



Thriving in uncertainty

Margin improvement in the age of digital disruption

Unprecedented economic and political uncertainty—combined with the impact and pace of digital disruption—are forcing many companies around the world to rethink how they operate and compete.

Profit margins and margin growth are both down sharply,¹ and in many cases traditional approaches to margin improvement are not delivering the results that today's companies need and expect. Meanwhile, digital disruption is changing the rules of the game, blurring the lines between industries and creating a need for dramatic improvements in efficiency, effectiveness, and competitiveness.

This complex and challenging environment requires a new approach to margin and business improvement, an approach that addresses multiple value levers and capitalizes on emerging digital breakthroughs such as robotic process automation and cognitive technology to enable new business models and new levels of business performance.

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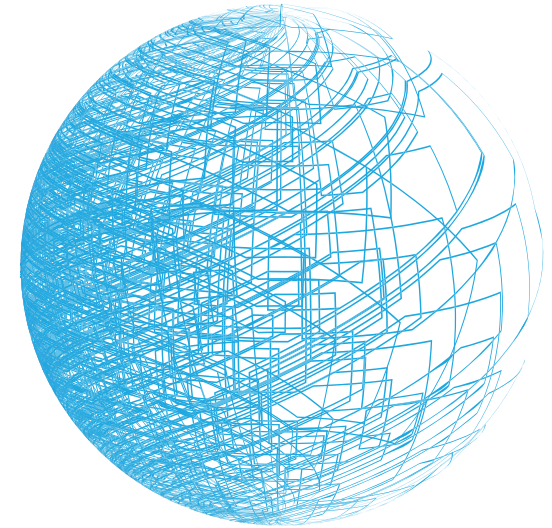
Traditionally, companies pursuing margin improvement have fallen into one of three categories:

- Distressed
- Positioned for growth
- Growing steadily

For each of these traditional categories, there is a standard margin improvement playbook that primarily focuses on one of three specific value levers: cost reduction, aggressive growth, or liquidity.

However, our 2012 study revealed the emergence of a hybrid scenario that we called “save to grow” in which companies simultaneously focused on two distinct value levers—*cost reduction* and *aggressive growth*—that have traditionally been at odds.

Taking this trend even further, our most recent survey results show the cost-growth hybrid has now expanded to include a focus on two additional value levers: *liquidity*



(which historically has been associated with companies in distress) and *talent* (which is strongly linked to growth and competitiveness). We call this new, multi-faceted scenario **thriving in uncertainty (TIU)**.

Taking the pulse

Since 2012, Deloitte has been periodically conducting in-depth surveys to better understand what real-world companies are doing to manage costs and improve margins.

Our most recent effort was a global set of surveys that included more than 1,000 senior executives from large and mid-size companies in every major industry, with each survey focused on a specific geographic region: the United States, Latin America, Asia Pacific, and the European Union. The results from these surveys show a fundamental shift in how companies around the world are tackling the challenges of margin improvement and strategic competitiveness.

Waking up to the threat of digital disruption

Digital technologies are rapidly reshaping the business environment globally, blurring the lines between industries, redefining how companies compete, and driving a need for dramatic improvements in efficiency and effectiveness. Yet our global survey results show the vast majority of companies are just waking up to the potentially disruptive impact of digital technologies and the business breakthroughs those technologies enable.

In the United States, only 15 percent of the companies in our latest survey cited digital disruption as a top external risk.² And the numbers were even smaller in the European Union (6 percent),³ Asia Pacific (2 percent),⁴ and Latin America (1 percent).⁵ However, all signs suggest that digital disruption is a critical strategic issue for companies in every region and industry and that it will soon be at or near the top of every C-suite agenda, if it is not there already.

