



Save-to-transform as a catalyst for embracing digital disruption

Deloitte's second biennial global cost survey

April 2019

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Foreword

Digital technology and digital disruption have burst onto the global scene as key levers for cost management and business transformation. In Deloitte's 2017 Biennial Global Cost Survey,¹ digital disruption was identified as an emerging risk by respondents in the United States but was barely visible elsewhere. Now, however, digital risk—including digital disruption and cybersecurity—rank among the top external risks globally.

While cost management remains a strong imperative around the world, the prevailing mindset seems to be expanding from save-to-grow to save-to-transform. Companies in all regions continue to have very positive expectations for revenue growth, and many are using cost reduction as a tool to help fund their required growth investments. However, in today's increasingly digital world, more and more businesses also recognize the need to transform their operations and capabilities with infrastructure investments in key digital innovations such as robotic process automation, cognitive technologies, business intelligence, and cloud-based ERP systems.

These digital technologies and innovations can deliver dramatic improvements in competitiveness, performance, operating efficiency and, increasingly, cost savings. Equally important, they can also strengthen a company's positioning for adverse future events, including economic downturns and digital disruption.

In this highly dynamic environment where digital innovation is a critical enabler for both cost reduction and business transformation, we are delighted to share the findings from our second biennial global cost survey. The study includes responses from more than 1,200 executives and senior business leaders across all major global regions, with strong representation from every major industry.

This report provides an up-to-date view of the cost management practices and trends shaping the future of business globally. It also takes a detailed look at how the latest digital technologies and cost management strategies are acting as a catalyst for transformation in a world being actively redefined by digital disruption.

We hope you find these insights useful and look forward to hearing your thoughts and feedback.



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¹ *Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report*, December 2017

Executive summary



Key global insights

Cost management remains a global imperative.

Cost reduction continues to be a standard business practice in all regions:

71%

are planning to undertake cost reduction initiatives over the next 24 months

Cost targets are up.

Globally, more than

2/3

of respondents are targeting total cost reductions of

10% or higher

(up from 55 percent of respondents in 2017)

Nearly

1/3

of this year's global respondents have cost targets above

20%

Failure rates are also up.

Globally,

81%

of respondents were unable to fully meet their cost reduction targets

(18 percentage points worse than in 2017)

Nearly

2/3

of the companies that failed to meet their cost targets **fell short by 25 percent or more**, achieving **less than 75 percent** of their targeted cost savings

4%

of global respondents exceeded their cost targets

Growth expectations remain very positive.

Globally,

86%

of respondents **saw their revenues increase over the past 24 months**, and the same number expect their revenues to increase over the next 24 months

Digital risks top the list of external risks.

In 2017, **macroeconomic concerns** were the **No. 1 external risk**. However, **that risk has now been surpassed** by two digital-related risks:

cybersecurity + digital disruption

Digital disruption was barely on the radar in 2017, except in the United States; however, it is now recognized as a top external risk in all regions except LATAM.

Information systems are the top internal risk.

Reliability and functionality of information systems is the **top internal risk globally**, particularly in the United States and Europe. That risk is followed closely by recruitment, development, and retention of talent; and by lack of controls, processes, and systems to ensure business continuity.

Save-to-grow is evolving into save-to-transform.

Sales growth, product profitability, and technology implementation remain in a virtual three-way tie as the top strategic priorities globally over the next 24 months. The increasing emphasis on technology implementation—along with digital enablement—reflects a new transformation mindset for cost management.

Growth and competition remain the primary drivers.

Over the next 24 months, the top three drivers for cost management globally are expected to be:

1. Required investment in growth areas
2. Intensified competition among peer group
3. Increased international growth opportunities



Key global insights

Technology capabilities are the primary development focus.

In developing their capabilities, surveyed companies have primarily been focusing on **cognitive and artificial intelligence (AI), ERP infrastructure,** and especially **automation**. This focus on technology is consistent with a save-to-transform mindset, with companies investing more time, money, and effort in capabilities that contribute to digital enablement and digital transformation.

Top cost reduction actions have been mostly tactical, but strategic actions are expected to gain ground.

The most common cost reduction action over the past 24 months was **streamlined business processes**, followed by **streamlined organization structure** and **improved policy compliance**. However, strategic cost actions are expected to gain ground over the next 24 months, to a point that the mix of tactical and strategic actions will be more closely balanced.

Barriers and lessons learned.

Implementation challenges remain the top barrier to successful cost reduction initiatives, followed by lack of effective ERP systems and infeasible targets. The top lessons learned are: **invest in technology improvements to enable data availability, reliability, and decision making; design a solid tracking and reporting process; and assess, validate, and adjust targets to fit the realities of implementation.**



Other catalysts of cost reduction

Cost management maturity levels have room to grow.

Roughly

2/3

of companies globally **do not have highly mature cost management practices.**

The United States leads the way with:

50%

of US respondents reporting a **high level of maturity** where cost policies and procedures are continually reviewed and examined to ensure best practices around efficiency and cost management.

Impact of a new CEO on cost reduction efforts.

Despite a common belief that appointment of a new CEO makes cost reduction more likely, our global survey results show **it only increases the likelihood of cost reduction by:**

1%, relatively

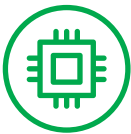
(the US is the only region showing a more positive difference, at 10%)

Impact of M&A activity on cost reduction efforts.

Similar to new CEOs, there is a common belief that merger and acquisition (M&A) activity increases the likelihood of cost reduction as companies pursue efficiencies and savings from a merger. However, the global survey results indicate **M&A only increases the likelihood of cost reduction by:**

7%, relatively

(in the US, the likelihood increases to 11%)



Digital and technology solutions applied to cost management

Cloud leads the pack.

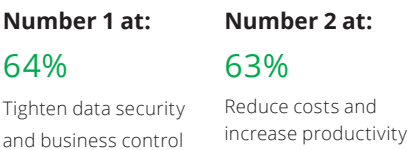
Globally, cloud is the most widely implemented digital technology covered by our survey, well ahead of business intelligence, automation, and cognitive/AI.



In general, the United States has the **highest implementation rates** for all of the technologies, while LATAM has the lowest.

Why cloud?

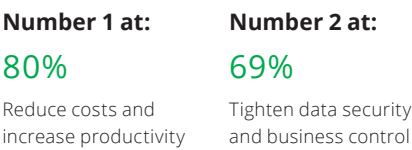
The two top reasons globally for using cloud are:



Cloud implementations are reported to have a very high success rate in meeting expectations globally (85 percent), with 56 percent of respondents indicating cloud met expectations and 29 percent indicating it exceeded expectations.

Why robotic process automation?

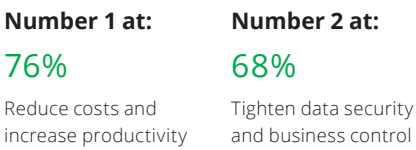
Globally, and in all regions, the most common reasons for using robotic process automation (RPA) are:



RPA implementations are reported to have a high success rate in meeting expectations globally (76 percent), with 41 percent of respondents indicating RPA met expectations and 35 percent indicating RPA exceeded expectations.

Why cognitive and AI?

As with RPA, the two top reasons globally for applying cognitive/AI solutions are:

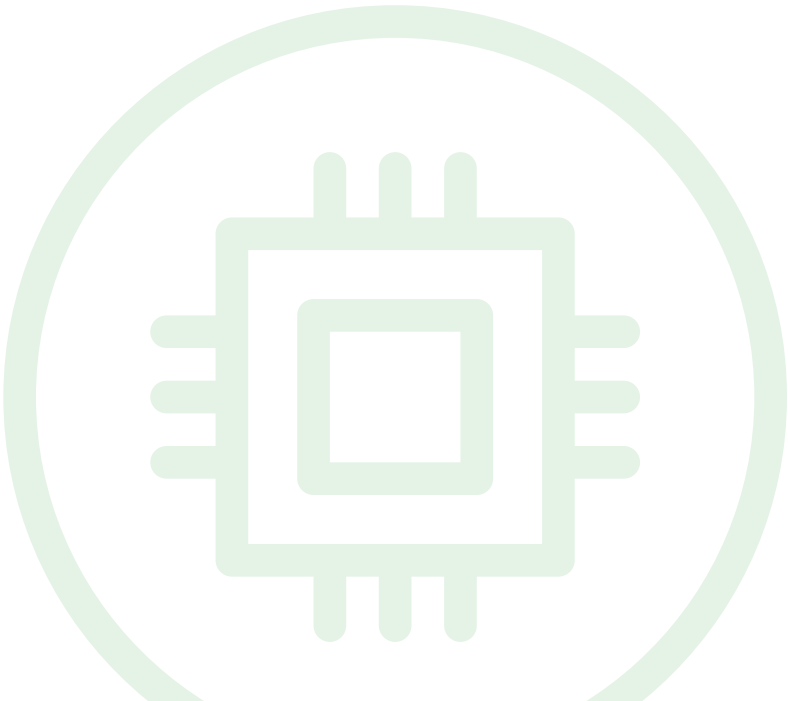


The overall success rate in meeting expectations for cognitive/AI is reported to be nearly as high as cloud's (83 percent), with 36 percent of global respondents indicating cognitive/AI met expectations and 47 percent indicating cognitive/AI exceeded expectations.

Digital leaders make a difference.

Companies with a designated digital leader report much higher levels of technology implementation on average:

140% higher
(across all four technologies reviewed)





Save-to-transform as a catalyst for embracing digital disruption

Digital risks zoom to the top.

Digital disruption is now widely recognized as a top external risk cited by:

61%

(of this year's global respondents)

up from just

6%

(in 2017)

Cybersecurity received similar recognition with:

62%

ranking it at or near the top of the external risks list both globally and in all regions except LATAM.

Digital disruption and innovation are driving technology implementation

Implementation of numerous digital technologies is expected to skyrocket over the next **24 months**.

All technologies reviewed are expected to be implemented at a level of

47% or higher over the next 24 months

63%

Cognitive/AI

62%

Automation

The technology expected to be the most actively implemented is cognitive (planned or in-process), followed closely by automation.

Digital solutions are the most advanced level of cost management.

Cost management practices and approaches have grown increasingly sophisticated over time, with digital cost solutions—although still maturing—now representing the most advanced level of cost management. Companies that relied on more traditional cost management methods in the past are now finding that digital solutions can open the door to a whole new level of savings, as well as enabling new and more innovative business models.

Transformation is an emerging focus.

Our 2017 survey found many companies around the world were managing costs with a **save-to-grow mindset**, pursuing cost savings to fund their growth strategies in an improving economy. This year's survey results show the save-to-grow mindset expanding into a **save-to-transform mindset**. With save-to-transform, technology becomes a key lever (in addition to cost, growth, and talent). Companies in this mode continue to focus on cost reduction as a way to fund their growth strategies; however, they also invest in IT and innovation that can transform the business and help it survive and thrive in a world of digital disruption.

Automation and other digital technologies take a lead role in capabilities developed.

RPA and cognitive technologies such as AI and machine learning (ML) have emerged over the past 24 months as the **most common digital capabilities developed to reduce costs**. ERP infrastructure is also receiving significant effort and attention, with many companies making the transition to cloud-based ERP.

Save-to-transform provides both growth and defense.

This year's survey respondents continue to **have a very positive business outlook**, bolstered by one of the longest periods of economic expansion in history. **However**, economies are cyclical, and even **the strongest expansion can defy gravity for only so long**. Potential warning signs are starting to emerge in the survey data, including:

97%

increase in global respondents concerned about macroeconomic risk over the next 24 months

20%

increase in US respondents who expect a significant reduction in consumer demand over the same period

Digital disruption and innovation are reshaping the business landscape globally—and their impact is only increasing.

Companies today need to harness the transformational power of digital technologies to streamline their cost structures and generate strategic cost savings that are both significant and sustainable. These improvements can help a company achieve its immediate growth objectives while preparing for the inevitable ups and downs of the economic cycle. They can also position the company to capitalize on digital disruption—**becoming the disrupter, rather than the disrupted**.

About the survey

Deloitte Consulting LLP (Deloitte or Deloitte Consulting) engaged *Research Now* to conduct a global cost management survey in order to better understand business leaders' perspectives on current and future cost reduction initiatives within large companies and multinationals.

Study objectives

Understand factors, approaches, actions, and targets related to cost initiatives

Assess the effectiveness of the cost actions, including lessons learned from previous efforts

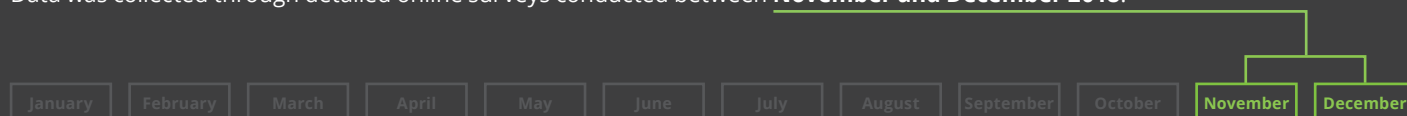
Understand the drivers and scope of past and future cost initiatives

Provide context on how digital disruption and advanced digital technologies are affecting cost management

Assess industry results, and provide insights on different behaviors related to cost reduction

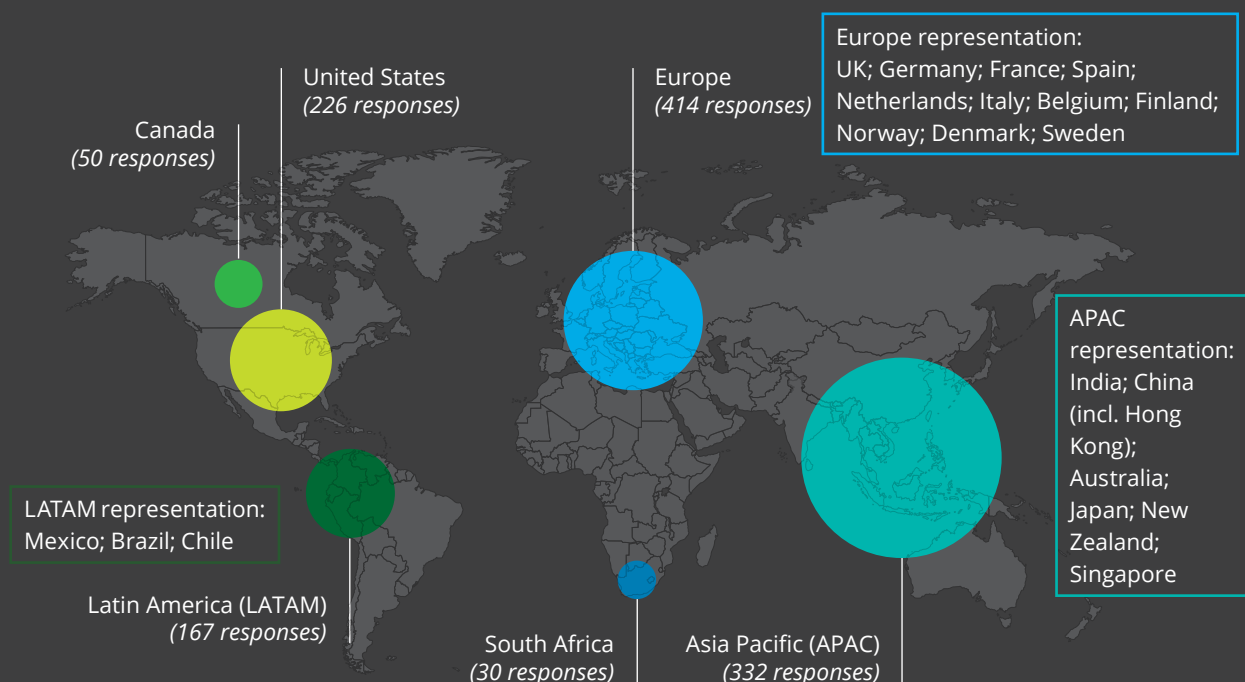
Methodology

Data was collected through detailed online surveys conducted between **November and December 2018**.



Firmographics

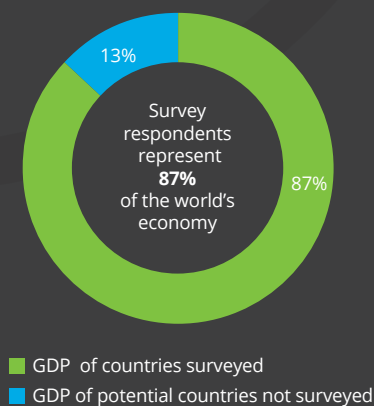
The survey included responses from **1,219 executives** directly involved in cost management in their organizations. Respondents were from **24 countries** representing all major regions, including:



The countries represented in the survey account for **87 percent** of the world's economy as measured by Gross Domestic Product (GDP). Outside the United States, respondents represented **66 percent** to **82 percent** of their regional economies as measured by GDP.

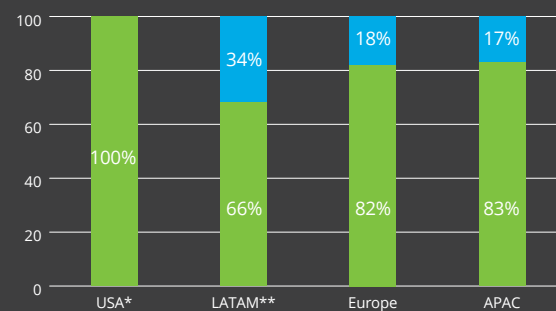
Figure 1. Respondents' coverage and representation of regions and the world economy

Survey sample coverage
% of respondent's economic footprint by
2016 GDP



Source: The World Bank – GDP 2016

Survey sample coverage¹
% of respondent's economic footprint by 2016 GDP per region



■ Surveyed ■ Not Surveyed

* US Survey is the only country-based survey

** Only two countries Brazil and Mexico represent 61% of the regional economy, and Chile represents 5%

¹ This sample excludes responses from Canada and South Africa, although responses have been included in global averages

² *Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report*

Comparison to 2017 Global Cost Survey results²

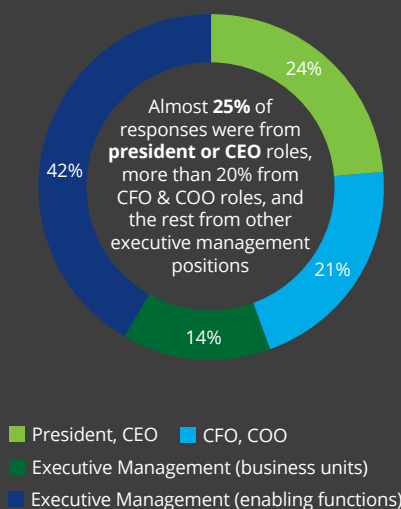
2017 global cost report included 1,013 responses, whereas this year 1,219 responses were gathered, which represents a 20% increase.

Respondents to the 2017 survey represented 85% of the world's economy, whereas this year's respondents represent 87%.

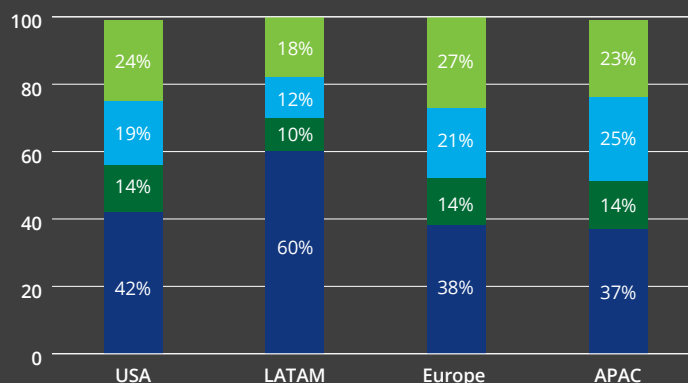
Only relevant executive positions with responsibility for cost management decisions were surveyed. Almost **25 percent** of responses were from presidents or CEOs; more than **20 percent** were from CFOs and COOs; the rest were from other executive management positions.

