

# Watch your step

## Optimize your enterprise footprint, or let the footprint take care of itself?



While doggedly pursuing revenue growth or cost reduction goals, many companies alter their global footprint without enough thought about optimization or how the pieces should fit together. Also, they are often slow to adjust their footprint in response to changing market conditions. The current downturn is bringing footprint issues into sharp relief, and prompting some companies to adopt a more strategic and holistic approach to optimizing how and where their assets are deployed. Yet many companies continue to rely on a traditional, narrowly focused approach that favors rapid action over rigorous analysis.

Given the enormous and pressing challenges that companies face today, which approach makes more sense? Here's the debate currently taking place in the C-suite:

	Point	Counterpoint
<b>Optimize our enterprise footprint.</b>  <i>We need a strategic, holistic approach to optimization that covers our entire footprint, from employees and customers to PP&amp;E, real estate, and tax.</i>	Decisions that affect the enterprise footprint are often made by individual business units in isolation. A holistic approach improves efficiency and reduces risk.	Whether the economy is growing or shrinking, major operating decisions often need to be made quickly in response to immediate opportunities or crises. There's no time to think about the enterprise footprint.
	Optimizing our footprint would improve our operating flexibility and position us for future growth.	We're worried about the here and now. What can footprint optimization do to help us tackle our immediate challenges?
	Footprint optimization balances a wide range of critical factors, from cost efficiency and operating requirements to talent availability, tax impacts, and access to new markets. It's not just a cost reduction exercise.	That sounds complicated. We don't have the know-how or specialized expertise to do it.

	Point	Counterpoint
<p><b>Focus on day-to-day business decisions and let the footprint take care of itself.</b></p> <p><i>We shouldn't try to manage or optimize our enterprise footprint. Each operating unit should simply do what it needs to do.</i></p>	We're bleeding red and need to take action right away. We can't afford the time or resources for a comprehensive analysis.	Given the potential benefits, we can't afford not to do it. With the right approach, the analysis and planning can be completed in just 6 to 12 weeks — with quick wins delivering tangible benefits as early as next quarter.
	Footprint decisions are simple. Let's not make this more complicated than it needs to be.	Most of the obvious stuff has already been done. But there's still a lot of value that remains hidden in the complexity.
	We want our business units to be autonomous. Thinking about the enterprise footprint will just distract them.	That's why it makes sense to periodically optimize our footprint — after the business units have done their thing. We get the benefits of enterprise-wide optimization without getting in the way.

## My take



### Darin Buelow, Principal, Deloitte Consulting LLP, Corporate Real Estate

Effective enterprise footprint optimization can deliver tremendous value, both in good times and bad. It can help companies reduce their costs while improving their operating efficiency, access to global talent, and strategic positioning in key geographic markets. It can also help increase a company's operating flexibility, making it easier to respond to changing market conditions.

For example, a consumer products company reduced its footprint and logistics costs by 16.5 percent by optimizing the number and location of its manufacturing and distribution operations. The resulting footprint design — which factored in supply chain, labor, tax, revenue-side, and outsourcing considerations — achieved the company's cost reduction objectives while actually improving customer service. In another case, an industrial manufacturer examined its footprint in Latin America to determine how it might more effectively grow revenues, serve customers, maximize operating margin, and manage regulatory complexity. A holistic footprint assessment and scenario analysis led to a deployment configuration that improved EBIT (per unit delivered) by 25 percent more than any other option.

Of course, achieving benefits like these requires a certain amount of effort — and the right approach. Here are some practical tips to consider in your efforts to optimize your enterprise footprint:

- **Take a holistic view.** To be effective, the optimization process must consider everything from business strategy and operating requirements to talent availability, risk management, and costs. The inter-relationships between these various factors are critical to success. Limiting the focus to cost reduction can dramatically reduce the potential benefits.
- **Start with quick wins.** In most cases, there are immediate improvement opportunities that can start delivering benefits in less than three months. These "quick wins" not only can make the overall effort self-funding, they can help build momentum and credibility, which are essential to sustained improvement.
- **Don't forget about tax.** The intricacies of international tax law often present a prime opportunity for footprint optimization. In fact, for some companies, the tax benefits alone can justify the entire optimization effort.
- **Repeat as needed.** Although enterprise footprint optimization can improve a company's operating flexibility, it shouldn't be viewed as a one-time event. Plan to periodically repeat the analysis as the business environment changes and your footprint evolves. The good news is that subsequent analyses will likely take only a fraction of the time and effort that was required the first time around.

Enterprise footprint optimization is relevant for every industry in every part of the business cycle. Companies that don't periodically optimize their global footprint are most likely leaving a lot of money on the table and inadvertently undermining their long-term competitiveness.

## A view from supply chain

**Scott Sopher, Principal, Deloitte Consulting LLP, Supply Chain and Operations**

Volatile fuel costs, tightening lines of credit, dwindling labor pools, and other recent developments are compelling companies to rethink their supply chain strategies and enterprise footprint. When fuel prices soared, for example, some companies thought about bringing manufacturing back from low-cost countries, while others considered increasing their distribution capacity to get closer to customers. But what would happen if fuel prices and exchange rates continue their unpredictable roller-coaster ride?

