	\$20
Cost as a percentage of revenue	2.1%	1.3%	1.5%	1.0%
Finance headcount	406	260	320	250



As shown in the process prioritization matrix at right, the company's finance, HR, MIS and marketing areas fell into the high-value/ highest-success quadrant. On the opposite side was QA/QC, because headcount was so low that it was not a good candidate for immediate process reengineering. Following a detailed process analysis and proper planning, processes and functions were reengineered and a supporting process structure was defined.

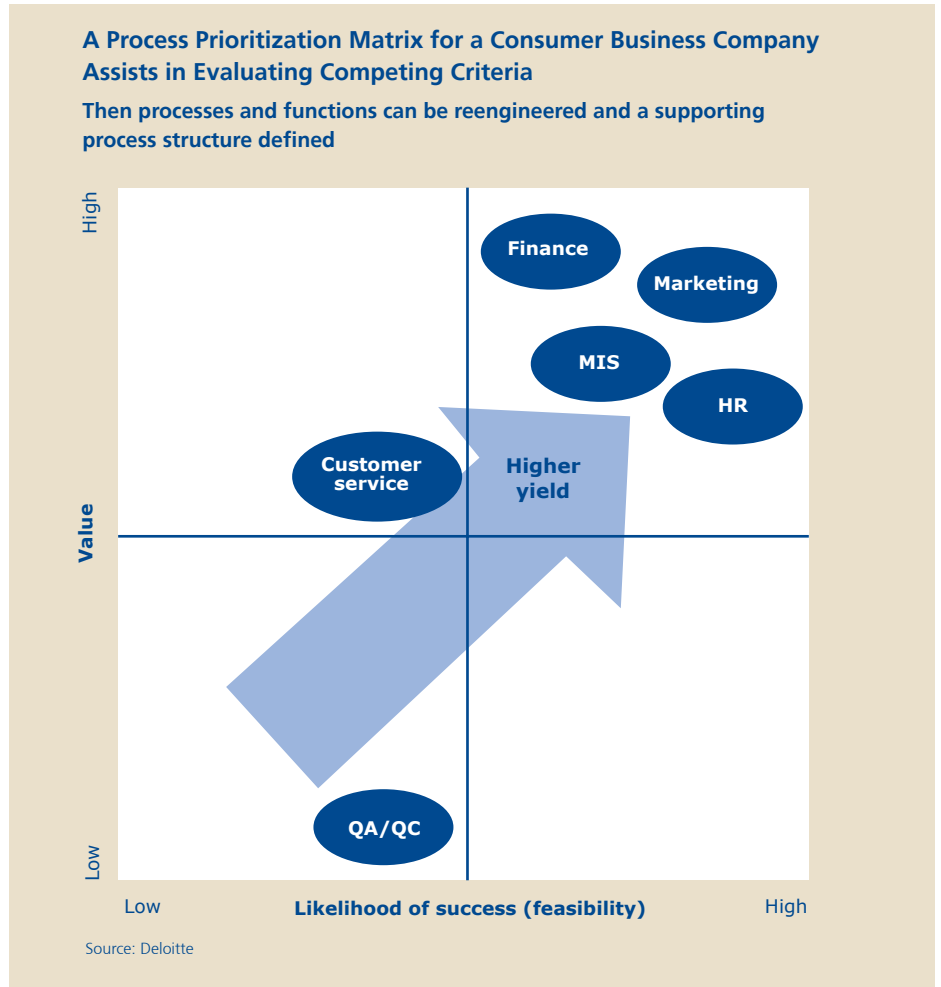
**5. Aggressively Tackle Controllable Expenses – Often the Most Significant SG&A Cost-Savings Opportunity**

A surprising number of companies overlook controllable expenses (CE) – companywide nonproduction expenses such as employee travel and supplies – in their cost-reduction efforts. In fact, CE runs between 50% and 60% of non-production costs, which is typically more than staffing costs. Although controllable expenses are not directly associated with SG&A restructuring, they present a significant opportunity not only to reduce costs without compromising customer value but also to improve efficiency and effectiveness. Another upside: CE cost reductions are often relatively easy to implement, as they typically don't entail the political sensitivities and human resources impact of a restructuring.

A case in point: A chemicals company had baseline costs of \$530 million, of which \$313 million was in CE. This company realized \$114 million in savings, or a 21.5% reduction in baseline costs; 61% of the savings came from CE. Another example: A communications equipment company's baseline expenses were \$277 million, with \$127 million in CE. The company realized \$74 million in savings, \$49 million of which came from CE reductions, for a total 27% decrease in baseline costs.

To affect CE, the entire company needs to adopt a new mindset of change, restructuring and improved efficiency. The general approach is as follows:

- Understand the CE baseline across the entire organization.