Figure 2. Respondents' management level

Management level breakdown¹
% of respondents by level



Breakdown of management level
% of respondents by level

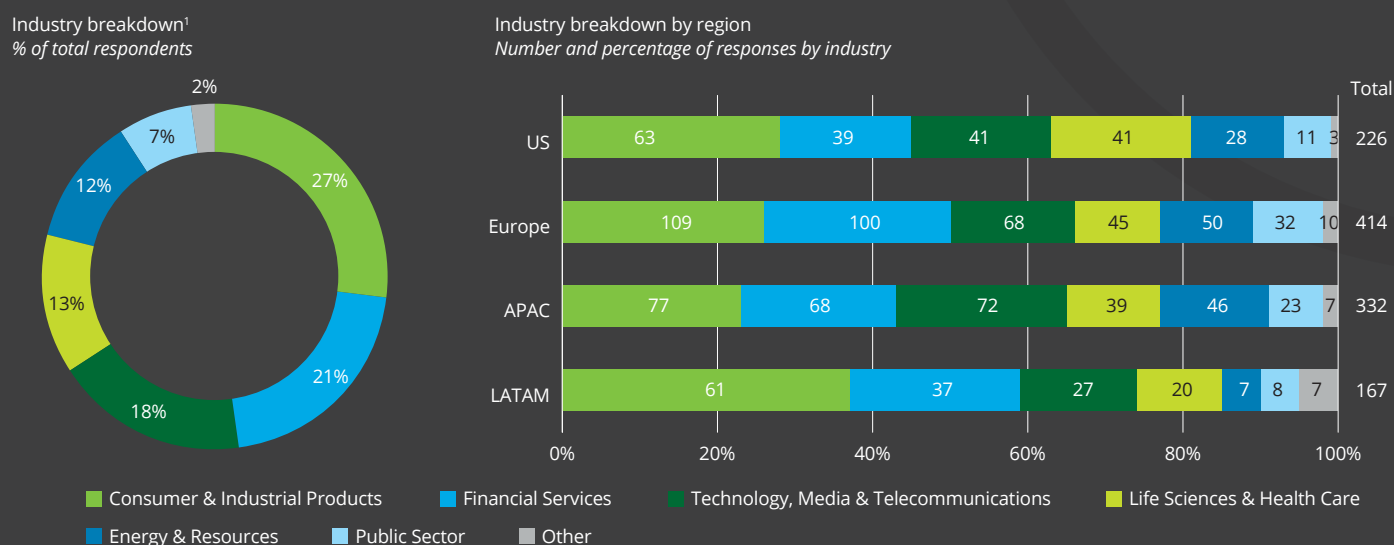


In general, C-suite and executive management-level response profiles were maintained in all regions

¹ This sample includes responses from Canada and South Africa

Industry-specific information was collected to provide meaningful insights for six major industries: **Consumer & Industrial Products (C&IP)**; **Financial Services (FS)**; **Technology, Media & Telecommunications (TMT)**; **Energy & Resources (E&R)**; **Life Sciences & Health Care (LSHC)**; and **Public Sector (PS)**.

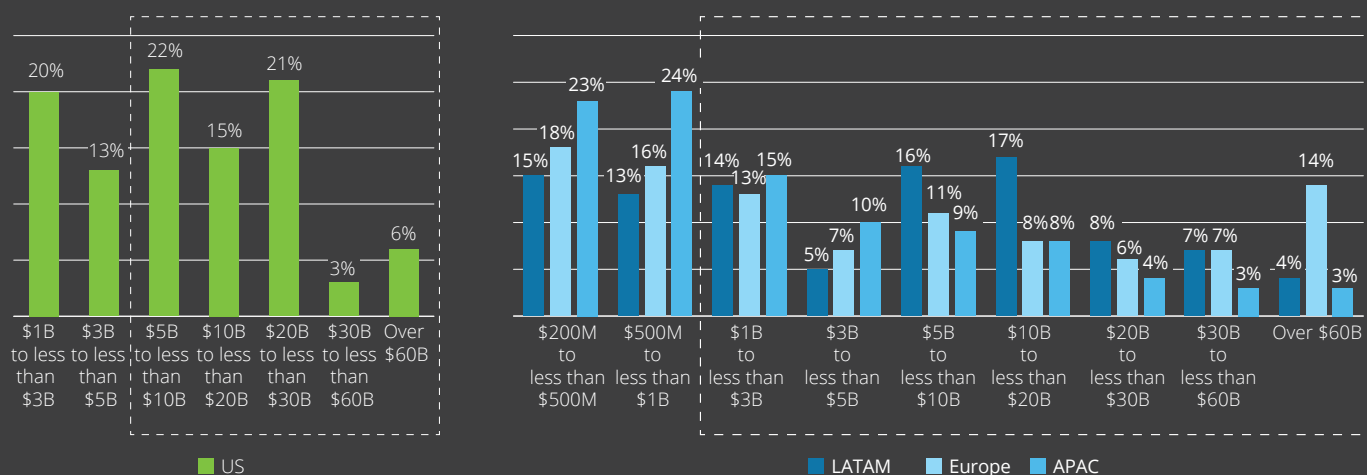
Figure 3: Industry breakdown



¹ This sample includes responses from Canada and South Africa

Among the participating US companies, **67 percent** reported revenues greater than \$5 billion. Among the participating companies from APAC, LATAM, and Europe, on average **60 percent** reported revenues greater than \$1 billion.

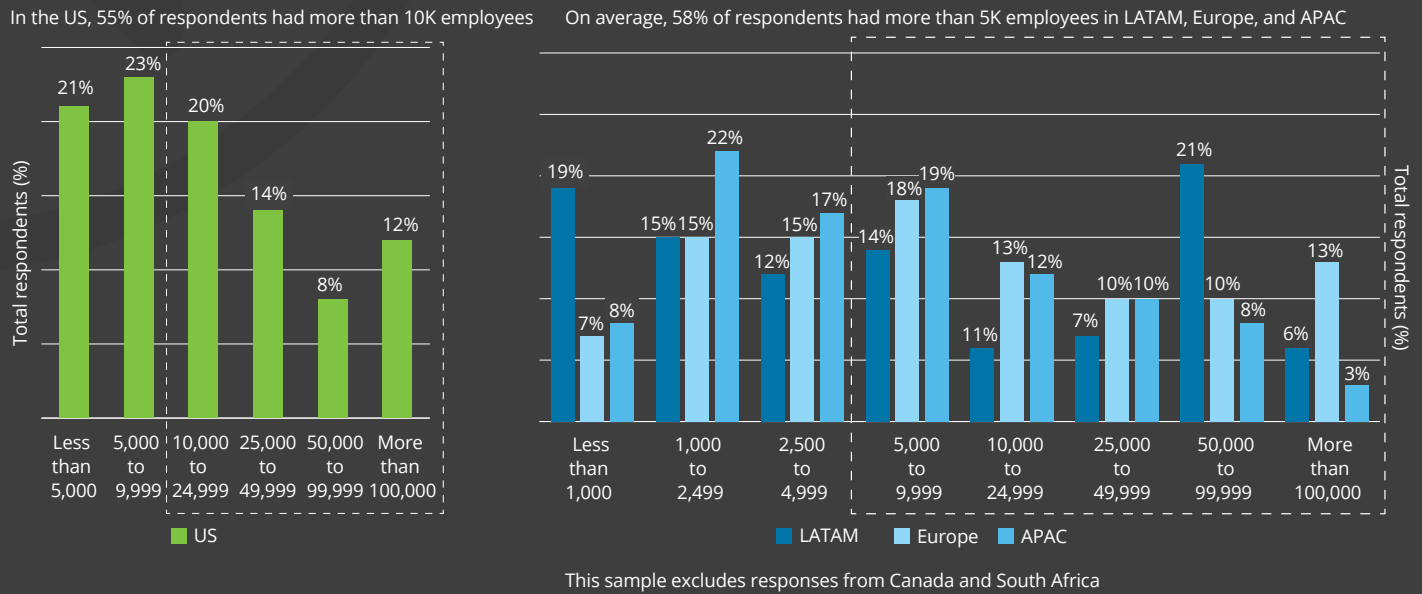
Figure 4: Respondents' annual revenue



Note: Europe, LATAM, and APAC Survey were conducted in local currency – for analysis purposes they have been converted to US dollars

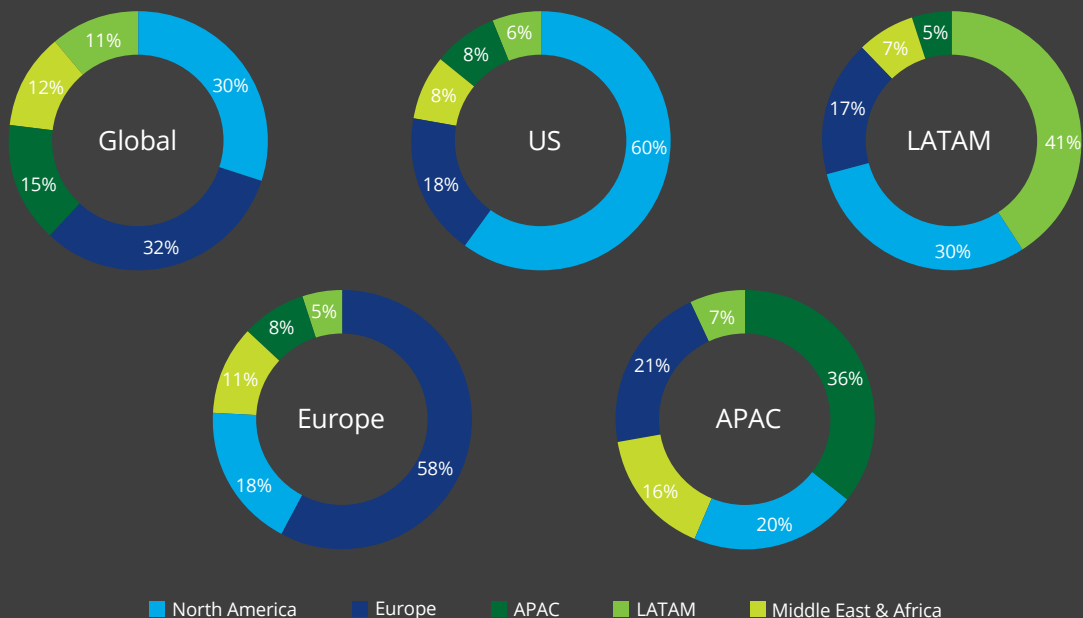
In the United States, **55 percent** of respondents had more than 10,000 employees. On average, **58 percent** of respondents in LATAM, Europe, and APAC had more than 5,000 employees.

Figure 5: Respondents' employee headcount



At the global level, revenue generated by North America and Europe is highest at **30 percent** and **32 percent**, respectively.

Figure 6: Revenue generation by geography





Key global insights

Globally, more than two-thirds of respondents (68 percent) are targeting total cost reductions of 10 percent or higher—up from 55 percent of respondents in 2017.

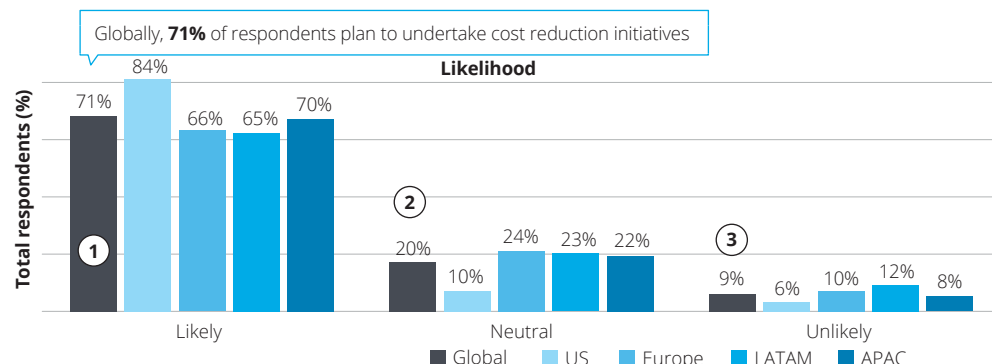
Cost management remains a global imperative

Cost reduction continues to be a standard business practice in all regions, with the large majority of global survey respondents (71 percent) planning to undertake cost reduction initiatives over the next 24 months (see figure 7). This number is down from 86 percent in 2017, largely due to changes in LATAM where there was a shift in the number of responses from "likely" to "neutral," and in Europe where there was a similar shift from "neutral" to "unlikely."

These shifts may stem from the relatively positive economic conditions globally, underpinned by strong economic performance in the United States.

On average, US companies are the most likely to undertake cost reduction actions (84 percent). The likelihood is significantly lower for APAC (70 percent), Europe (66 percent), and LATAM (65 percent).

Figure 7. Likelihood of cost reduction in the next 24 months



Comparison to 2017 Global Cost Survey results¹

Global likelihood has decreased from 86% to 71%, mainly due to respondents shifting from "likely" to "neutral" in LATAM, and from "neutral" to "unlikely" in Europe

"Neutral" and "unlikely" positions both increased 7 percentage points

¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

Key findings

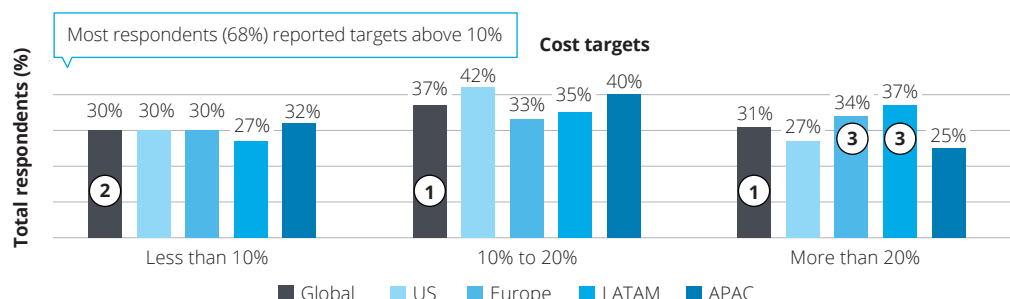
- ① On average, 71% of respondents plan to undertake cost reduction initiatives, with the US the highest at 84% and LATAM and Europe the lowest at 65% and 66%, respectively
- ② On average 2 out of 10 respondents are neutral with regard to cost reduction initiatives
- ③ Only 1 out of 10 respondents are unlikely to pursue cost reduction in the next 24 months

Cost targets are up

Globally, more than two-thirds of respondents (68 percent) are targeting total cost reductions of 10 percent or higher—up from 55 percent of respondents in 2017. Nearly one-third of this year's global respondents (31 percent) have cost targets above 20 percent, while a slightly smaller number (30 percent) have cost targets of less than 10 percent (see figure 8).

A relatively large percentage of respondents in LATAM (37 percent) and Europe (34 percent) have cost targets above 20 percent. This is particularly noteworthy for Europe, where past cost targets were significantly less aggressive than the global average. Economic performance and challenges in the region may be driving this shift.

Figure 8. Cost reduction targets¹



Comparison to 2017 Global Cost Survey results²

The number of respondents with cost targets above 10% has increased significantly (~15 percentage points), mainly due to:

- 16% nominal increase in the US in the 10 to 20% range
- 21% nominal increase in Europe in the more than 20% range

¹ Respondents that selected "no specific targets were established" were not tabulated in results

² Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

Key findings

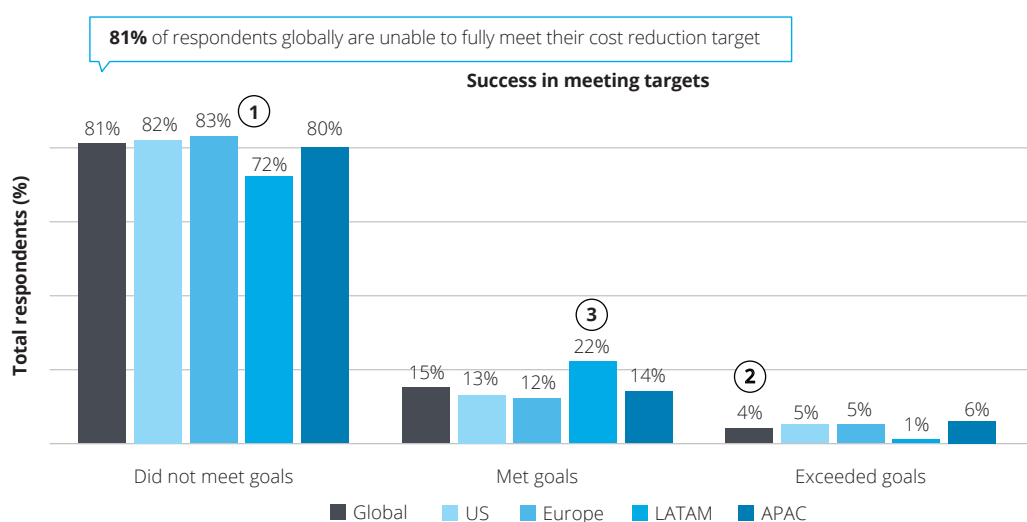
- ① On average, 68% of respondents plan to pursue cost reduction targets above 10%
- ② Only 27% to 32% of companies across regions reported cost reduction targets of less than 10%
- ③ Within cost targets of more than 20%, LATAM and European respondents are pursuing targets above the average, with 37% and 34% respectively

Failure rates are also up

Globally, 81 percent of respondents were unable to fully meet their cost reduction targets (18 percentage points worse than in 2017). Only 4 percent of global respondents exceeded their cost targets (see figure 9).

Respondents from Europe had the highest overall failure rate (83 percent), perhaps at least partly due to the fact that they recently established higher targets. LATAM had the lowest overall failure rate (77 percent); however, the percentage of LATAM respondents that exceeded their goals also declined sharply, from 16 percent in 2017 to only 1 percent in this year's survey.

Figure 9. Success in meeting cost targets



Comparison to 2017 Global Cost Survey results¹

Failure rates increased 18 percentage points² on average. Some of the main reasons are:

- Significant decrease in meeting goals in Europe (21 percentage points) and the US (15 percentage points)
- Significant decline in exceeding goals in LATAM (16% to 1%)

¹ *Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report*, December 2017

² This year, a new range in not meeting goals was considered (75-99%); please see next graph for further details

Key findings

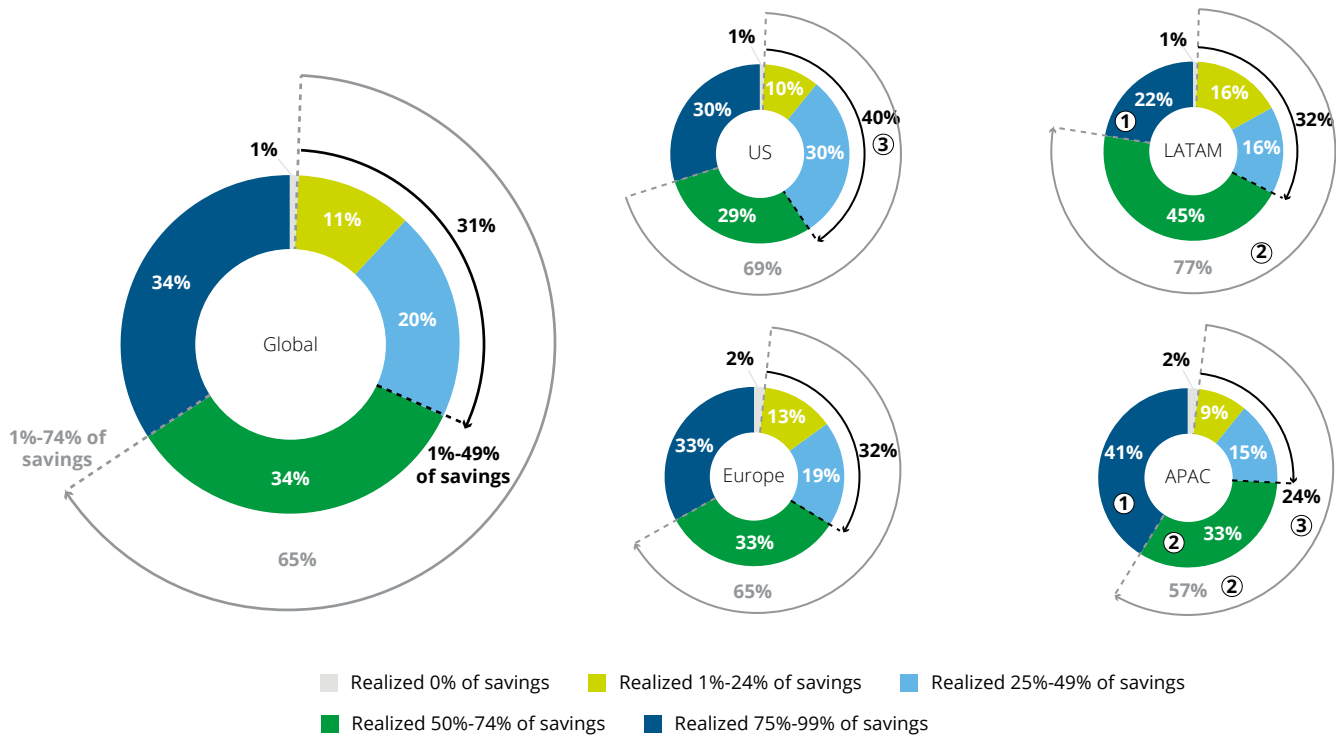
- ① Failure rate is 81% globally; Europe has the highest failure rate (83%) and LATAM the lowest (72%)
- ② Only 4% of respondents across regions reported exceeding targets
- ③ LATAM is the region with highest success in meeting targets (22%)

Falling far short of targeted savings

This year's survey included an additional question to help determine the extent to which respondents partially succeeded in meeting their cost targets. The results show that nearly two-thirds

(65 percent) of the companies that failed to meet their cost targets fell short by 25 percent or more, achieving less than 75 percent of their targeted cost savings (see figure 10).