When it comes to improving margins and competitiveness, two areas of digital innovation are front and center:

- **Automation.** For years, mechanical robots have been quietly but steadily revolutionizing how physical goods are produced, greatly reducing the need for human labor while at the same time improving quality and consistency. Now, we are seeing a similar—although much faster—revolution in knowledge-based processes, with software “robots” that can automate tedious and labor-intensive information tasks such as data collection and data processing. Interest in this new technology area is high as companies look for ways to dramatically improve the efficiency of any core and administrative processes that revolve around data and information.
- **Cognitive technologies and analytics.** Although digital technology is proving very useful for boosting efficiency through automation of routine tasks, that’s just a small part of what it can do. In recent years, nearly all companies have begun harnessing the power of analytics

and big data to uncover hidden insights that can help reduce costs while boosting effectiveness—and that trend is likely to continue. Today, many companies are deploying machine learning, computer vision, natural language processing, and other cognitive technologies as they seek to enhance their businesses by augmenting human expertise and judgment with artificial intelligence. Although this might sound like science fiction, for companies in the digital age it is already becoming a practical reality.

Disruptive breakthroughs like these are changing the basis of competition and laying the groundwork for massive improvements in efficiency and effectiveness. To remain competitive in this new digital environment, companies in every industry and geography may soon find themselves needing cost improvements in excess of 50-60 percent, not just the 10-20 percent improvement that most are currently pursuing.⁶



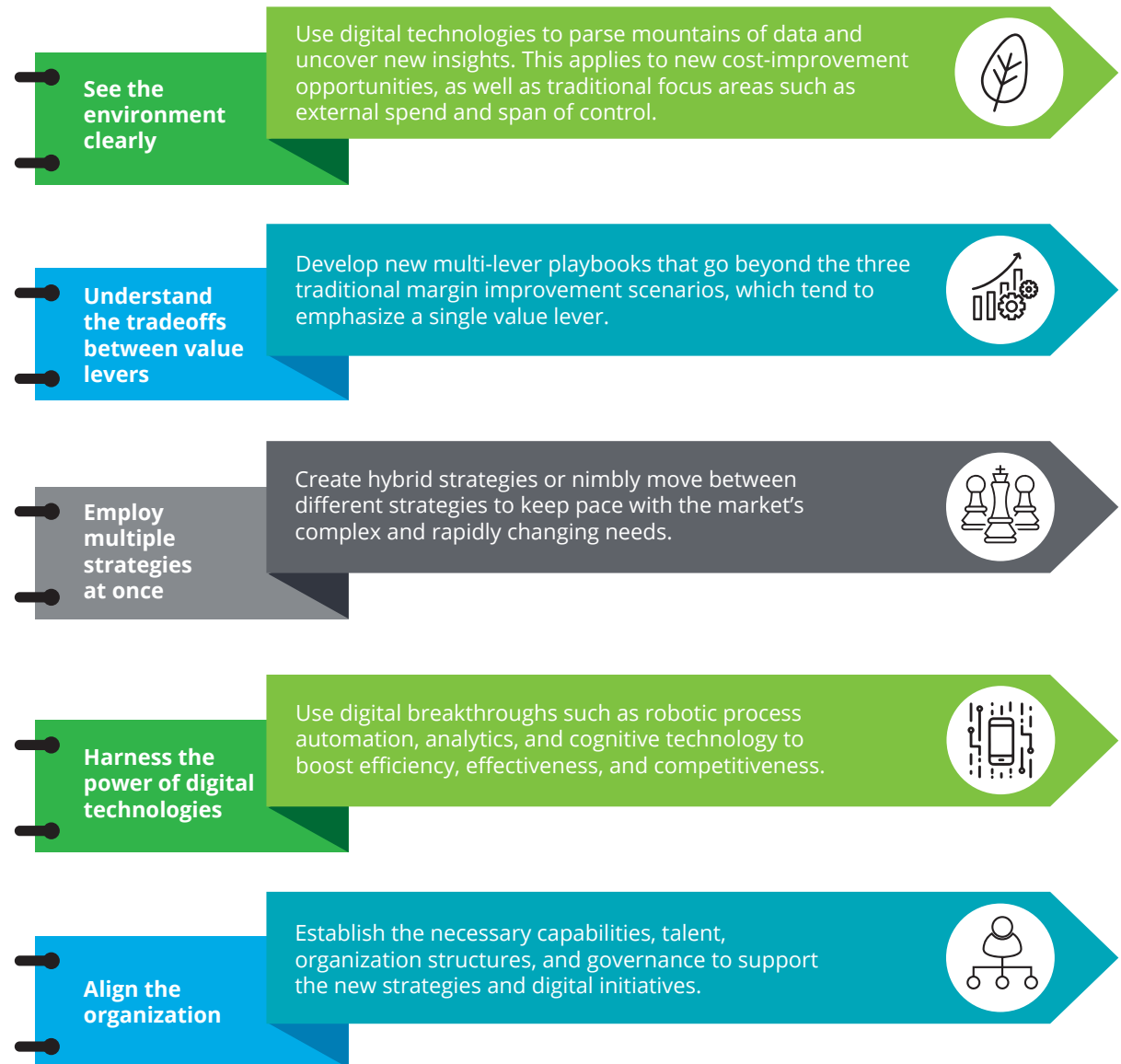
A new approach to margin and business improvement