- Allow no sacred cows. Objectively review expense items compared with external and internal benchmarks.
- Review standing policies and procedures to identify specific cost-reduction opportunities.
- Identify specific owners for cost-reduction targets. Push for immediate quick hits to kick-start savings focus and generate momentum.

Because controllable expenses offer cost-reduction opportunities without reducing personnel, this is an ideal area for holding companies or companies under strategic guidance to address. A decentralized company may not be able to significantly

reduce labor costs in its various semi-autonomous divisions, but it may still find as many CE reductions as an integrated operating company could.

**Focusing on Controllable Expenses Yields Significant Cost Savings**

A communications company provides a specific example of significant CE reductions. This leading company saved \$31.6 million in identified controllable expenses, including a \$9.8 million reduction in travel expenses alone. To effect this change in travel expenses, the company took the three major steps described in the case study at right.

## Case Study

### Savings in Controllable Expenses

A leading communications company reduced travel expenses by \$9.8 million by implementing the following steps:

1. Enforcing current policies

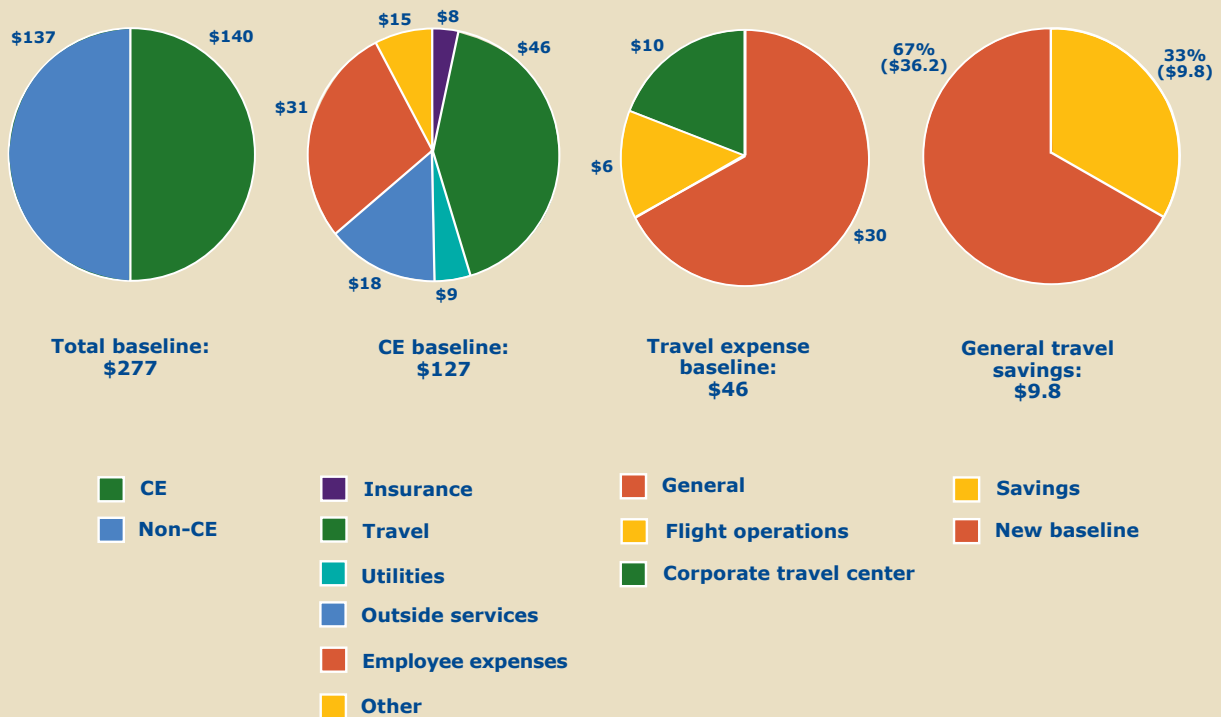
- Flagging and reporting out-of-policy expenses to divisions without linkage to reimbursement, which had not effectively controlled travel costs
- No reimbursement of expenses that are out of policy, and elimination of all central billing of travel

2. Standardizing current policies to existing best practices

- Creating a single standard travel policy for the entire organization, leveraging internal best practices to further reduce costs
- Adopting other best practice considerations into a standard policy to help achieve the savings, including:
  - Mandatory use of corporate card
  - Electronic ticketing
  - Mandatory use of Travel Guide hotels
  - Eliminate central billing
  - No reimbursement for out-of-policy expenses

3. Strengthening current travel policy

- Mandating use of nonrefundable tickets



Dollar values in millions

## Case Study

### Savings Opportunity for a Decentralized Company

A decentralized business model can still yield cost savings, but with focus on controllable expenses.