Figure 10. A closer look at failure rates



Key findings

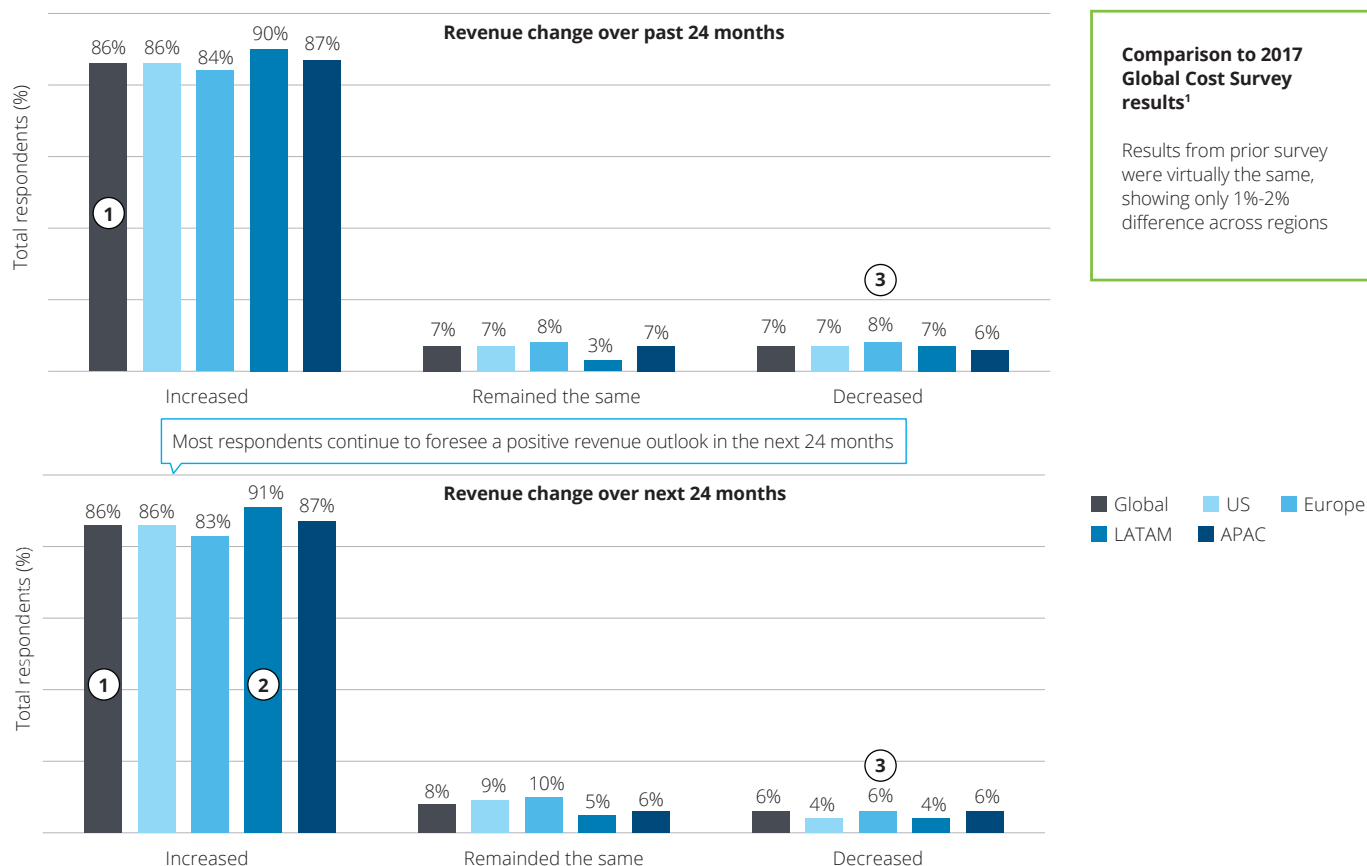
- ① APAC is the region with the highest proportion of companies (41%) realizing 75%-99% of targets; LATAM is lowest at 22%
- ② 77% of respondents in LATAM met 1%-74% of goals, the highest percentage across regions; APAC was lowest at 57%
- ③ US has 40% of respondents with savings realization of 1%-49%, the highest result, in contrast to APAC at 24%

Growth expectations remain very positive

Globally, 86 percent of respondents saw their revenues increase over the past 24 months, and the same number expect their revenues to increase over the next 24 months. In all regions, this

year's numbers for past revenue performance and future revenue expectations are virtually identical to the numbers from 2017 (see figure 11).

Figure 11. Revenue performance and expectations



¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

Key findings

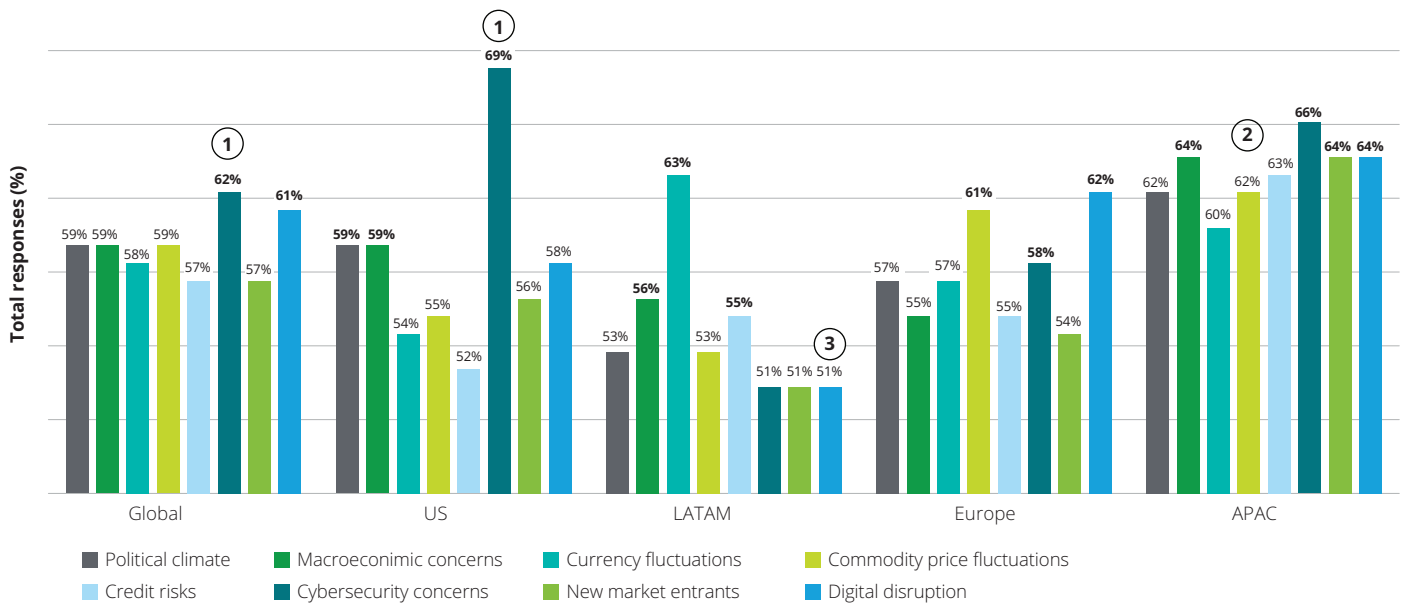
- ① Global respondents reported similar increases (86%) for both past and expected future revenue growth
- ② LATAM reports a slightly more positive outlook (91%) compared to the global average (86%)
- ③ In all regions, the number of respondents who expect future revenue to decline is slightly lower than the number who experienced a decline in the past

Digital risks top the list of external risks

In 2017, macroeconomic concerns were the No. 1 external risk. However, that risk has now been surpassed by two digital-related risks: cybersecurity (62 percent) and digital disruption (61 percent), with macroeconomic concerns falling to third place (59 percent) in a three-way tie with political climate and commodity price fluctuations (see figure 12).

Digital disruption was barely on respondents' radar in 2017, except in the United States where it was identified as a rapidly emerging issue. However, digital disruption is now recognized as a top external risk in all regions except LATAM, which is lagging a bit behind.

Figure 12. External risks



Key findings

- ① Cybersecurity is now the top risk globally, particularly in the United States
- ② On average, APAC reports higher external risks in all areas than other regions
- ③ Digital disruption is recognized as a top risk globally except in LATAM

Comparison to 2017 Global Cost Survey results¹

- "Macroeconomic concerns" was rated the highest external risk globally in the previous survey
- Digital disruption was not recognized as a major risk previously, but it is now the second highest risk globally

¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

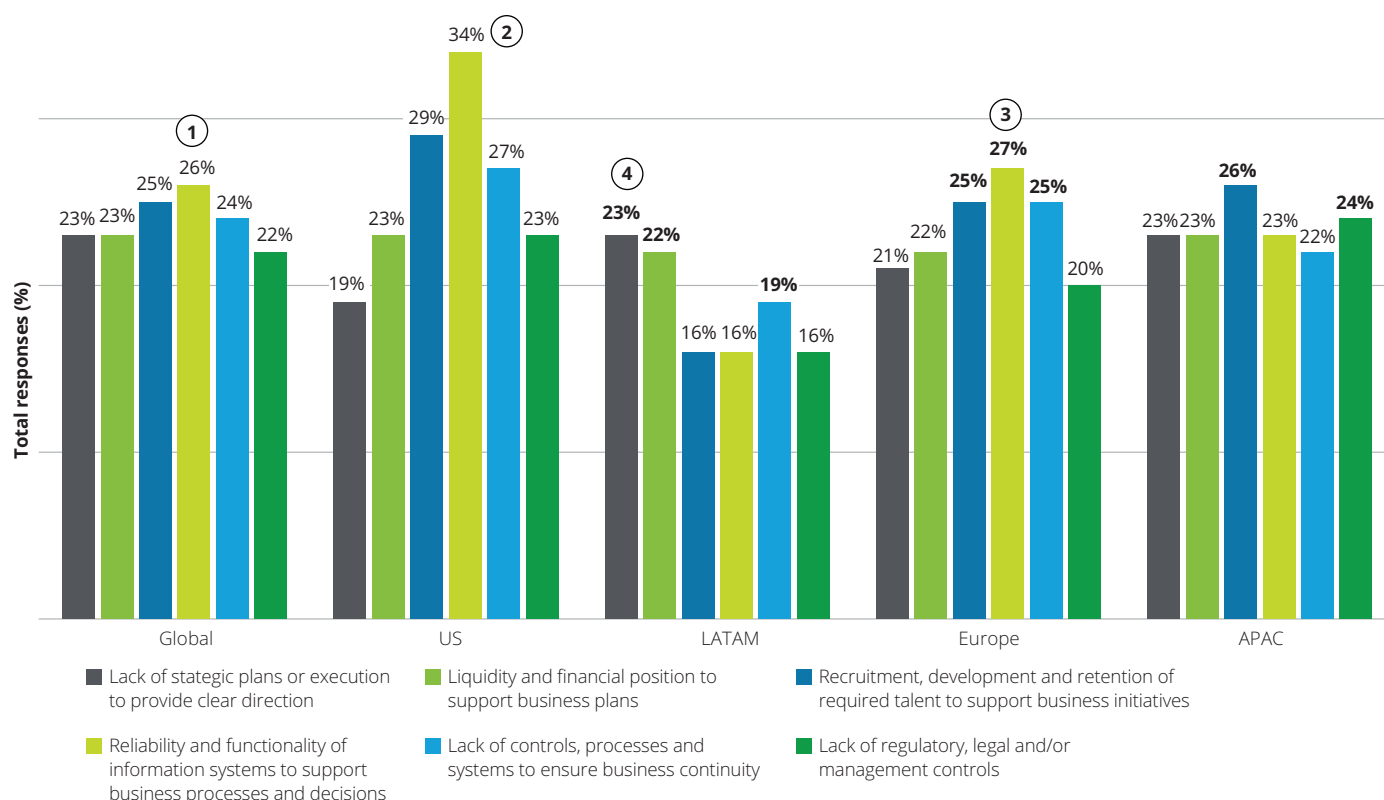
Information systems are the top internal risk

To supplement our findings on external risk, we added a new question this year focused on internal risks. According to the survey results, reliability and functionality of information systems is the No. 1 internal risk globally (26 percent), particularly in the United States (34 percent) and Europe (27 percent). That top risk is followed closely by recruitment, development, and retention of talent (25 percent) and lack of controls, processes, and systems to ensure business continuity (24 percent) (see figure 13).

Internal risk rankings in LATAM vary significantly from other regions, with lack of strategic plans/execution at the top of the list (23 percent), followed by liquidity and financial position (22 percent).

In APAC, ratings for the top six internal risks are much more tightly clustered than elsewhere, ranging from 22 percent to 26 percent, with talent being the biggest concern.

Figure 13. Internal risks¹



¹ Responses based on risks identified as having the highest impact for respondents' companies

Key findings

- ① Top three internal risks globally are: reliability and functionality of information systems to support business processes and decisions; recruitment, development and retention of required talent to support business initiatives; and lack of controls, processes and systems to ensure business continuity
- ② The United States reported on average higher percentage of risk for reliability and functionality of information systems in comparison to other regions; LATAM reported the opposite behavior
- ③ Reliability and functionality of information systems is a major concern in Europe and even more so in the United States
- ④ LATAM reports different risks compared to other regions, centered around lack of strategic plans and liquidity; respondents in APAC reported human resources-related issues, which also remained a key internal risk across all regions, except for LATAM

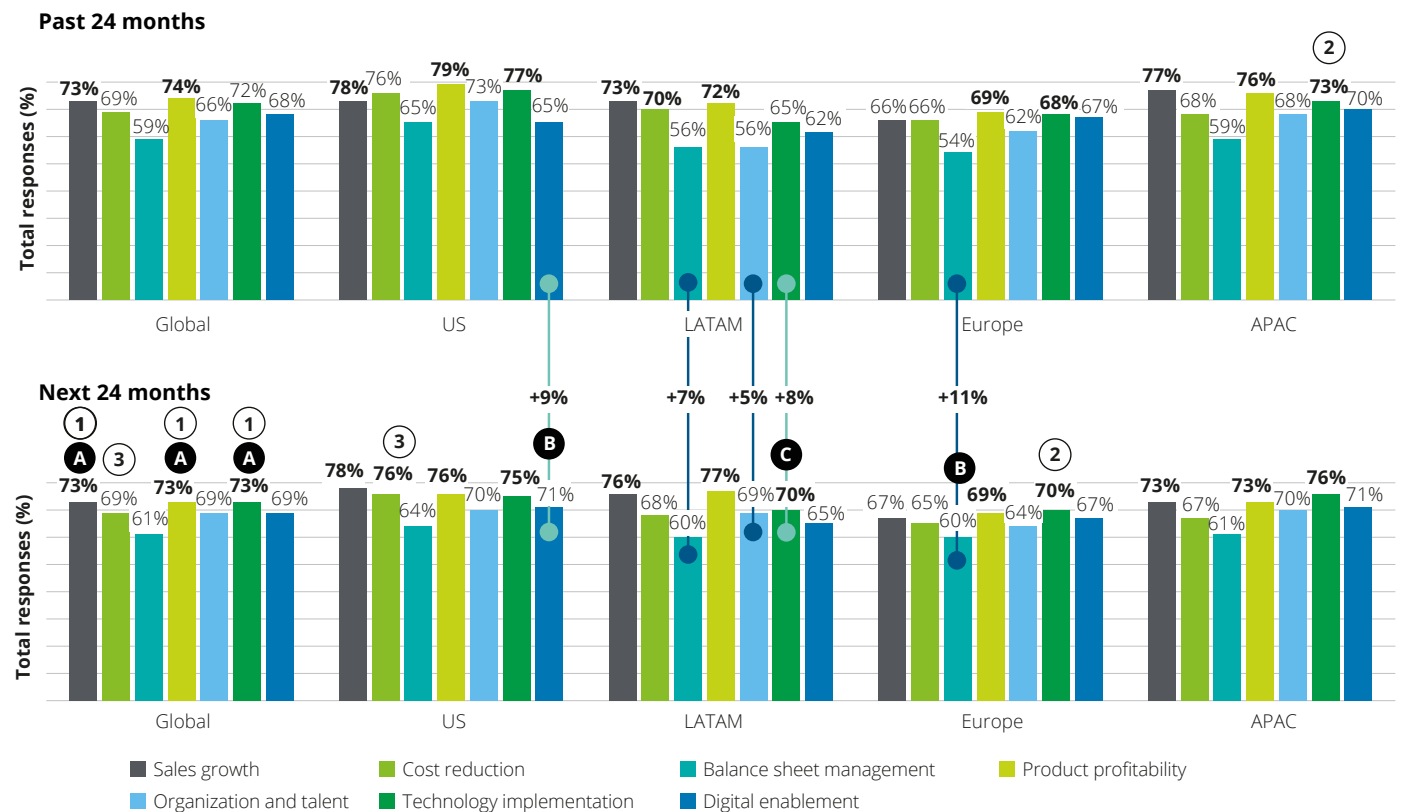
Save-to-grow is evolving into save-to-transform

Sales growth, product profitability, and technology implementation remain in a virtual three-way tie as the top strategic priorities globally over the next 24 months. However, technology implementation is rising as a priority in Europe, APAC, and especially LATAM (see figure 14).

In the United States, which tends to be a leading indicator for digital business trends, digital enablement is the fastest-rising priority, climbing from 65 percent over the past 24 months to 71 percent over the next 24 months.

This increasing emphasis on technology implementation and digital enablement globally reflects a new cost management mindset. Deloitte's 2017 survey highlighted an overall save-to-grow mindset, with many companies around the world using cost reduction to help fund their growth initiatives in an improving economy. Now, we are seeing "save-to-grow" evolve into a mindset we call "save-to-transform," in which companies continue to pursue growth while specifically investing in transformative technologies and infrastructure that can help them operate more efficiently and compete more effectively in an increasingly digital business environment.