Falling back on yesteryear's supply chain strategies is not the answer. Instead, companies should consider a new, more flexible approach that includes all product and channel attributes, not just manufacturing and logistics costs. Such an approach can help enable a company to weigh every factor that affects profitability and then choose a strategy that makes the most sense for each type of product.

This new approach — the opposite of today's one-size-fits all approach — requires two key changes. First, companies must challenge traditional assumptions they have relied on for decades. Advanced analytics are now required to determine exactly how each aspect of the supply chain — e.g., material and product acquisition costs, end to end logistics costs, inventory carrying costs, cycle time — affects product profitability. Second, companies must revisit their performance measures and incentives. Traditional incentive programs tend to reinforce the *status quo* and encourage optimization within individual functions, rather than for the enterprise as a whole. To address the problem, incentives must be realigned so that managers and employees are motivated to focus on overall margins, rather than focusing on maximizing performance within their particular silo.

The supply chain organization is unlikely to take these actions on its own, or make an unbiased self-assessment. Adopting a new approach will require encouragement and support from the C-suite.

These types of reforms have major implications for the enterprise footprint. The good news is that once they are made, the impact on profitability can be dramatic. Unlike the old days, it's not just a matter of shaving a percentage point off the cost of goods sold. Rather, an improved supply chain strategy and enterprise footprint can position a company to reduce risk, increase market share, and build a sustainable competitive advantage.

## A view from human capital

**Tom Morrison, Principal, Deloitte Consulting LLP, Human Capital Total Rewards**

Enterprise footprint optimization has a significant impact on employees. If not properly managed, it can prevent a company from realizing the full benefits of reorganization and optimization. Ingrained behavior often is a major barrier to implementing new processes or structural changes. Also, business uncertainty can fuel the flight of top talent.

Most companies recognize the importance of corporate culture and employee behavior in driving successful change; however, many underestimate the effort needed to make change happen. By ignoring the impact of footprint optimization on job design, compensation and benefits strategies, and development opportunities, companies are likely to create uncertainty for their employees at a critical time. Here are some key issues to keep in mind:

- **Organization design.** Changes to a company's footprint typically result in modifications to the organizational design. Functional duplication, overlapping responsibilities, unnecessary management layers, and lack of role clarity can all reduce the benefits of footprint optimization. An organizational assessment across various dimensions such as capabilities, processes, and governance can help pinpoint areas that need modification based on gaps between the current state and future requirements. Take care to define or update future core capabilities, workflows of realigned locations and business units, and job profiles, and make sure that job definitions and organizational structures align with your company's future direction.

- **Talent management.** In the current business environment, many companies have shifted their attention from talent acquisition to talent development, deployment, and retention. Footprint optimization can cause problems by interrupting development efforts, altering career paths, and creating opportunities for competitors to recruit your best talent. To counter these problems, continue to invest in development programs, and restructure compensation and benefits plans to fit the new economic reality. Redeploy your best people to challenging new roles that keep them interested and engaged. Identify critical workforce segments and establish programs that ensure a smooth transition. Review existing programs in light of changes in location or geography and make sure they fit changing employee needs.
- **Culture.** Organizational culture is the single biggest barrier to any change effort. Although culture might seem hazy and intangible, its ability to inhibit a footprint optimization effort is very real. To help overcome cultural obstacles, provide employees with a clear picture of how changing their behavior can help drive both business and personal value. Link financial metrics and rewards to the desired behaviors. And establish executives and leaders as role models.
- **Communications.** A footprint optimization effort can fuel employee uncertainty and undermine a company's talent and business objectives. Countering this possibility requires a strong communications strategy that follows some basic tenets. Start early. Maintain transparency. Target the right audience. Consistently drive the message of change. In addition to supporting near-term changes to the company footprint, an effective communications strategy can be used to gauge the longer-term impacts of the restructuring on morale and productivity.

Directly confronting the people challenges associated with enterprise footprint optimization can help you overcome resistance to change, sustain the improvements, and accelerate the benefits.

## A view from tax

**John T. Womack, Partner, International Tax, Deloitte Tax LLP**

The current economy has brought enterprise footprint optimization into sharp focus by creating a need to reduce costs and improve supply chain efficiency. Realignment of manufacturing and distribution operations can provide tremendous opportunities for tax savings. However, it also presents a number of important issues and potential pitfalls:

- **Timing of anticipated benefits.** Although many organizations recognize the potential for tax savings from enterprise footprint optimization, they often do not understand that achieving the expected savings can take time. This is particularly true when the optimization effort involves realignment of existing capacity, rather than new investment. Tax jurisdictions around the world tend to be wary of such business transfers and work aggressively to capture a share of the benefits.
- **Transactional taxes.** In addition to considering the income tax implications of footprint optimization, it is important to consider indirect taxes such as VAT, duties, and transfer taxes. These types of transactional taxes can be very complex, particularly in Asia and Latin America, and may present significant obstacles to the optimization process.
- **Legislative changes.** For US-based multinationals, the Obama administration's desire to expand the tax base by taxing more offshore earnings could have a significant impact on footprint optimization decisions. To achieve the greatest tax savings, it is crucial to stay abreast of developments in this area.

By considering and addressing these types of issues, companies can better position themselves to preserve more of the savings from enterprise footprint optimization, while potentially positioning themselves to capture significant additional tax benefits.

For more information, please visit: [www.deloitte.com/us/debates/enterprisefootprint](http://www.deloitte.com/us/debates/enterprisefootprint).

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