Traditional margin improvement efforts—such as operating model transformation, outsourcing, and external spend reduction—while still important, are quickly becoming table stakes that alone are unlikely to deliver the required level of margin and performance improvement.

According to our latest surveys, companies that continue to focus on the same traditional cost-reduction opportunities year after year are finding it increasingly difficult to achieve their cost objectives. In fact, the majority of companies surveyed say their existing cost-reduction programs failed to meet their targets—and this was true for every global region: Asia-Pacific (72 percent failure rate), Latin America (67 percent), the United States (58 percent), and the European Union (56 percent).⁷

To thrive in uncertainty, companies should consider a new approach to margin and business improvement that can help them identify, prioritize, and pursue new growth opportunities while generating cost savings, freeing up cash, and supporting the development of capabilities and talent required to achieve its strategic vision. This new approach has several key elements (see figure 1).

Figure 1: Key elements of TIU approach to margin and business improvement



Deloitte helps companies rise to the challenge of thriving in uncertainty through a comprehensive, integrated margin and business improvement approach (see figure 2) that leverages a full

suite of value levers—cost reduction, aggressive growth, liquidity, and talent—fueled by our TIU Insights Platform and driven by our digital solutions.

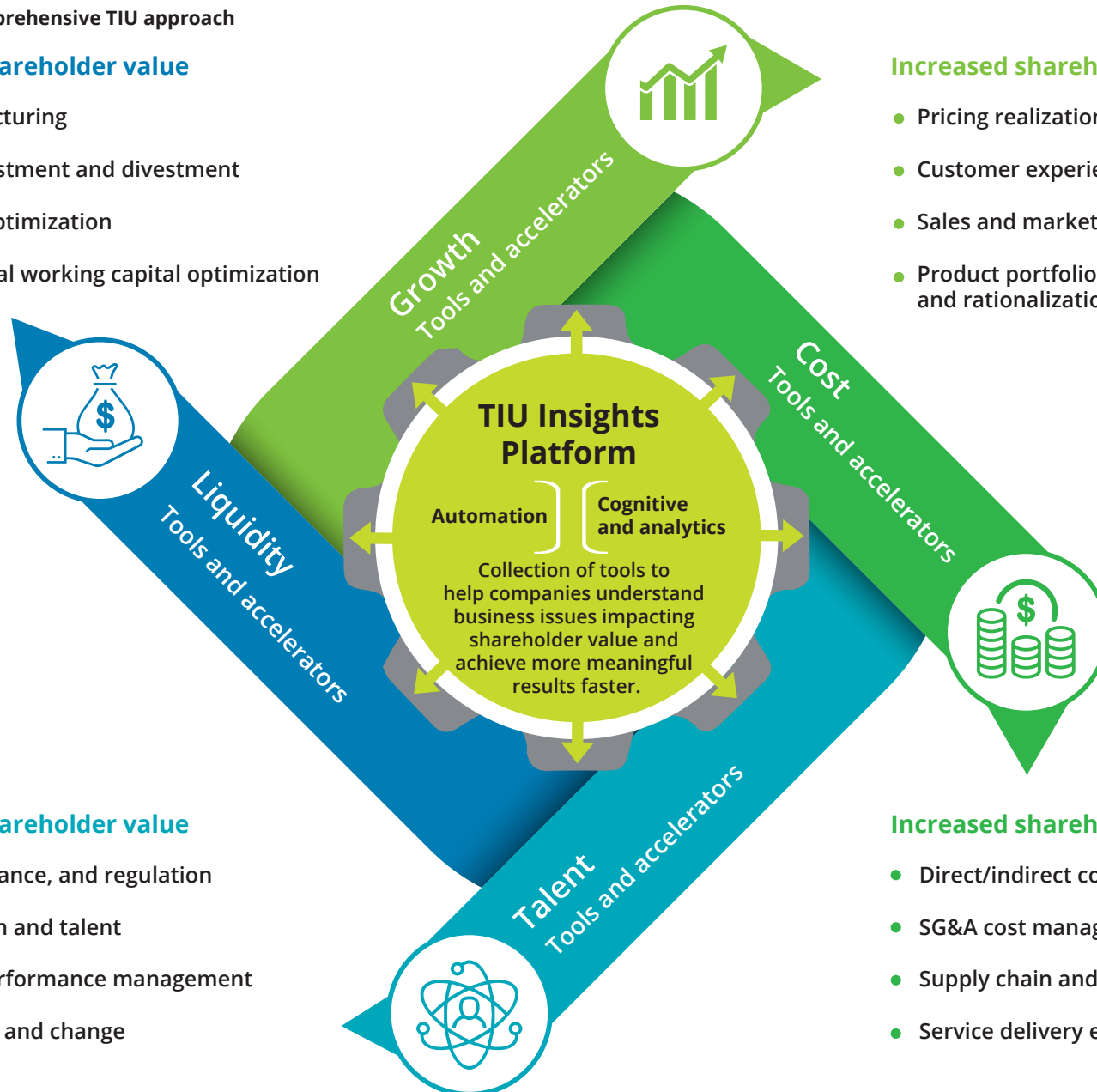
Figure 2: Deloitte’s comprehensive TIU approach