Figure 14. Strategic priorities



Key findings

- Product profitability, technology implementation, and sales growth are the top three global priorities over the next 24 months, with similar reported levels (73%)
- Europe and APAC were the only regions that reported technology implementation as the No. 1 priority over the next 24 months
- Cost reduction is a top-4 priority globally and a top-3 priority in the United States over the next 24 months

Comparing strategic priorities from the past 24 months with those projected for the next 24 months

- The top three priorities remain the same globally
- Digital enablement has grown significantly in the United States, as has balance sheet management in Europe (+9% and +11%, respectively)
- Technology implementation has shown a similar behavior in LATAM (+8%)

Growth and competition are the main drivers, with emerging concerns about declining demand

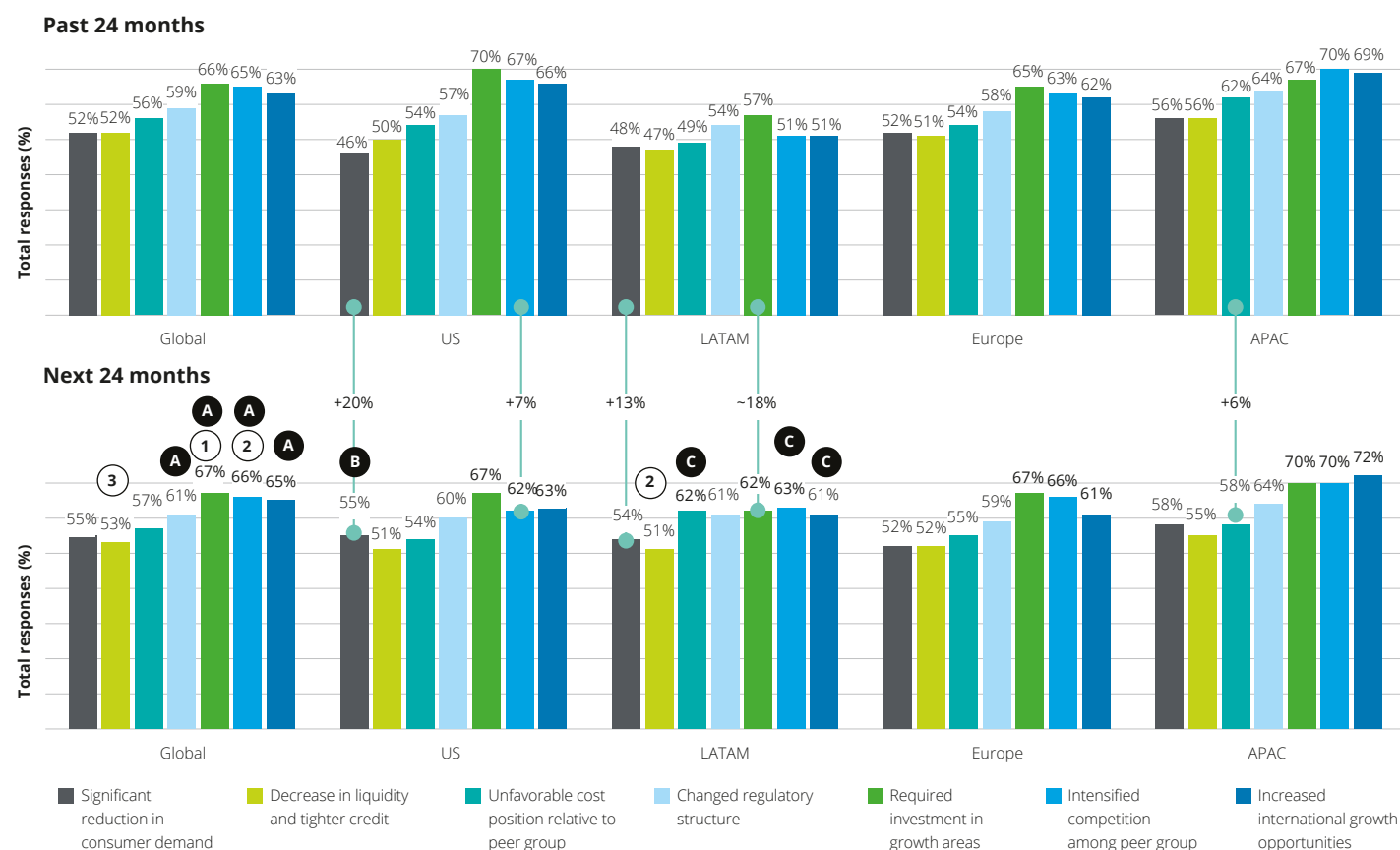
Drivers of cost management initiatives, both past and future, continue to revolve around growth and competition. Over the next 24 months, the top three drivers globally are expected to be: required investment in growth areas (67 percent), intensified competition among peer group (66 percent), and increased international growth opportunities (65 percent). Those same cost management drivers occupy the top three spots for all regions, except in LATAM where unfavorable cost position relative to peer group (62 percent) edges out increased international growth opportunities (61 percent) for third place (see figure 15).

According to US respondents, cost initiatives over the next 24 months will be increasingly driven by a significant reduction

in consumer demand (55 percent), higher than over the past 24 months (46 percent). In LATAM, the expectation of reduced consumer demand is directionally similar (54 percent expect to see a significant reduction in the future, up from 48 percent in the past). This may be an early warning sign of an economic slowdown.

That being said, in all regions, liquidity/credit concerns currently rank as the least common driver for pursuing cost management. This suggests relatively few companies are currently in distress and there is relatively little need for companies to pursue cost reduction with a primary focus on liquidity and working capital.

Figure 15. Drivers of cost management initiatives



Key findings

- Investment in growth areas, competition among peer group, and international growth opportunities are top drivers globally over the next 24 months
- The top three global drivers are in most cases also the top three drivers in each major region – except for LATAM
- Liquidity has become the driver with the least impact on triggering cost management initiatives (53%), followed by reduction in consumer demand (55%)

Comparison to past 24 months

- The top four drivers remain exactly the same
- Reduction in consumer demand has increased in the United States (+20%)
- Similarly, unfavorable cost position (+27%), competition among peer group (+24%) and growth opportunities (+20%) have increased in LATAM as well

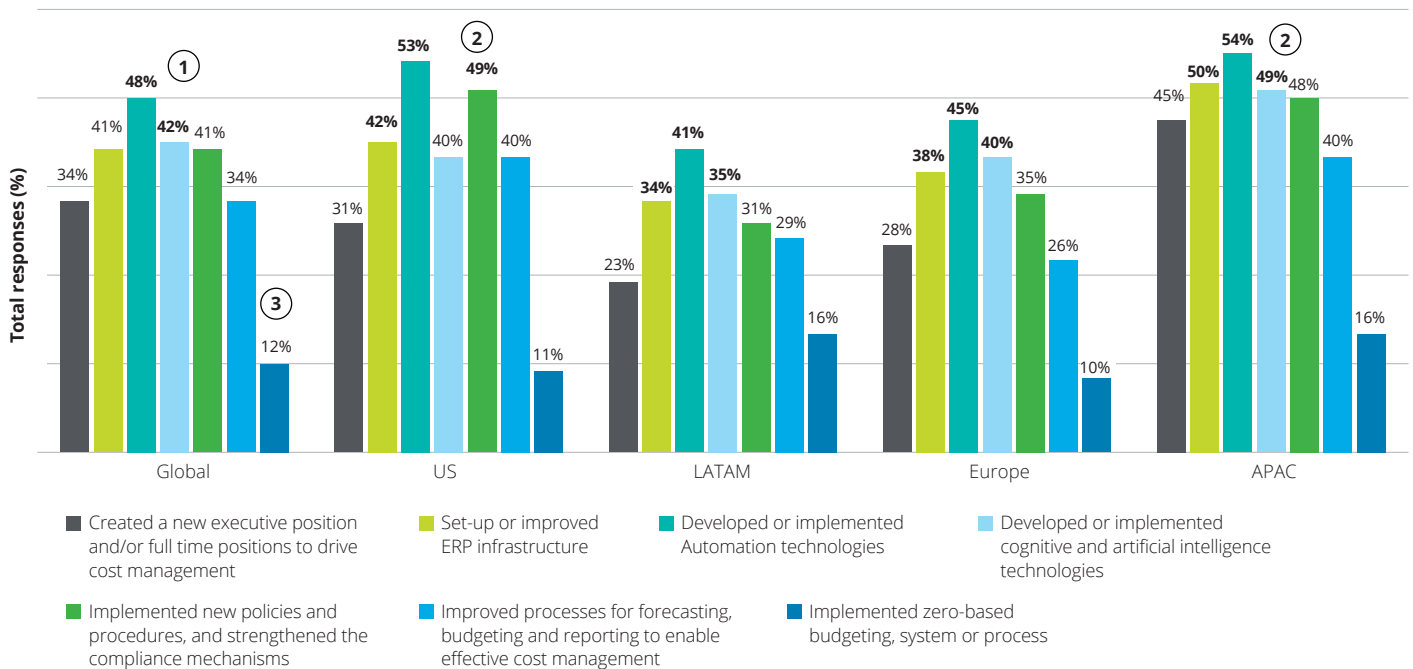
Technology capabilities are the primary development focus

In developing their capabilities, surveyed companies have primarily been focusing on automation (48 percent), cognitive/AI (42 percent), and ERP infrastructure (41 percent), with automation far above the rest (see figure 16).

This focus on technology—especially automation—is consistent with a save-to-transform mindset, with companies investing more time, money, and effort in capability areas that contribute to digital enablement, digital disruption, and digital transformation.

Zero-based budgeting (ZBB) capabilities may be receiving more attention than in the past, particularly in Europe and LATAM. However, ZBB continues to be the least developed of all the capabilities covered by our survey, with only 12 percent of global respondents having implemented a ZBB system or process (refer to Appendix B for an analysis on global ZBB status and trends).

Figure 16. Developed capabilities over past 24 months



Key findings

- ① Cognitive/automation solutions and ERP, along with new policy implementation, are the top developed capabilities
- ② The US and APAC have, on average, higher levels of developed capabilities than Europe and LATAM
- ③ ZBB continues to be the least developed capability (12% of respondents on average)

A. Comparison to 2017 Global Cost Survey results¹

- Implementation of ZBB increased globally, but especially in Europe and LATAM – up 8 percentage points in both cases
- Set-up or improved ERP infrastructure has decreased globally (down 8 percentage points), with a significant decrease in LATAM

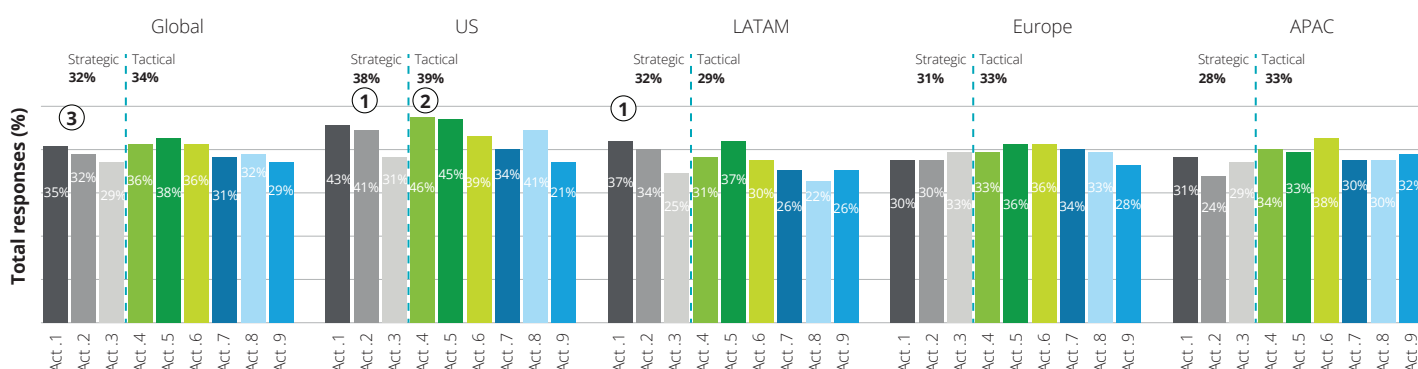
¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

Top cost reduction actions globally were mostly tactical

The most common cost reduction action over the past 24 months was streamlined business processes (38 percent), followed by streamlined organization structure (36 percent) and improved policy compliance (36 percent) (see figure 17).

In the United States and LATAM, two of the top cost reduction actions were strategic in nature: (1) increased centralization, and (2) changed business configuration. Globally, increased centralization was the most commonly implemented strategic cost action (35 percent).

Figure 17. Cost reduction actions over the past 24 months¹



¹ Responses based on implemented actions for respondents' companies

Action 1	Increased centralization—Integrated business units and functions into the corporate center	Strategic
Action 2	Changed business configuration—Divested underperforming assets, adjusted number of products/services, geographies, customers, etc.	
Action 3	Outsourced/Off-shored business processes to low cost service providers	
Action 4	Streamlined organization structure—increase spans of control, and modified reporting relationships	Tactical
Action 5	Streamlined business processes	
Action 6	Improved policy compliance	
Action 7	Reduced external spend by leveraging scale to source purchased materials/services and reduced demand for materials and services	
Action 8	Implementation of specific automation or cognitive technologies	
Action 9	Aligned incentives of executives or employees to cost reduction objectives	

Key findings

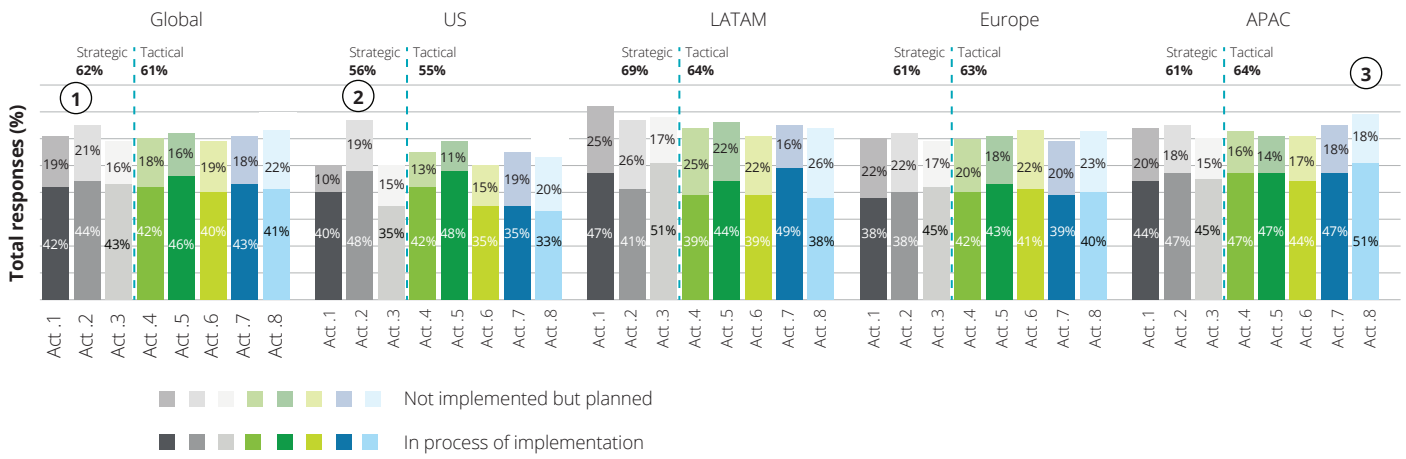
- LATAM and the United States had some of their top actions oriented toward the strategic side, particularly increased centralization
- On average, the United States shows a higher percentage across all actions relative to other regions
- Increased centralization was the most implemented strategic action globally over the past 24 months

Tactical and strategic actions are expected to balance out

Over the next 24 months, strategic cost actions are expected to gain ground to a point that the mix of tactical and strategic actions will be closely balanced. In many cases, the expected actions are already underway; in other cases, they are planned but not yet being implemented (see figure 18).

Globally, but particularly in the United States, the most common cost action over the next 24 months is expected to be changed business configuration, which is strategic. In APAC, implementation of advanced technologies tops the list.

Figure 18. Cost reduction actions over the next 24 months¹



¹ Respondents who had planned to implement those actions or were in process of implementation are represented in this tabulation

Comparison to past 24 months

- Strategic actions have gained slightly more emphasis over tactical actions

Action 1	Increase centralization—Integrate business units and functions into the corporate center	Strategic
Action 2	Change business configuration—Divest underperforming assets, adjusted number of products/services, geographies, customers, etc.	
Action 3	Outsource/Offshore business processes to low cost service providers	
Action 4	Streamline organization structure—Increase spans of control, and modified reporting relationships	Tactical
Action 5	Streamline business processes	
Action 6	Improve policy compliance	
Action 7	Reduce external spend by leveraging scale to source purchased materials/services and reduce demand for materials and services	
Action 8	Implementation of specific automation or cognitive technologies	

Key findings

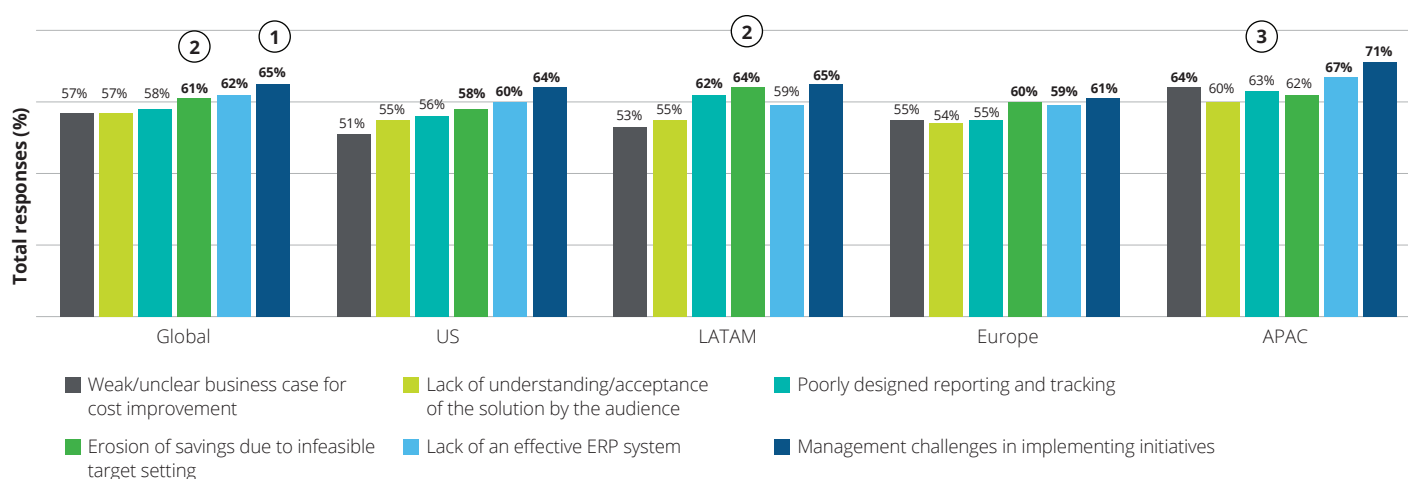
- Aggregating respondents in the process of implementation and those planning to implement as a single group, "change business configuration" is the top action globally over next 24 months (65%)
- The United States shows a preference for changing the business configuration
- APAC is the region in which implementation of advanced technologies is higher

Barriers to successful cost reduction

As was the case in 2017¹, implementation challenges are the top barrier to successful cost reduction initiatives (65 percent), followed by lack of effective ERP systems (62 percent), and

infeasible targets (61 percent). Lack of understanding was a top-3 barrier in 2017, but has fallen to No. 5 globally (see figure 19).

Figure 19. Top barriers to successful cost reduction



Key findings

- ① Management challenges in implementing initiatives is higher than all other barriers (65% average globally)
- ② Lack of an effective ERP and erosion of savings due to infeasible target setting are the second and third barriers globally, with the latter having higher relevance in LATAM
- ③ APAC generally reports higher levels of challenges than other regions

Comparison to 2017 Global Cost Survey results¹

- Implementation challenges remain the top barrier
- Lack of understanding is no longer a top-3 barrier in any region

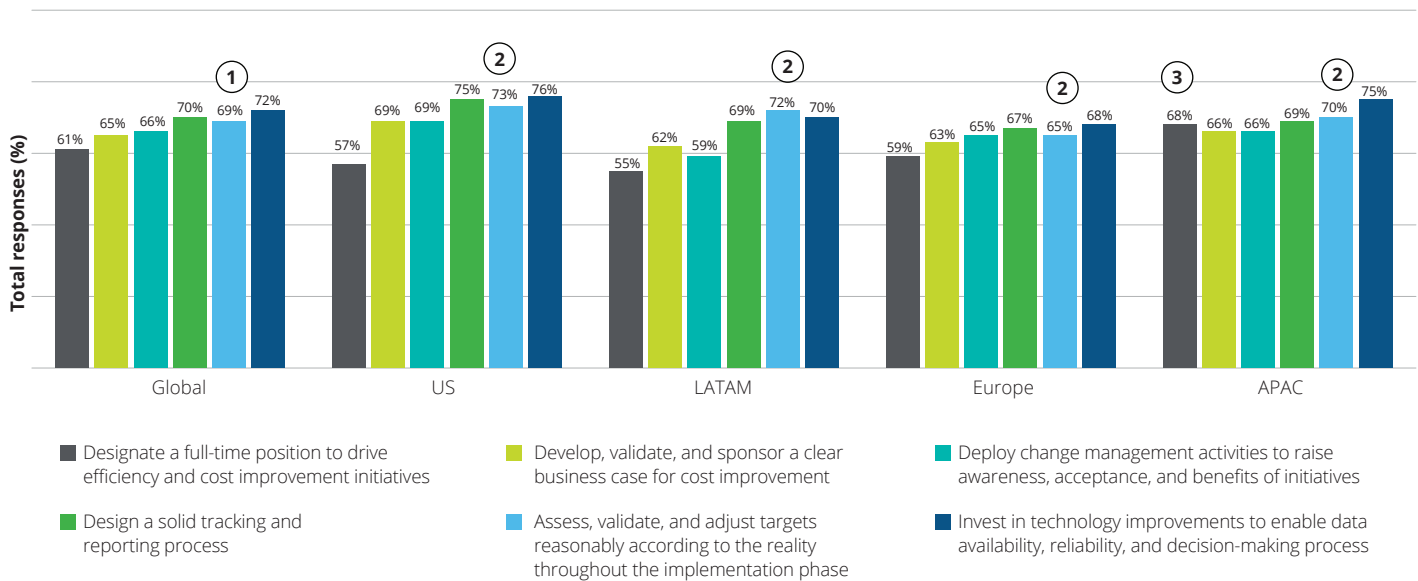
¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

Lessons learned

The top three lessons learned globally are: (1) invest in technology improvements to enable data availability, reliability, and decision making (72 percent); (2) design a solid tracking and reporting process (70 percent); and (3) assess, validate, and adjust targets to fit the realities of implementation (69 percent). These are also the top three lessons learned for each individual region, although the specific order and ratings vary (see figure 20).