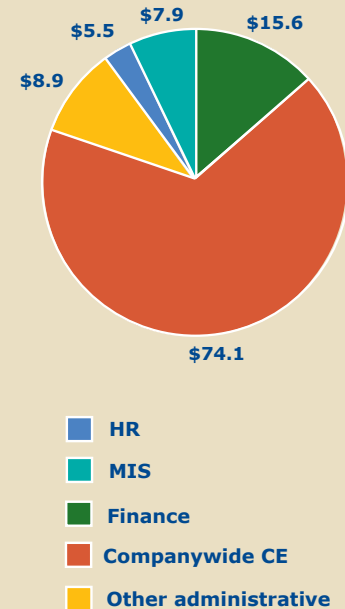
**Situation:** A leading service and technology provider's cost position relative to industry practices is not out of line. However, there's still room for cost reduction. The company's culture and history of business unit autonomy played significant roles in the change/restructuring effort to realize cost savings from the business. The SG&A functions, including finance, MIS, HR and other administrative (legal, contracts, procurement, quality, facilities, security and other), operate on a business unit basis and wish to remain under the business model.

**Solution:** Focus on large, companywide CE category for savings opportunities, including considerable hidden spending within MIS via capital spending across the company, not just within business unit control. For example, one major problem was that projects were not centrally approved. As a result, equipment would be purchased without considering maintenance charges, so the full cost of the equipment was never determined. To address issues like these, the company moved to a shared services model in MIS, finance, procurement and facilities that supports the business model and does not affect business unit autonomy. The company's opportunity baseline: \$112 million and 645 FTEs, with 66% in controllable expenses and 34% in salary and benefits.

### Opportunity breakout:

66% CE

34% Salary and benefits



Dollar values in millions

## 6. Implement a Change Leadership and Communications Effort

For most companies, establishing a sustainable and scalable SG&A structure requires a fundamental transformation in how SG&A works. A transformation of this magnitude cannot be imposed from on high. To fully take hold throughout the company, it must be accompanied by a change management program that focuses on both organizational change management and personal change leadership. The "hard" tangible variables of organization, process and technology change must be addressed alongside the "softer" intangible variables: leadership, people, communications and culture. The mission: Change the way the work is being done, develop employees so

they can operate in a new environment and free them to think in new ways.

Successful change management programs proactively use a variety of frameworks and tools to manage risk and guide the organization through the transition:

- Communications
- Guiding coalitions and decision structures
- Cases for change
- Commitment mechanisms
- Stakeholder assessment
- Change impact assessment
- Performance goals and monitoring
- Education and training

During organizational restructuring or enterprise-wide cost-reduction programs, many companies are reluctant to communicate to employees until the details of restructuring actions are known. Our experience indicates that companies that openly and aggressively manage communications efforts during transformation are the ones that may be better positioned to maximize benefits from transformation. What's important during this time is to inspire confidence that a process is in place, that communications of key decisions will be made at appropriate times and that senior management has oversight over the whole transformation program. More significantly, the strategic rationale for transformation must be communicated to align employees throughout the company toward a common vision.

Also, don't forget that change happens at a personal level. This requires management to identify and support change leaders. Change leaders ultimately focus on encouraging employees to see the world differently and to reevaluate old assumptions – for instance, how a customer will respond if an action is taken. Effective change leadership enables employees to free themselves of ingrained assumptions, and if thought processes change, behaviors change.

### A Call to Action

Building a competitive SG&A cost structure puts a company on a solid path to strengthening its commitment to improving the way it does business. The following key questions can help you assess the current state of your SG&A cost and organizational structure:

- Is your SG&A cost structure competitive relative to the competition?
- Have you carefully examined your SG&A structure across all major functions, business units and geographies to determine where each process adds value?
- Do your SG&A functions maximize cross-functional benefits?
- Have you rationalized or clarified your company's business model?
- Have you taken the steps to align your SG&A processes with your overall business model?
- Have you focused on maximizing controllable expense reduction opportunities? Or is reducing CE overlooked by either the procurement organization or finance?
- Have you formally assessed your SG&A service levels, costs and capabilities against both industry competitors and emerging BPO players?

- Do you view SG&A mostly as a necessary evil, or do you really understand how to use it to build a competitive advantage?
- Does your SG&A strategy include outsourcing, offshoring and shared service solutions?

Cost reduction is only part of driving value through SG&A improvement. Other vital steps include matching a service-delivery solution to the business model, determining how work adds value and centralizing low-cost defined services, eliminating work and reengineering processes, and aggressively attacking controllable expenses. All told, a lean, flexible SG&A structure will carry companies through changing business conditions, giving them a crucial competitive advantage in a volatile environment.

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