Increased shareholder value

- Debt restructuring
- Capital investment and divestment
- Inventory optimization
- Transactional working capital optimization

Increased shareholder value

- Pricing realization
- Customer experience and channel mix
- Sales and marketing effectiveness
- Product portfolio innovation and rationalization



Increased shareholder value

- Risk, compliance, and regulation
- Organization and talent
- Business performance management
- Governance and change

Increased shareholder value

- Direct/indirect cost optimization
- SG&A cost management
- Supply chain and manufacturing effectiveness
- Service delivery execution

Controlling your own destiny

Businesses today face economic, political, and technological uncertainty. And while there is nothing you can do to entirely avoid this uncertainty or halt the progress of digital disruption, that does not mean you are helpless against the whims of fate. By adopting a new approach to margin

improvement and competitiveness—and by actively looking for ways to strategically harness the power of rapidly emerging digital technologies to enable new business models—your company can dramatically improve efficiency and effectiveness and take control of its own destiny, becoming the disrupter rather than the disrupted.

*Take control
of your
destiny.
Become the
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Know where to get started?

Let's get to work. Deloitte can help you execute on your margin improvement agenda and hit the ground running with an unparalleled breadth of digital tools and enablers, industry experience, and practical know-how to execute against multiple value drivers.

Need help getting started?

Let's chart a path at a Margin Improvement Executive Lab that can help you discover tangible and actionable margin improvement opportunities and arrive at a portfolio of prioritized initiatives that can lead to rapid impact on shareholder value.

Contact us to learn more

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Endnotes

- ¹ Federal Reserve Bank of St. Louis Economic Data
- ² Deloitte's fourth biennial cost survey: Cost improvement practices and trends in the Fortune 1000, April 2016
- ³ Deloitte's first biennial cost survey: Cost improvement practices and trends in Europe, October 2016
- ⁴ Deloitte's first biennial cost survey: Cost improvement practices and trends in Latin America, May 2016
- ⁵ Deloitte's first biennial cost survey: Cost improvement practices and trends in Asia Pacific, May 2017
- ⁶ Deloitte experience
- ⁷ See endnotes 2, 3, 4, 5



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