Designating a full-time position to drive efficiency and cost improvement is the least common lesson learned globally, except in APAC where it almost makes the top three.

Figure 20. Lessons learned



Key findings

- Invest in technology improvements, design a solid tracking and reporting process, and adjust targets reasonably are the three top lessons learned
- The top three lessons learned are consistent globally and for each region
- APAC is the region that emphasizes designating a full-time position to drive efficiency and cost improvement initiatives



Other catalysts of cost reduction

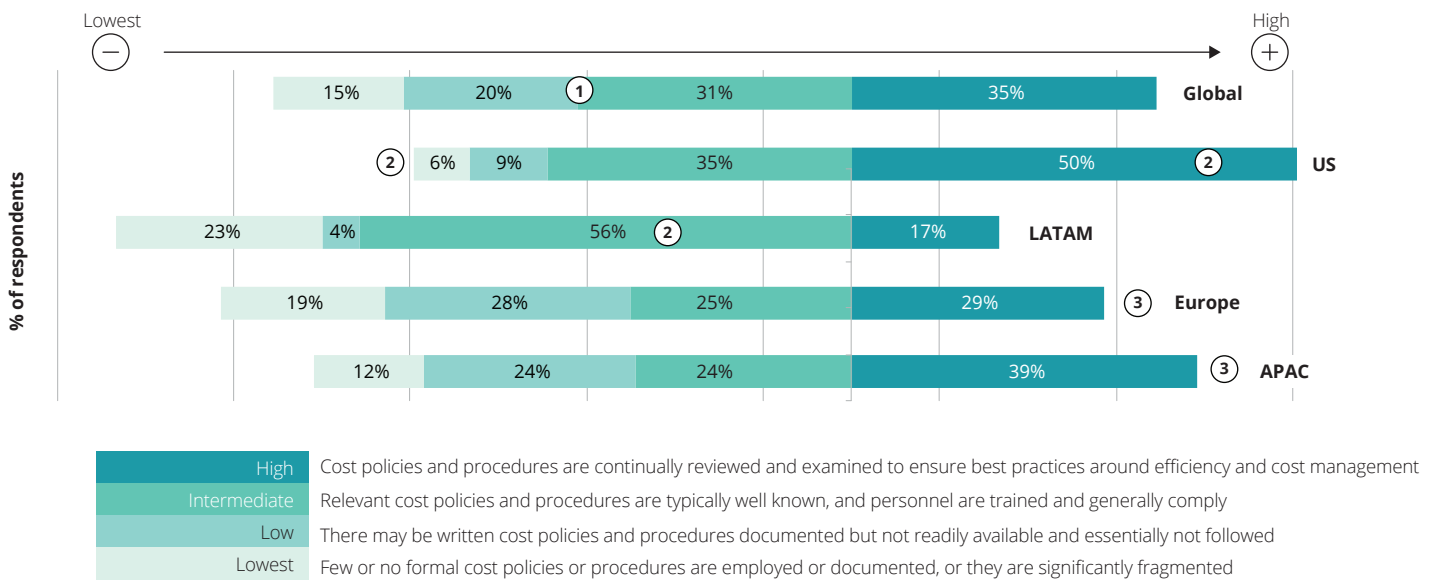


Cost management maturity levels have room to grow

Looking at cost management maturity levels, roughly two-thirds of companies globally (65 percent) do not have highly mature cost management practices. The United States leads the way, with 50 percent of US respondents reporting a high level of maturity where cost policies and procedures are continually reviewed and

examined to ensure best practices around efficiency and cost management. Overall, LATAM has the lowest maturity levels. APAC and Europe fall in the middle, with APAC being noticeably ahead—particularly in terms of respondents that report a high maturity level (39 percent) (see figure 21).

Figure 21. Cost management maturity level



Key findings

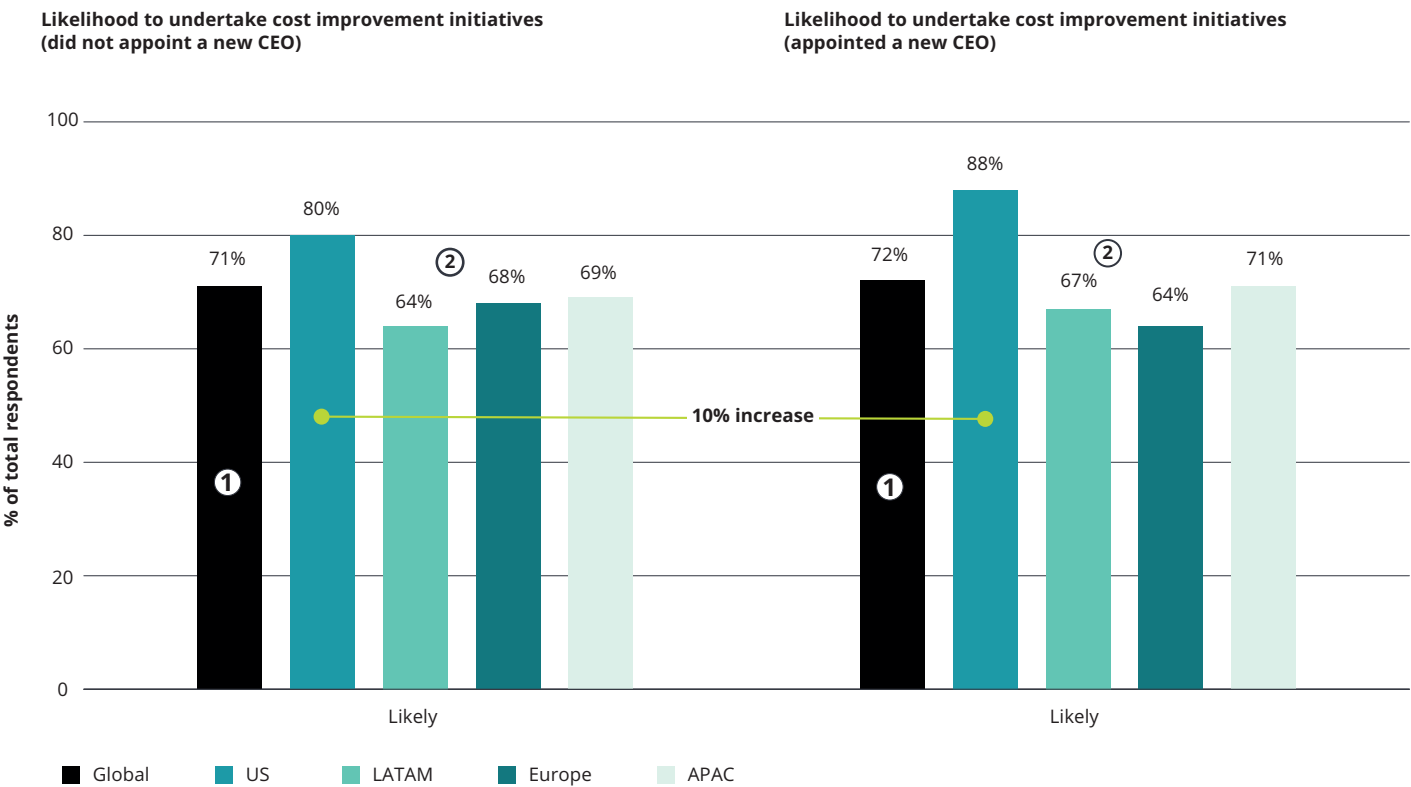
- On average, roughly two-thirds of companies globally do not have a high level of maturity in cost management
- The United States is the region with the largest proportion of companies with high maturity in cost management and the smallest proportion of low mature companies; LATAM is the opposite
- Europe and APAC results are similar, although APAC has a larger proportion of high maturity companies

Impact of a new CEO on cost reduction efforts

There is a common belief that new CEOs make cost reduction more likely, presumably because they need to “right the ship” or want to put their mark on the organization quickly. Yet the survey results show appointment of a new CEO has surprisingly little impact on the likelihood a company will pursue cost reduction.

Globally, the impact of a new CEO on cost reduction is negligible (only 1 percent); however, the impact varies significantly by region, with the likelihood of cost reduction being higher in the United States (10 percent), LATAM (5 percent), and APAC (3 percent), but lower in Europe (-6 percent) (see figure 22).

Figure 22. Impact of a new CEO on cost reduction initiatives



Key findings

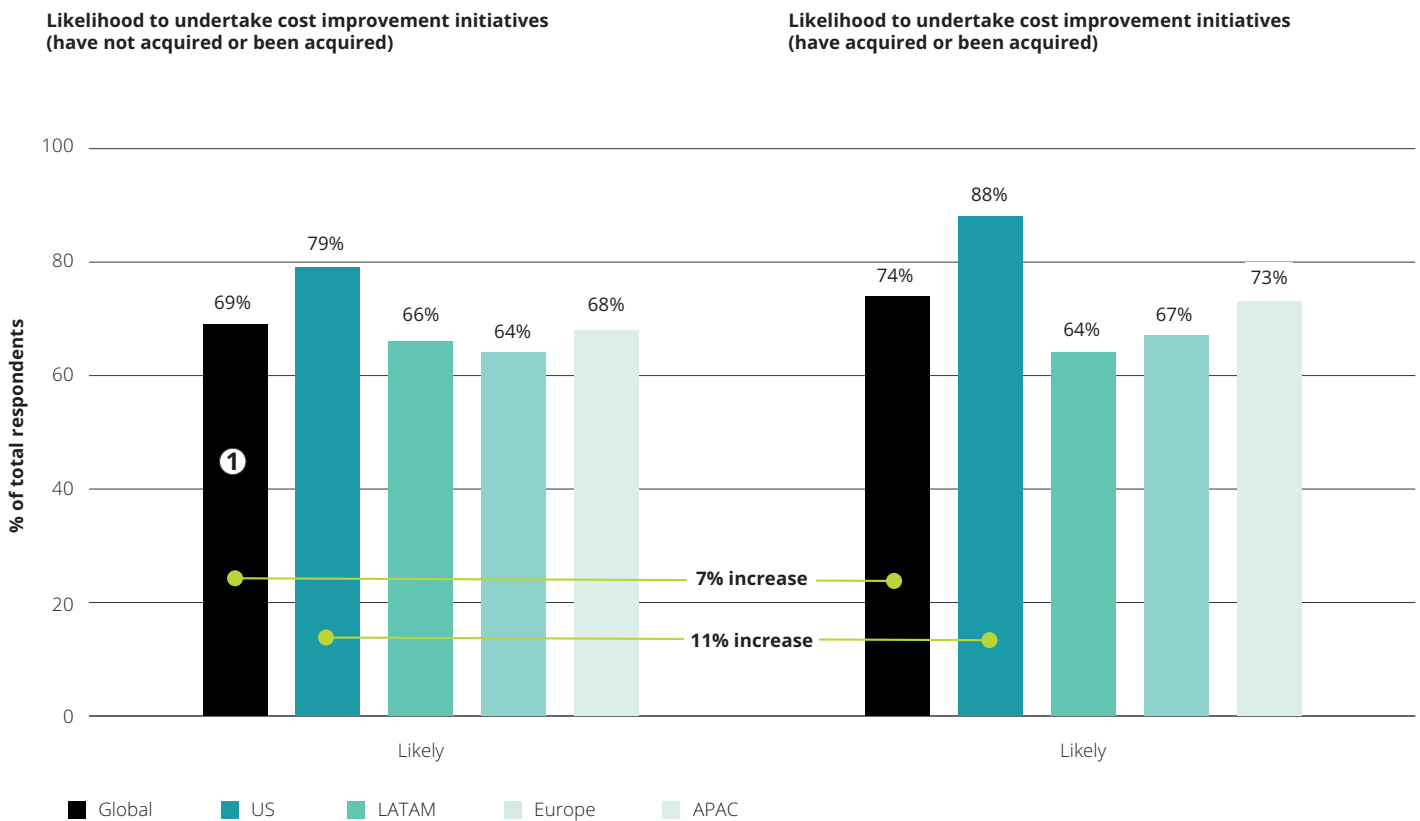
- ① Globally, there is negligible difference in the likelihood of undertaking cost improvement initiatives after a new CEO is appointed (only a 1% relative increase)
- ② The likelihood relatively increases in the United States (by 10%), LATAM (by 5%), and APAC (by 3%) but relatively decreases in Europe (by -6%)

Impact of M&A activity on cost reduction efforts

Similar to new CEOs, there is a common belief that M&A activity also increases the likelihood of cost reduction as companies pursue efficiencies and savings from a merger. Yet the survey results indicate M&A has a surprisingly small impact on the pursuit of cost reduction—although not as small as the impact of a new CEO.

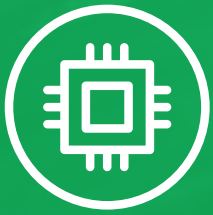
Globally, M&A increases the likelihood of cost reduction by 7 percent. The United States, Europe, and APAC all show a positive correlation between M&A activity and cost reduction; however, the impact is relatively insignificant except in the United States (11 percent). In LATAM, there appears to be a small negative correlation, with M&A activity slightly reducing the likelihood of cost reduction (see figure 23).

Figure 23. Impact of M&A activity on cost reduction initiatives



Key findings

- ① The likelihood of pursuing cost improvement initiatives after M&A activity is only moderately higher in the United States (by 11%) and globally (by 7%) relatively
- ② LATAM, Europe, and APAC show similar levels of cost reduction activity regardless of whether an acquisition has occurred



Digital and technology solutions applied to cost management



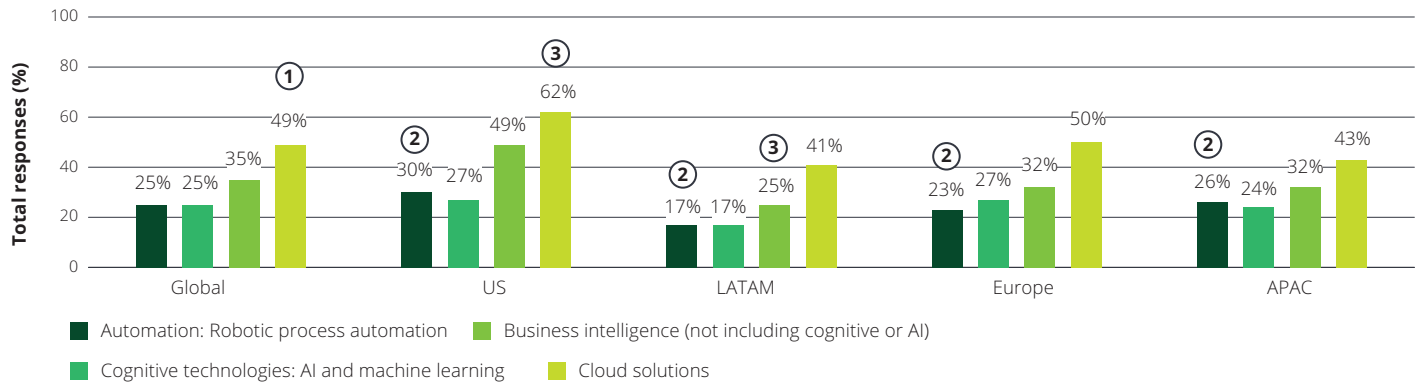
In developing their capabilities, surveyed companies have primarily been focusing on cognitive and artificial intelligence (AI), ERP infrastructure, and especially automation. This focus on technology is consistent with a save-to-transform mindset, with companies investing more time, money, and effort in capabilities that contribute to digital enablement and digital transformation.

Cloud leads the pack

Globally, cloud is the most widely implemented digital technology covered by the survey (49 percent), well ahead of business intelligence (35 percent), automation (25 percent), and cognitive/AI (25 percent). In general, the United States has the highest

implementation rates for all of the technologies, while LATAM has the lowest. Specific numbers vary by region; however, all regions exhibit a similar pattern—except for relatively higher rates of implementation for cognitive technologies in Europe (see figure 24).

Figure 24. Implementation of technologies (past 24 months)



Key findings

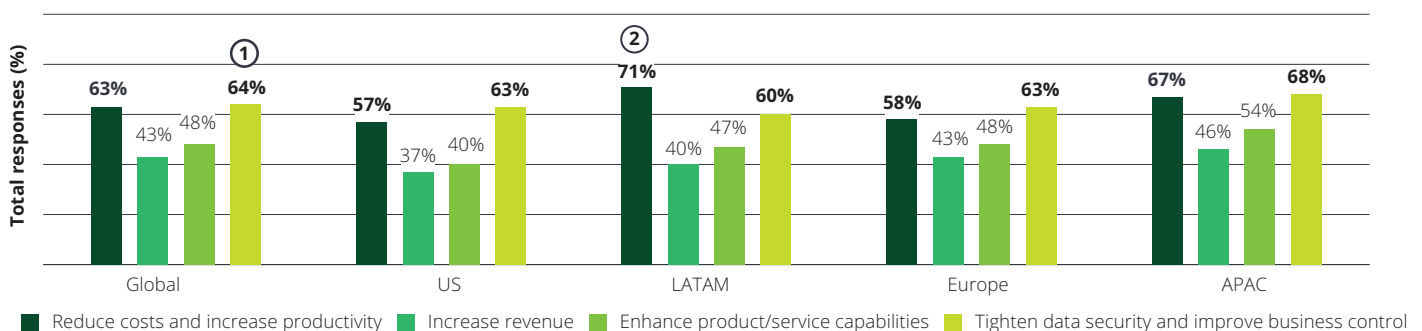
- Of the implemented technologies, cloud was widely cited by respondents (almost 50%) across all the regions, followed by business intelligence
- Technology implementation levels follow a similar pattern across regions, with automation and cognitive the least implemented
- The United States is the region with the highest level of implementation across technologies, especially cloud and business intelligence; on the opposite end, LATAM shows the lowest level of implementation

Why cloud?

The two top reasons globally for using cloud are to tighten data security and business control (64 percent) and to reduce costs and increase productivity (63 percent). In LATAM, the order of those two reasons is reversed, with a significantly greater emphasis on cost reduction and productivity (71 percent vs. 60 percent for security and control) (see figure 25).

Enhancing product/service capabilities (48 percent) and increasing revenue (43 percent) are less common reasons for applying cloud; however, they are still significant and likely to grow.

Figure 25. Reasons for applying cloud (past 24 months)



Key findings

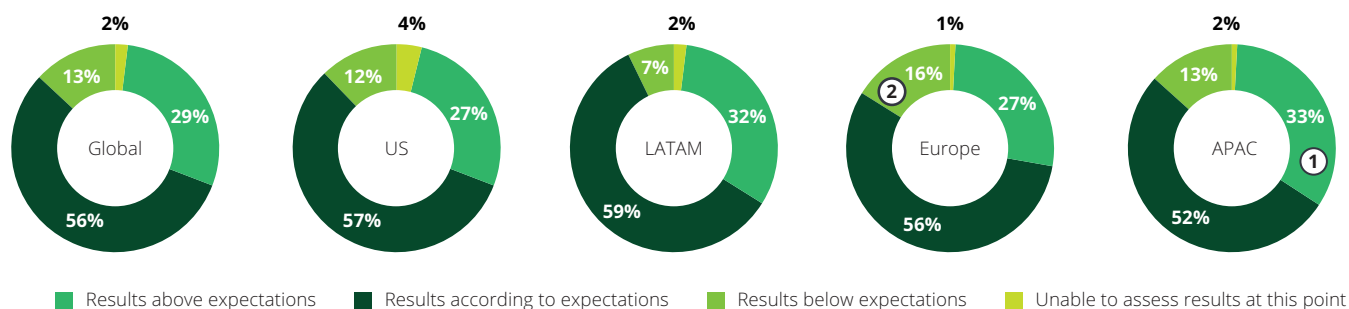
- Tighten data security and improve business control are the top reasons globally and in all regions, except in LATAM
- Reducing costs and increasing productivity are the top reasons in LATAM

Cloud success is reported as very high

Cloud implementations are reported to have a very high success rate in meeting expectations globally (85 percent), with 56 percent

of respondents indicating cloud met expectations and 29 percent indicating it exceeded expectations (see figure 26).

Figure 26. Results of implementing cloud



Key findings

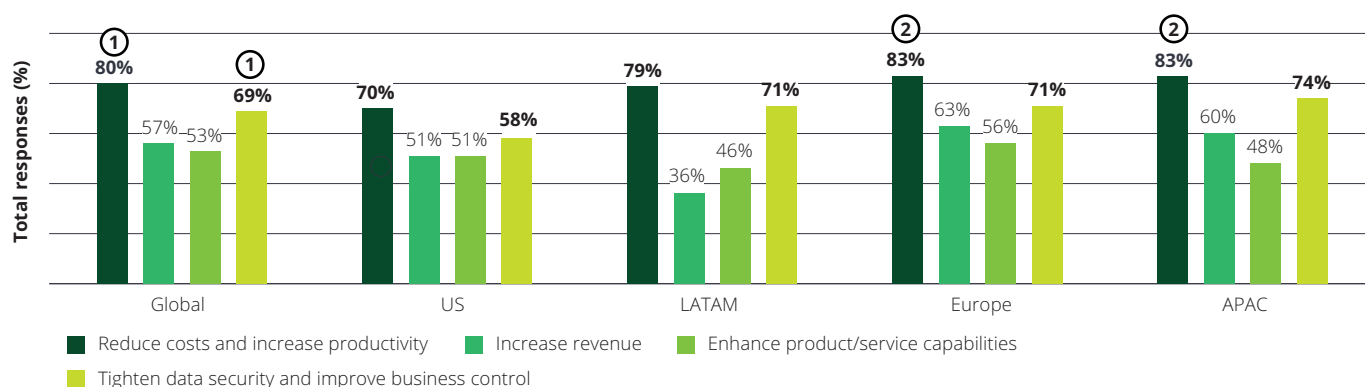
- ① APAC had the highest levels of results above expectations
- ② Europe had the highest levels of results below expectations

Why RPA?

Globally, and in all regions, the most common reason for using RPA is to reduce costs and increase productivity (80 percent), with Europe and APAC both above the global average at 83 percent.

The second most common reason for implementing RPA is to tighten data security and business control (69 percent) (see figure 27).

Figure 27. Reasons for applying RPA¹ (past 24 months)



¹ Respondents who had implemented RPA were selected for this question

Key findings

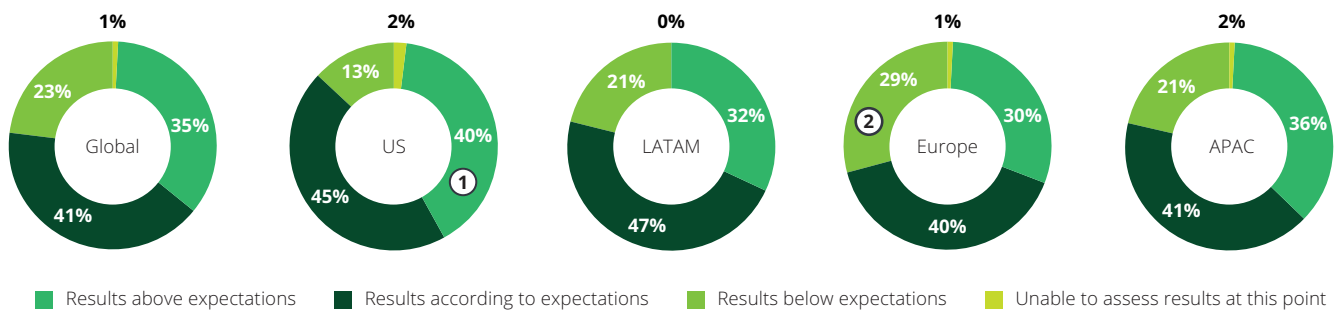
- ① Reducing costs and increasing productivity is the top reason globally and in all regions, followed by tightening data security and improving business control
- ② Europe and APAC show the highest levels for reducing costs and increasing productivity

RPA success is reported as high

RPA implementations are reported to have a high success rate in meeting expectations globally (76 percent), with 41 percent of respondents indicating RPA met expectations and 35 percent indicating RPA exceeded expectations. The United States had the

most success, with 40 percent exceeding expectations. At the other end of the spectrum, Europe had the highest failure rate, with 29 percent falling short of expectations (see figure 28).

Figure 28. Results of implementing RPA



Key findings

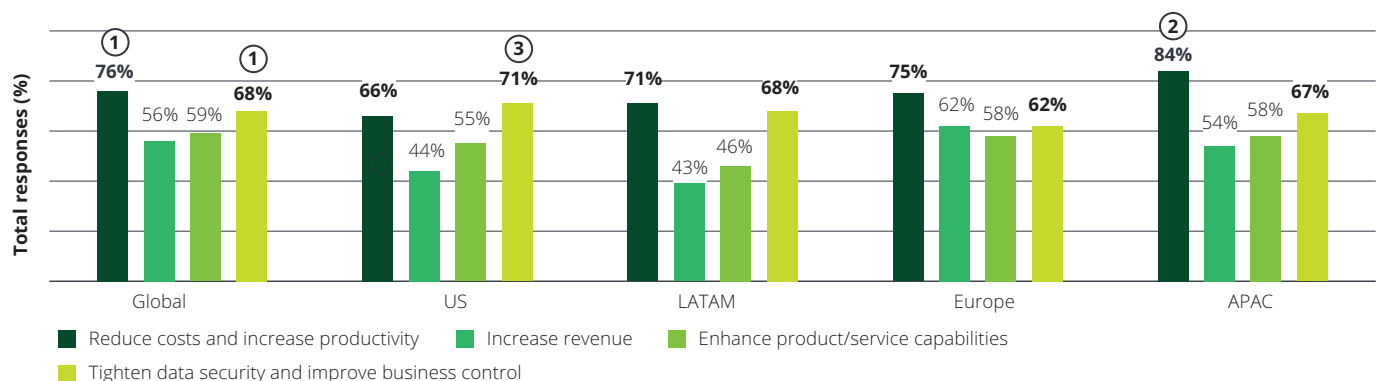
- ① The United States had the highest levels of results above expectations
- ② Europe had the highest levels of results below expectations

Why cognitive and AI?

As with cloud and RPA, the two top reasons globally for applying cognitive/AI solutions are to reduce costs and increase productivity (76 percent) and to tighten data security and improve business control (68 percent). All regions followed that same pattern except

the United States, where the order of the top two was reversed. APAC showed a strong emphasis on reducing costs and increasing productivity (84 percent), well ahead of the global average and far above the response rates for the other reasons (see figure 29).

Figure 29. Reasons for applying cognitive & AI (past 24 months)



Key findings

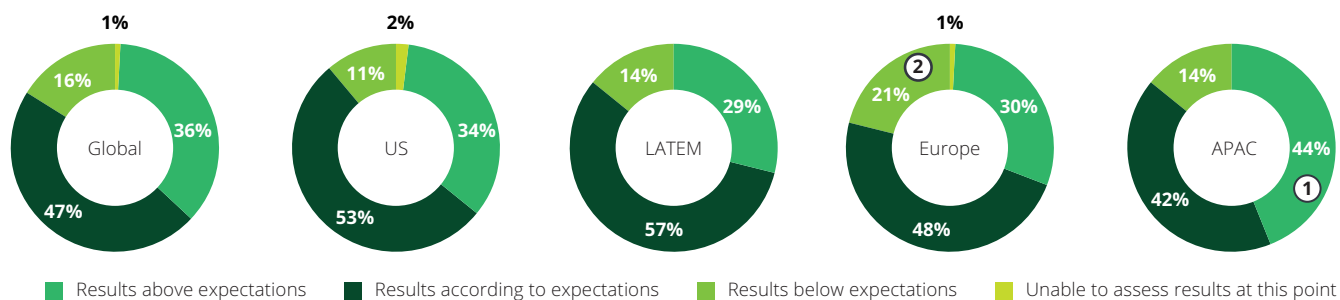
- ① Reducing costs and increasing productivity is the top reason globally and in all regions—except the United States—followed by tightening data security and improving business control
- ② Reducing costs and increasing productivity are especially high in APAC (84%)
- ③ Tightening data security and improving business control is the top reason in the United States

Cognitive/AI success is reported as very high

The overall success rate in meeting expectations for cognitive/AI (83 percent) is reported as nearly as high as cloud's, with 36 percent of global respondents indicating cognitive/AI met expectations and 47 percent indicating cognitive/AI exceeded

expectations. APAC had the most success, with 44 percent exceeding expectations. Europe had the highest failure rate, with 21 percent falling short of expectations (see figure 30).

Figure 30. Results of implementing cognitive & AI



Key findings

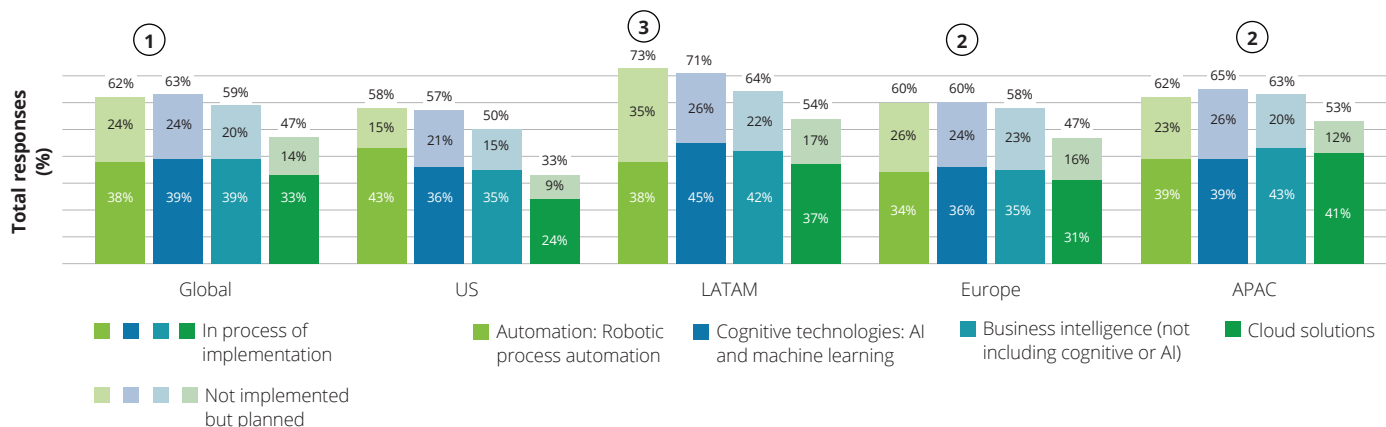
- ① APAC had the highest levels of results above expectations
- ② Europe had the highest levels of results below expectations

Implementation of technologies is expected to continue at a high level

All technologies reviewed are expected to be implemented at a level of 47 percent or higher over the next 24 months. The technology expected to be the most actively implemented is cognitive (63 percent, planned or in-process), followed closely by automation (62 percent) and business intelligence (59 percent) (see figure 31).

Regionally, expected implementation levels in APAC and Europe for all of the technologies are similar to the global average, while LATAM trends higher than average and the United States trends lower.

Figure 31. Implementation of technologies (next 24 months)



Key findings

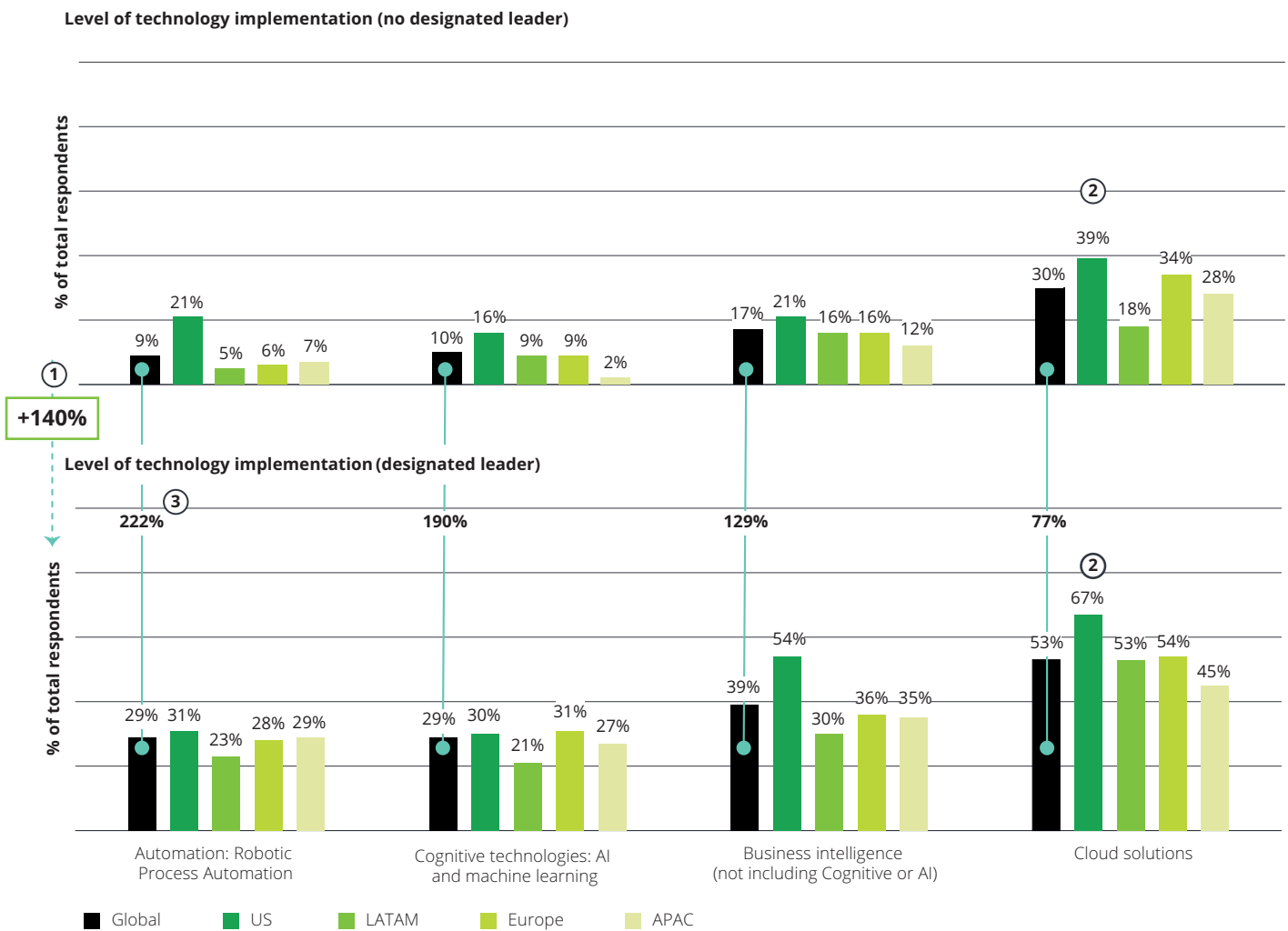
- ① Automation and cognitive are expected to be the most actively implemented technologies over the next 24 months—both for companies that plan to implement, and those that are already in the process of implementation
- ② Technology implementation patterns are similar across Europe and APAC over the next 24 months; however, on average, LATAM shows higher levels of implementation and the US shows lower levels
- ③ 35% of respondents in LATAM plan to implement Automation over the next 24 months—significantly more than in the other regions

Digital leaders make a difference

Companies with a designated digital leader report much higher levels of technology implementation (on average, 140 percent higher across all four technologies). The impact is greatest for automation (222 percent), followed by cognitive/AI (190 percent) and business intelligence (129 percent). Cloud is the least affected

(77 percent), likely because the reported implementation levels for cloud are already higher than for the other technologies, regardless of whether a digital leader is designated and perhaps because cloud may be more directly affected by chief information officers (see figure 32).

Figure 32. Impact of a designated digital leader on implementation levels



Key findings

- ① The impact of a digital leader on the level of technology implementation varies across technologies, but on average is 140% higher
- ② Cloud is the technology with the highest level of implementation, regardless of whether a digital leader was designated (30% vs 53%); it is also the least affected by having a designated leader, although the impact is still very positive (+77%)
- ③ RPA is the most affected by designating a digital leader (+222%)

Case study: Reducing application costs through cloud migration

A US-based Fortune Global 100 insurance company was on a multi-year cost reduction journey, with a significant portion of the targeted savings expected to come from moving a key mainframe application to cloud.

The total cost of ownership (TCO) for the application was having a significant negative impact on the P&Ls of the countries using it. Although the application was originally built for multiple countries, it was only deployed to a few of those countries. Yet, costly on-premise infrastructure assets had been commissioned to support all the planned countries.

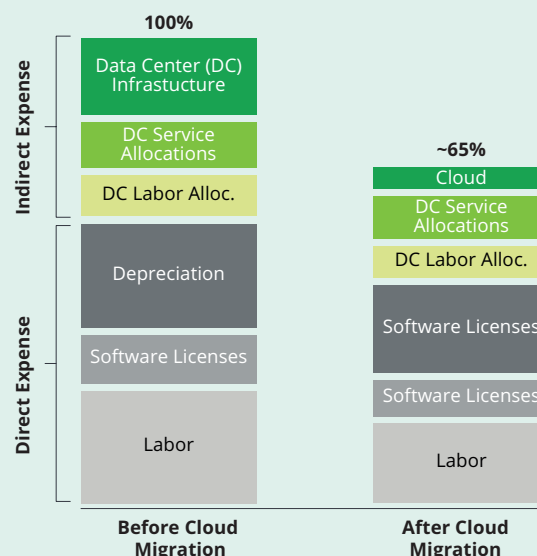
To reduce cost pressure and provide relief to the countries using the application, the company wanted to explore the idea of moving the application from on-premise data centers to the public cloud. The main objective of the effort was to reduce application TCO while aligning with the company's overall IT strategy, which relied on cloud as a critical enabler to help the business respond to changing needs.

The company's cloud transformation journey had the following overall business objectives:

- **Optimized infrastructure footprint** by moving the application from the current over-provisioned and under-utilized mainframe infrastructure.
- **Architecture modernization** by introducing design patterns that could transform the application architecture and make it more suitable for cloud.
- **Reliable application performance** by making the solution architecture scalable to shifting performance demands.
- **Reduction in application costs** by assessing and implementing opportunities targeted at reducing expenses.

As a part of the effort, a cloud migration strategy was developed and executed. Activities included:

- **Review historical TCO data** and future cost structure associated with the application.
- **Assess, analyze and recommend options to upgrade the technology platform** and lower TCO by moving to cloud.
- **Need for upfront detailed target state architecture diagrams** and migration plans to drive smoother execution and avoid delays during implementation.



Overall impact

- **Reduced TCO**, rightsizing the infrastructure for the application by moving to cloud.
- **Improved flexibility** to scale the application to dynamic business requirements, fluctuating bandwidth demands, and future needs. Migrating to a consumption-based model.
- **Better alignment to the** overall IT strategic direction.
- **Reduced future infrastructure CapEx** and general operating expenses.
- **Enhanced performance** to meet business requirements.

Key Lessons Learned

- Successful cloud migration requires rigorous planning, close partnership and shared ownership between business, IT, and affected functions in order to manage risks, resolve issues quickly and align expectations.
- Cloud migration impacts the culture of the technology group as roles, methods and processes change to realize the full benefits of cloud.
- Understanding system and application dependencies is the biggest challenge, followed by navigating a complex enterprise environment.
- Leverage techniques such as software-defined infrastructure solutions to enable standardization, efficiency and effectiveness versus simply using as a cost efficiency play.
- Determine key success factors at the start of the program and monitor them throughout the entire cloud migration.

Case study: Digital transformation enabled by cloud

A US regional insurance company was struggling to scale rapidly and remain competitive in the marketplace due to growing technology debt, high capital expenses and a traditional IT operating model. To address the problem, the company needed to proactively transform its IT infrastructure from in-house data center to cloud-leveraging the capabilities of a public cloud vendor to drive business agility and scalability at a lower cost structure.

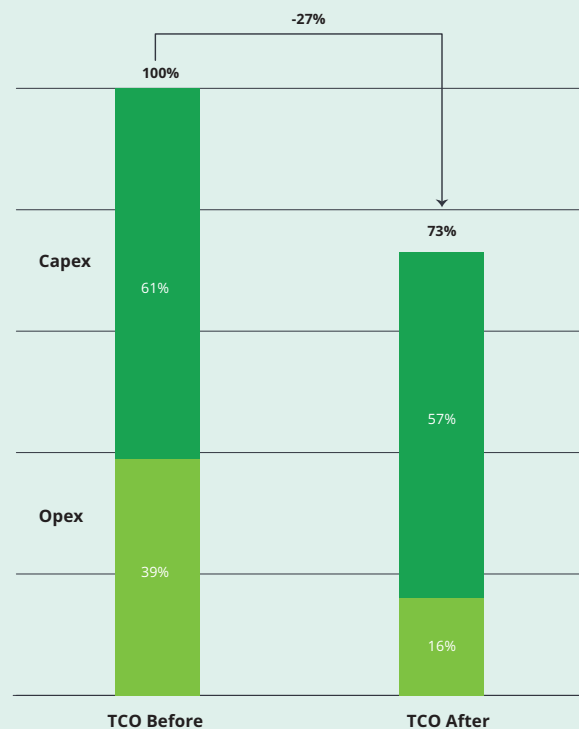
The company started its cloud adoption journey by modernizing its core business platforms, turning the IT function into a modern "as a service" organization. Based on an assessment of business needs and the current IT landscape, a holistic cloud transformation program was undertaken. The multi-year program encompassed people, process and technology, with the following business objectives:

- Undertake a cloud-first strategy
- Rightsize infrastructure
- Transform and scale the DevOps operating model
- Implement automation
- Unlock digital capabilities

Overall impact

- **Consistent experience** for agents and insured through an agile, fault-tolerant platform that advances brand and customer retention
- **Faster time-to-market** for new products/features/state rollouts due to improved speed, quality, operational efficiency and productivity
- **Significant shift** from CapEx to OpEx (~40% expenses shifted to OpEx) and ~30% savings on TCO over five years

Financial impact on TCO and cost structure



The cloud transformation enabled the company to leapfrog technology debt and shift the cost structure from CapEx to OpEx. Also, it established a digital backbone to help the company implement next-generation capabilities such as data and analytics, artificial intelligence, machine learning and IoT.



Save-to-transform as a catalyst for embracing digital disruption

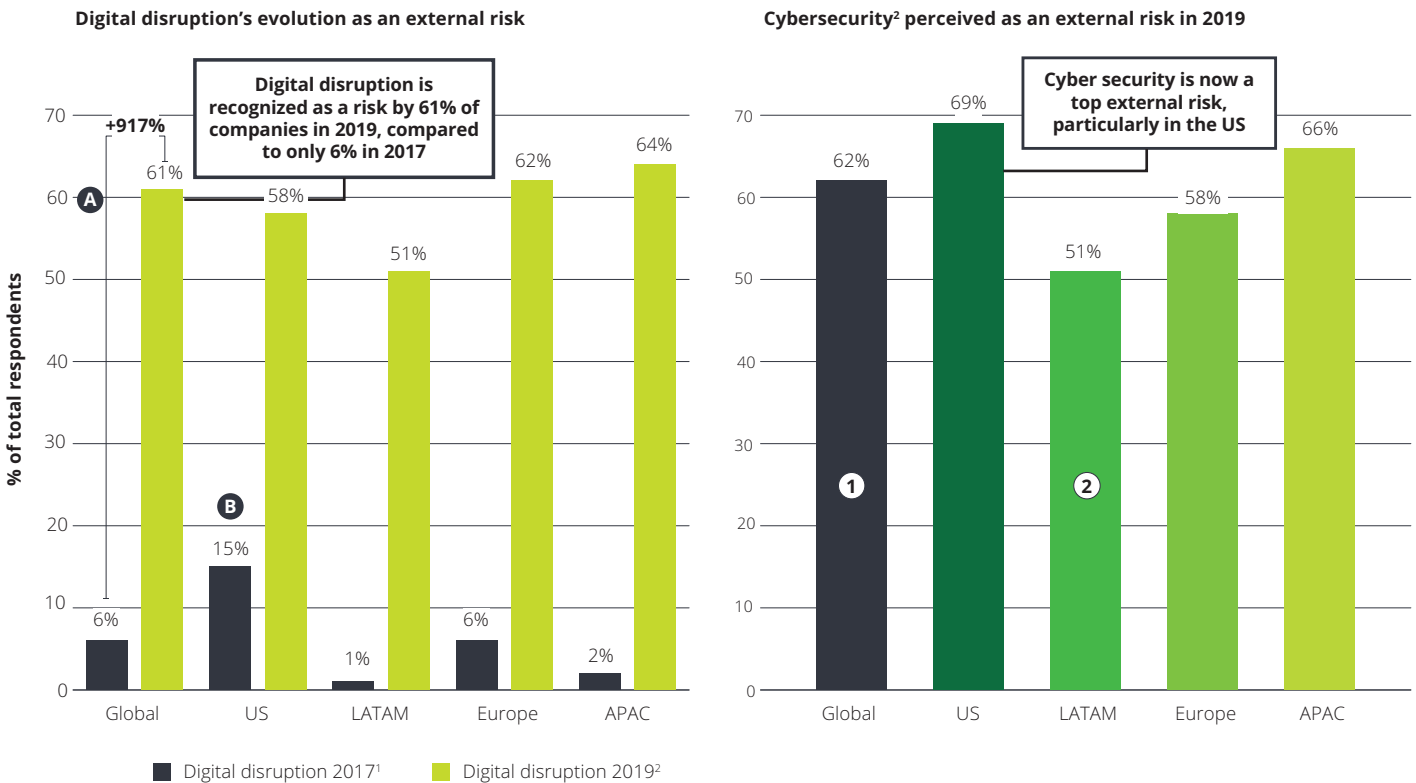


Cost management practices and approaches have grown increasingly sophisticated over time with digital solutions, although still maturing, now representing the most advanced level of cost management. This year's survey results show the save-to-grow mindset from 2017 expanding into a *save-to-transform* mindset.

Digital risks zoom to the top

Digital disruption is now widely recognized as a top external risk, cited by 61 percent of this year's global respondents—up from just 6 percent in 2017. Cybersecurity received similar recognition (62 percent), ranking at or near the top of the external risks list both globally and in all regions except LATAM (see figure 33).

Figure 33. Digital disruption and cybersecurity risks



¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

² Cybersecurity was included for the first time in the 2019 report

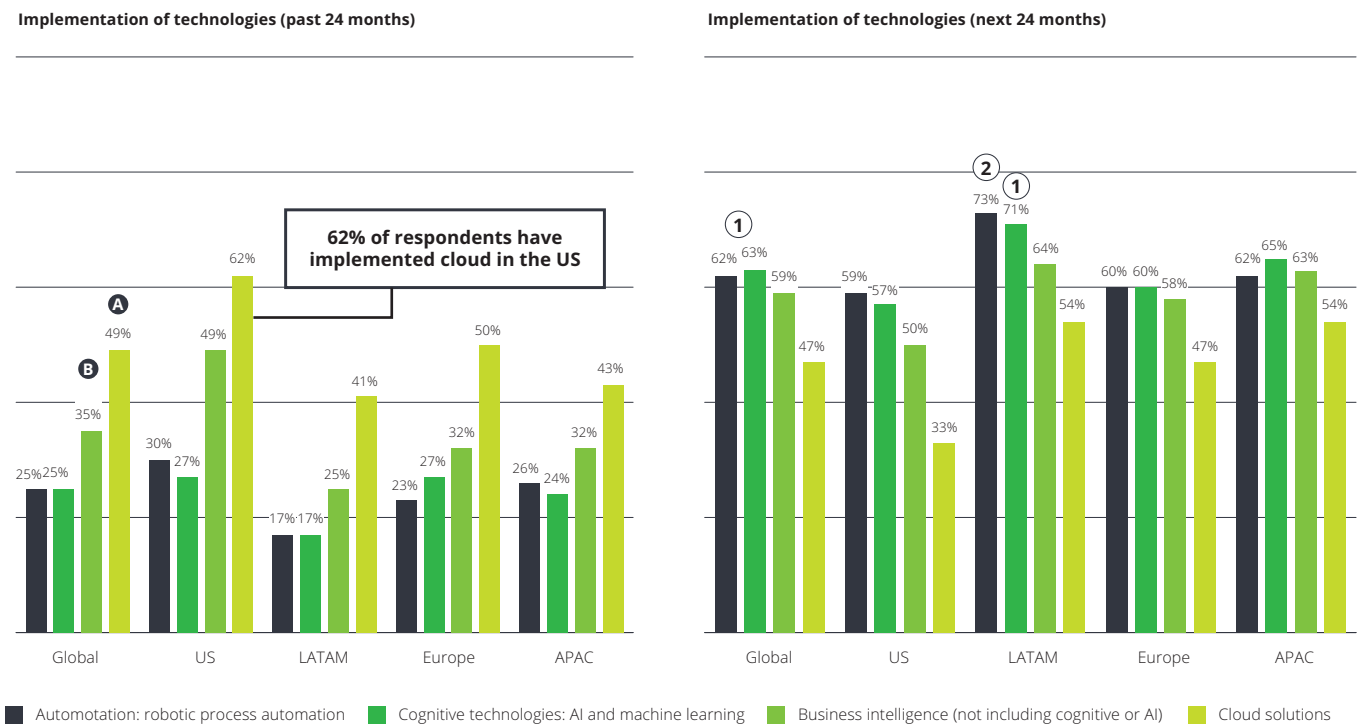
- A. The vast majority of companies were starting to recognize the potentially disruptive impact of digital technologies in 2017 but it exploded over the next 24 months, with a 917% increase
- B. In 2017, digital disruption was mostly recognized in the United States

- 1. Cybersecurity is now a top external risk globally
- 2. Cybersecurity is not yet perceived as a top external risk in LATAM, as compared to other global regions

Digital disruption and innovation are driving technology implementation

Implementation of numerous digital technologies is expected to skyrocket over the next 24 months. Globally, implementation of cognitive technologies such as AI and ML is expected to more than double, from 25 percent over the past two years to 63 percent over the next two years. The same is true for implementation of automation, which is expected to increase from 25 percent to 62 percent. Business intelligence implementation is also expected to rise sharply, from 35 percent to 59 percent globally (see figure 34).

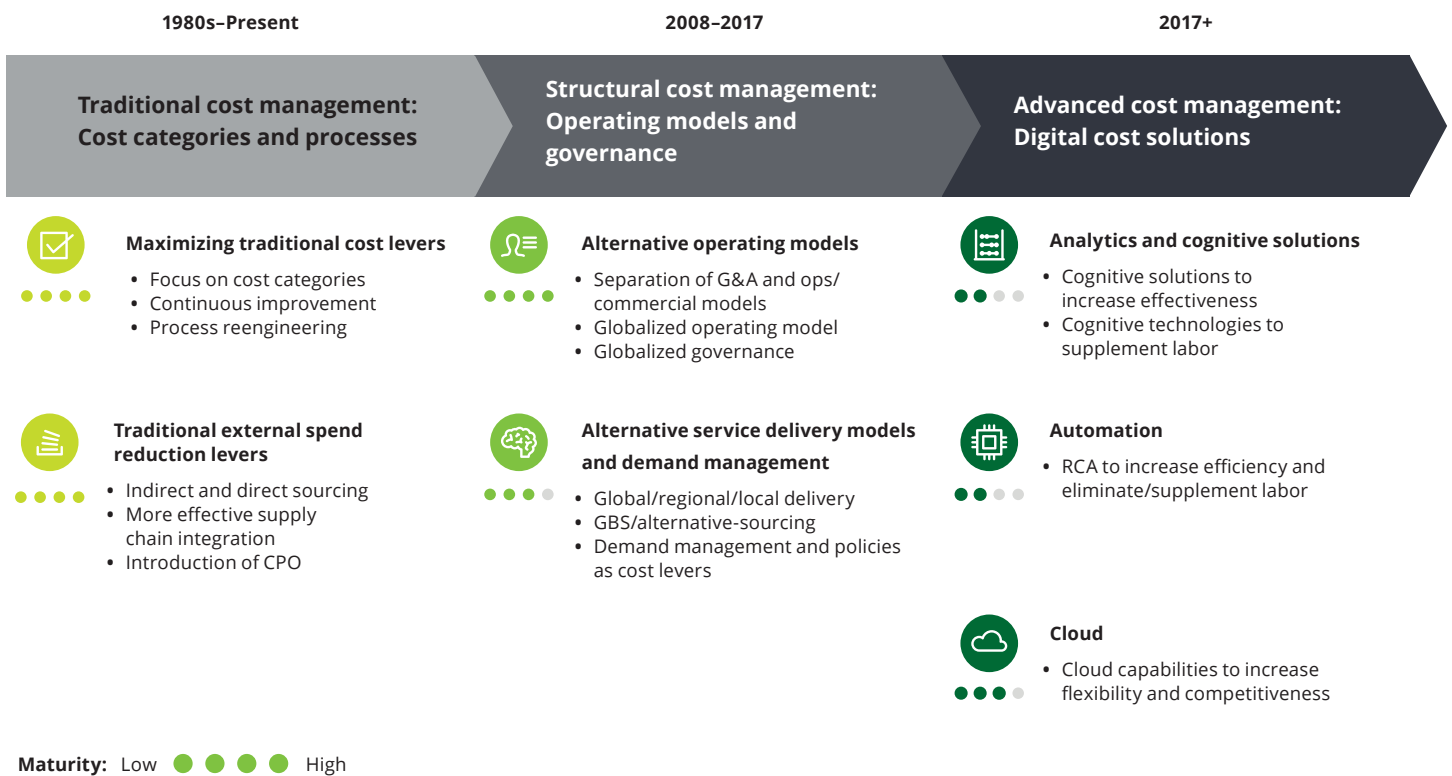
Figure 34. Technology implementation (past and future)



Digital solutions are the most advanced level of cost management

Cost management practices and approaches have grown increasingly sophisticated over time with digital solutions, although still maturing, now representing the most advanced level of cost management. Companies that relied on more traditional cost management methods in the past are now finding that digital solutions can open the door to a whole new level of savings—as well as enable new and more innovative business models. It is important to note that companies do not have to work through the entire evolutionary sequence in order to reap the benefits of digital cost solutions. Rather, they can implement digital technologies immediately as stand-alone cost solutions, or they can mix and match traditional and digital cost management solutions in whatever way makes the most sense from a business perspective (see figure 35).

Figure 35. The evolution of cost management¹



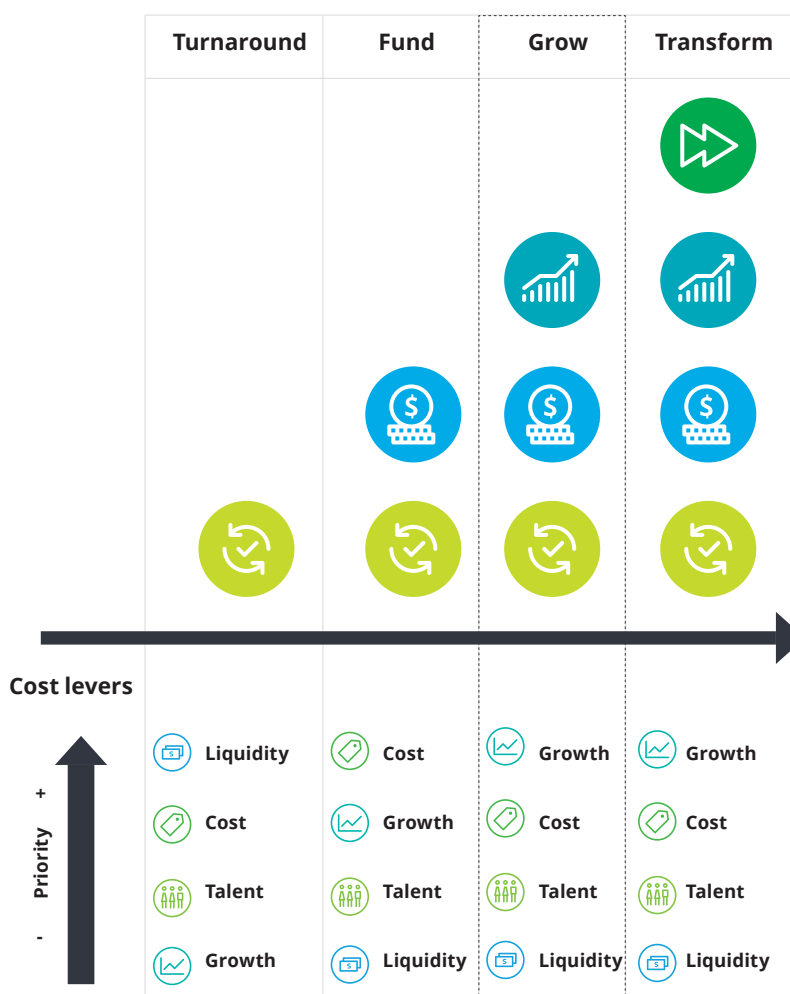
¹ Source: Deloitte Consulting LLP

Save-to-grow was the dominant mindset in 2017

The 2017 survey found many companies around the world were managing costs with a save-to-grow mindset, pursuing cost savings to fund their growth strategies in an improving economy. Revenue growth and cost were the primary strategic levers, with a secondary but still significant focus on talent—a key enabler for growth (see figure 36).

Figure 36. Four approaches to cost management¹

- 
Turnaround
Save-to-turnaround. Focus on immediate actions to reduce costs, maximize liquidity, achieve stability, and capture savings to avoid further deterioration of the business.
- 
Fund
Save-to-fund. Focus on actions that help improve cost and competitive position; avoid cuts that might inhibit future growth rebalance costs to fund investment in business strategy enablers.
- 
Grow
Save-to-grow. Enable or develop a scalable cost/business platform to fuel growth and investment in core capabilities while supporting a differentiated business strategy.
- 
Transform
Save-to-transform. Invest in digital technologies and technology infrastructure to make operations more efficient and effective, enabling new and more agile business models to prosper in a digitally disrupted market.



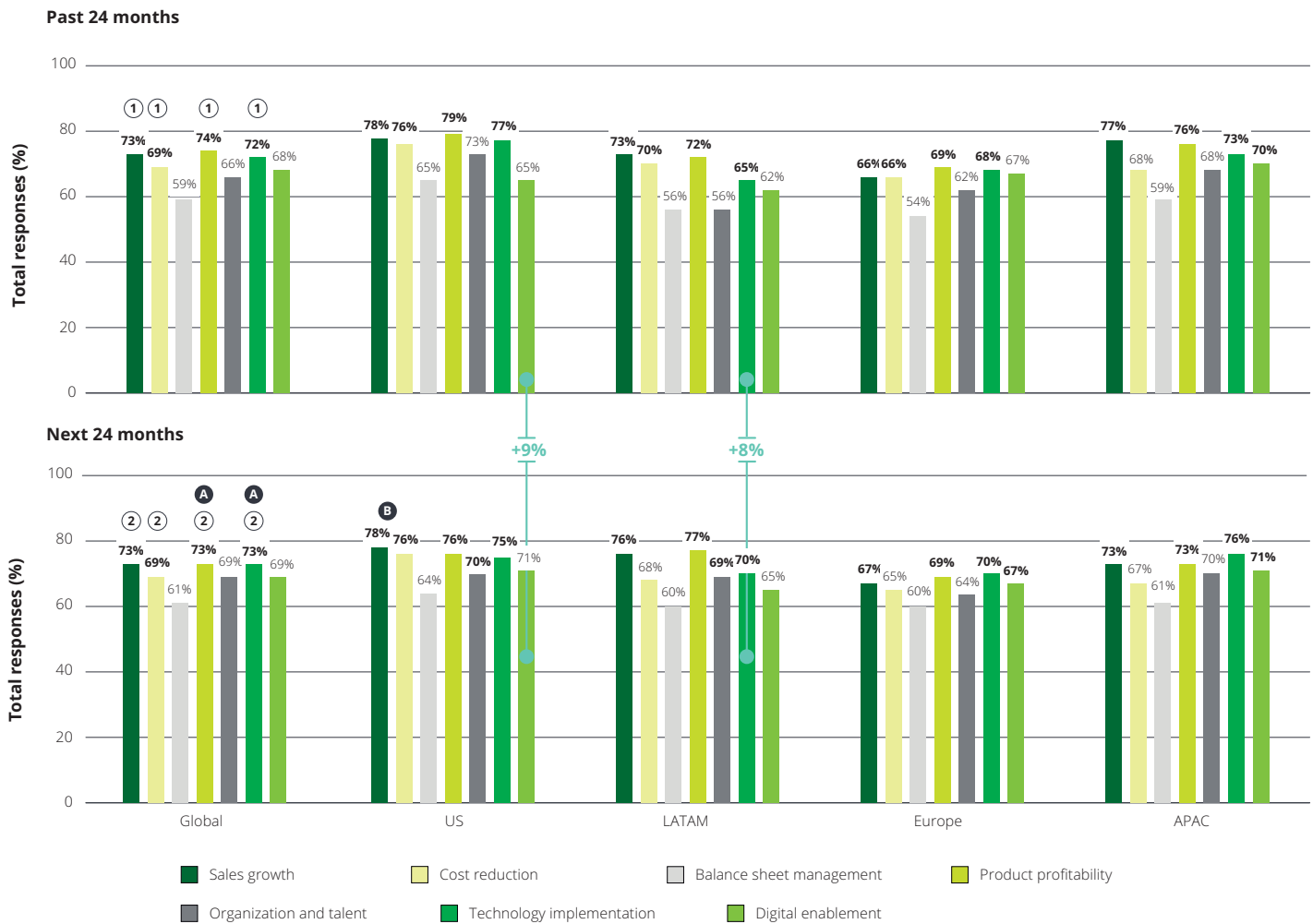
¹ Source: Deloitte Consulting LLP

Transformation is an emerging focus

This year's survey results show the save-to-grow mindset from 2017 expanding into a save-to-transform mindset. Over the next 24 months, the top strategic priorities globally are sales growth (73 percent), product profitability (73 percent), and technology implementation (73 percent), followed closely by cost reduction (69 percent), organization and talent (69 percent), and digital enablement (69 percent) (see figure 37).

Technology implementation and digital enablement are new focus areas that signal a strategic expansion from growth to transformation.

Figure 37. Strategic priorities¹ (past and future)



Key findings

- Product profitability, sales growth, technology implementation, and cost reduction were the top four global priorities over the past 24 months
- Over the next 24 months, product profitability, sales growth, technology implementation, along with cost reduction, digital enablement and organization, and talent are the highest priorities globally

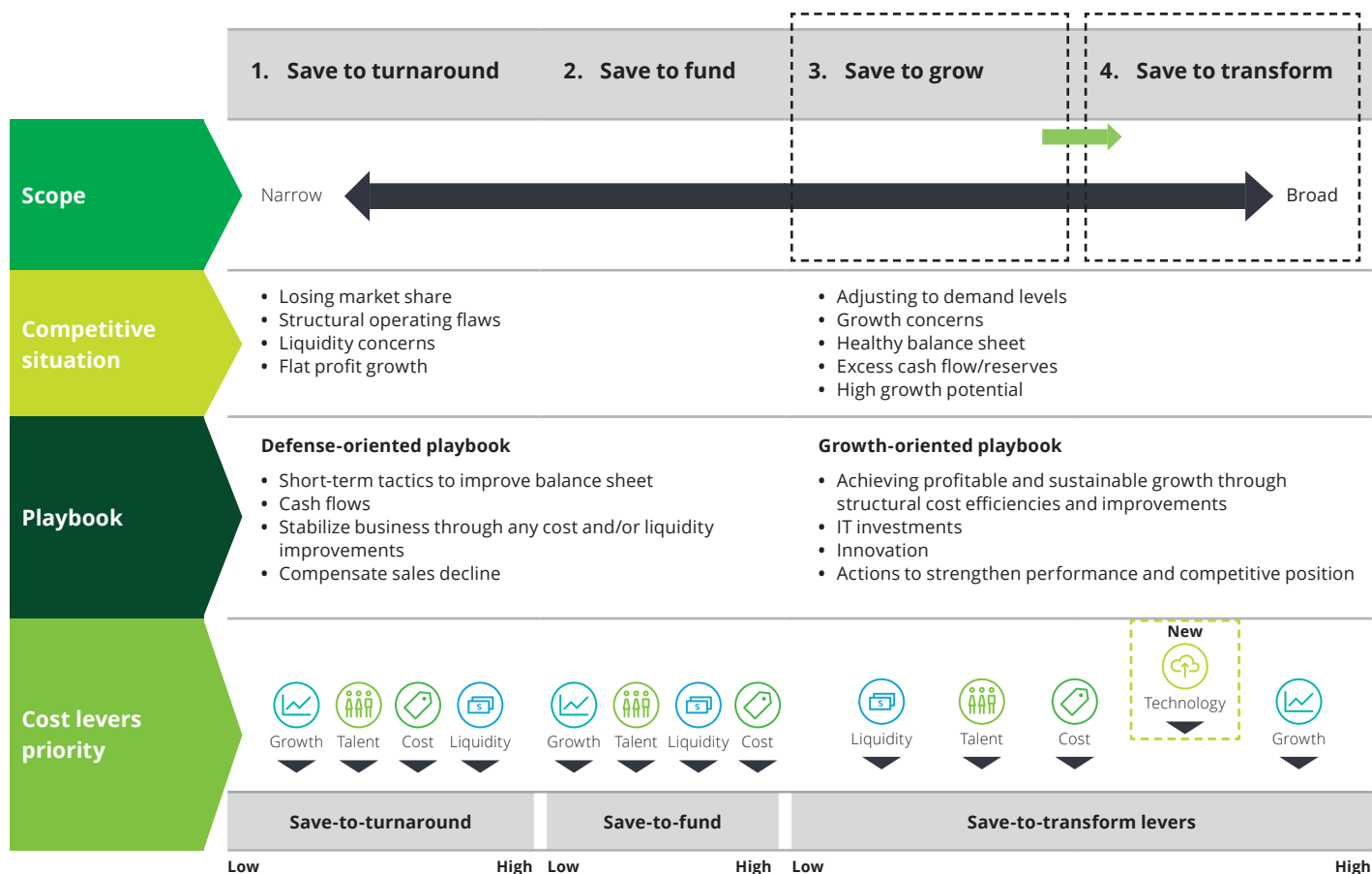
Comparison to past 24 months

- Top three priorities remain the same globally
- Growth and cost continue to be the main strategic priorities in the United States over the next 24 months

The save-to-transform playbook and key levers

Shifting into save-to-transform mode means in addition to cost, growth, and talent, technology is a key lever. Companies in this mode continue to focus on cost reduction as a way to fund their growth strategies. However, they also invest in IT and innovation that can transform the business and help it survive and thrive in a world of digital disruption (see figure 38).

Figure 38. Evolving from growth to transformation¹



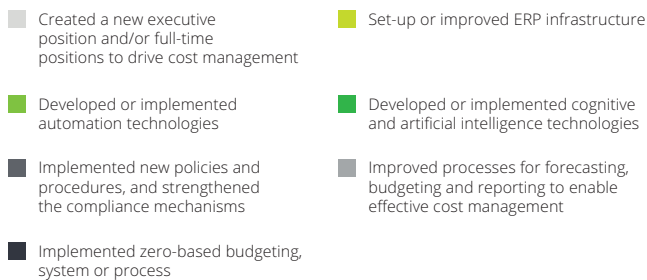
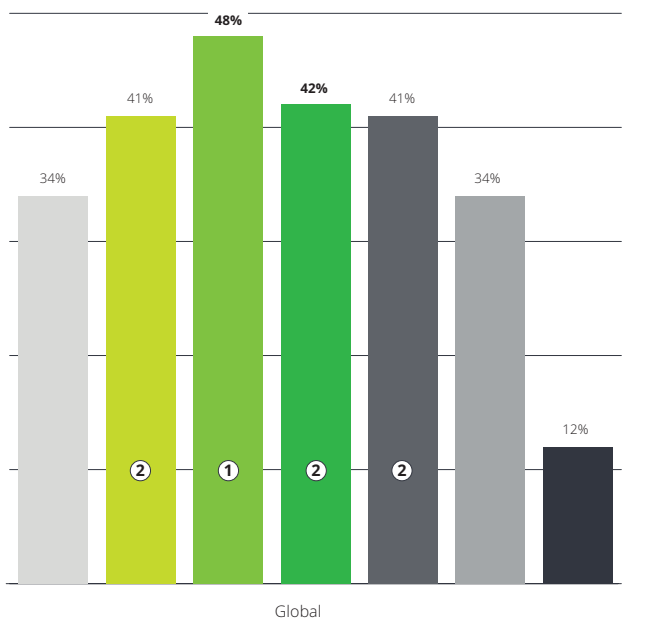
¹ Source: Deloitte Consulting LLP

Automation and other digital technologies take a lead role in cost reduction

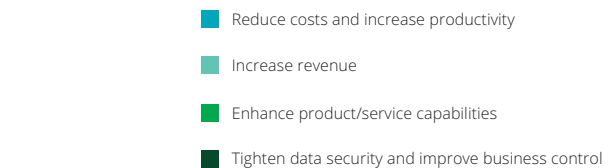
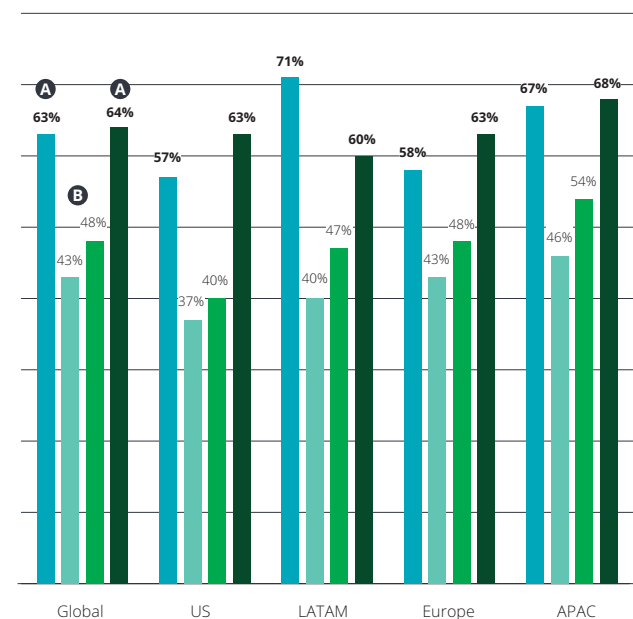
RPA and cognitive technologies such as AI and ML have emerged over the past 24 months as the most common digital capabilities developed to reduce costs. ERP infrastructure is also receiving significant effort and attention, with many companies making the transition to cloud-based ERP (see figure 39). Cloud is being widely applied because it can provide tighter data security and improved business control, along with enhanced product/service capabilities and increased revenue. A robust, cloud-based ERP infrastructure provides a solid foundation of reliable and usable data that advanced digital technologies such as AI and RPA can draw from.

Figure 39. Capabilities developed to reduce costs

Capabilities developed over past 24 months



Reasons for applying cloud (past 24 months)



Key findings

- Automation is the most developed capability, globally, over the past 24 months
- Cognitive solutions and ERP, along with new policy implementation, are the second and third highest developed capabilities

Key findings

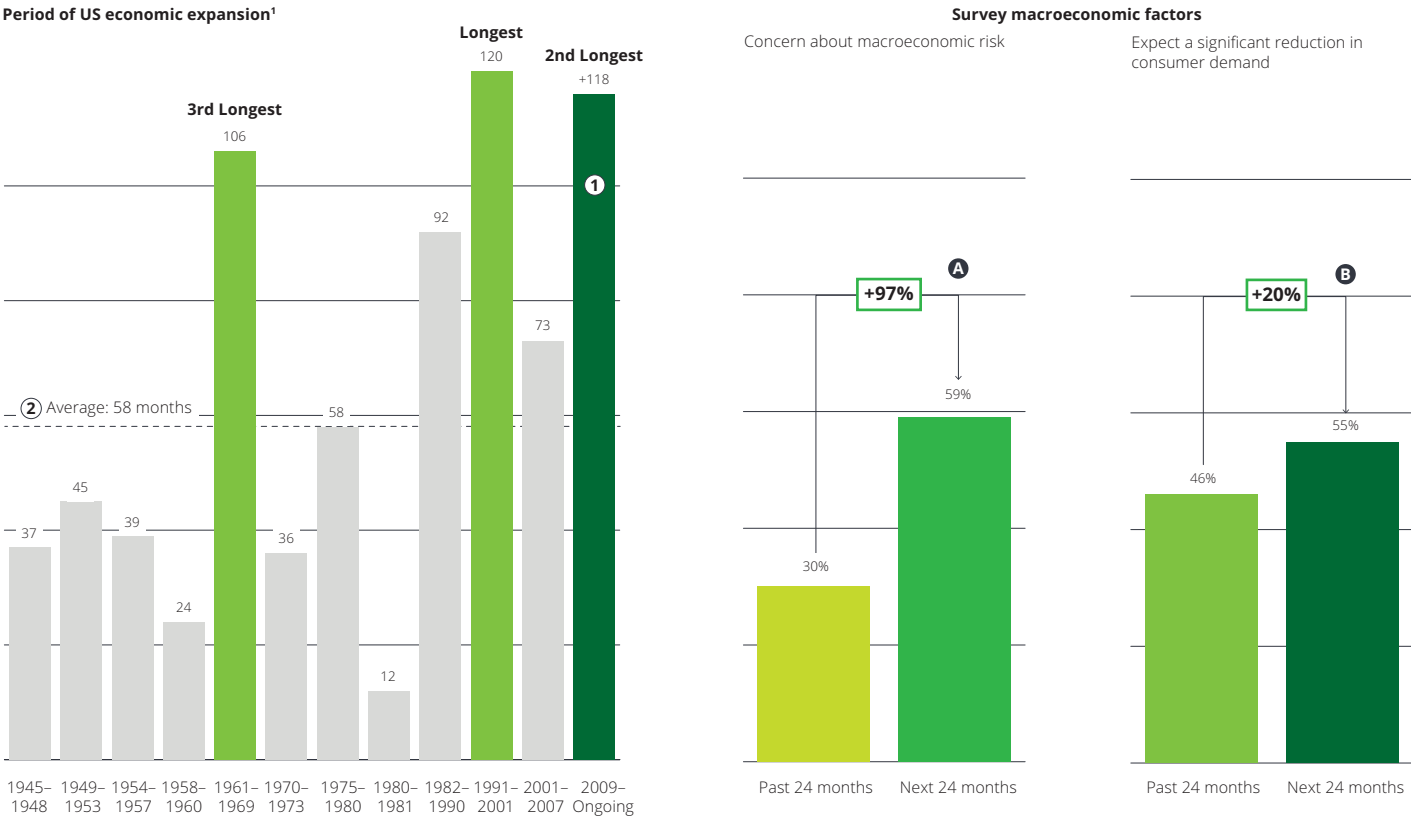
- Tighten data security and improve business control is the top reason globally and in all regions, except in LATAM, and reduce cost and improve business controls is the second top reason globally
- Enhance product/service capabilities along with increase revenue show moderately high numbers, at 48% and 43%, respectively

Save-to-transform provides both growth and defense

This year’s survey respondents continue to have a very positive business outlook, bolstered by one of the longest periods of economic expansion in history. However, economies are cyclical, and even the strongest expansion can defy gravity for only so long. Potential warning signs are starting to emerge in the survey data, including a 97 percent increase in global respondents concerned about macroeconomic risk over the next 24 months, and a 20 percent increase in US respondents who expect a significant reduction in consumer demand over the same period (see figure 40).

Although no one knows exactly when the next downturn will occur, it is only a matter of time. Companies today would be well-advised to continue capitalizing on current economic strength while being vigilant and prepared for future economic weakness through a save-to-transform mindset.

Figure 40. Business cycle analysis and trends



Source: National Bureau of Economic Research (NBER)
¹ As of April 2019

Key findings

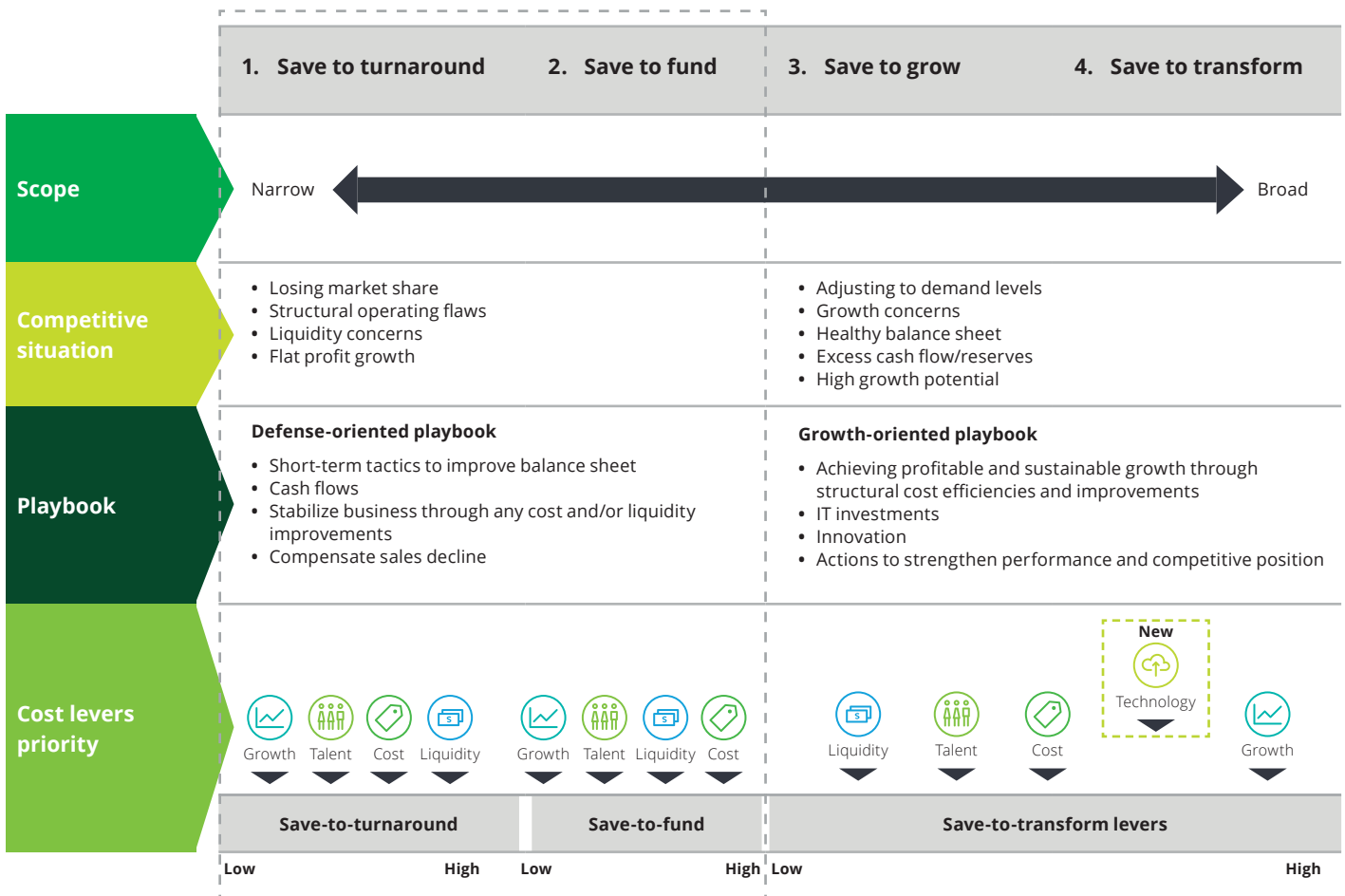
- ① The current period of US economic expansion is the second longest in history at 118 months (as of April 2019)
- ② The average length of US economic expansions since 1945 is ~60 months (the length has been increasing in more recent decades)

Key findings

- A Macroeconomic concerns globally almost doubled over the past 24 months
- B Reduction in consumer demand has increased 20% as a driver of cost reduction initiatives in the United States

The save-to-transform playbook includes investment in digital technologies and innovations that can improve every aspect of a business, from business and operating models to market reach, service quality, operating efficiency, use of talent, and the overall customer experience. In addition to fueling both cost savings and revenue growth, these improvements can make a business more resistant to digital disruption and economic downturns by providing a stronger foundation for defense-oriented cost management activities—activities that are sure to be needed at some point in the future (see figure 41).

Figure 41. Cost management playbooks in a downturn



Case study: Using digital transformation to further improve margins and extend best-in-class status

A Fortune Global 100 biopharma company was a best-in-class leader in many areas—operational efficiency, staffing efficiency, cost structure and compliance/control performance. However, after a decade of extensive cost reduction using traditional efficiency levers—and facing continued cost pressures—the company wanted to explore the next frontier of digital cost solutions.

Aligned with the overall organizational transformation the company was going through, the key objective of the new cost reduction effort was “save to transform,” further improving margins while maintaining best-in-class leadership. The margin improvement strategy included transformation of the overall operating model, enabled by digital.

The strategy consisted of the following elements:

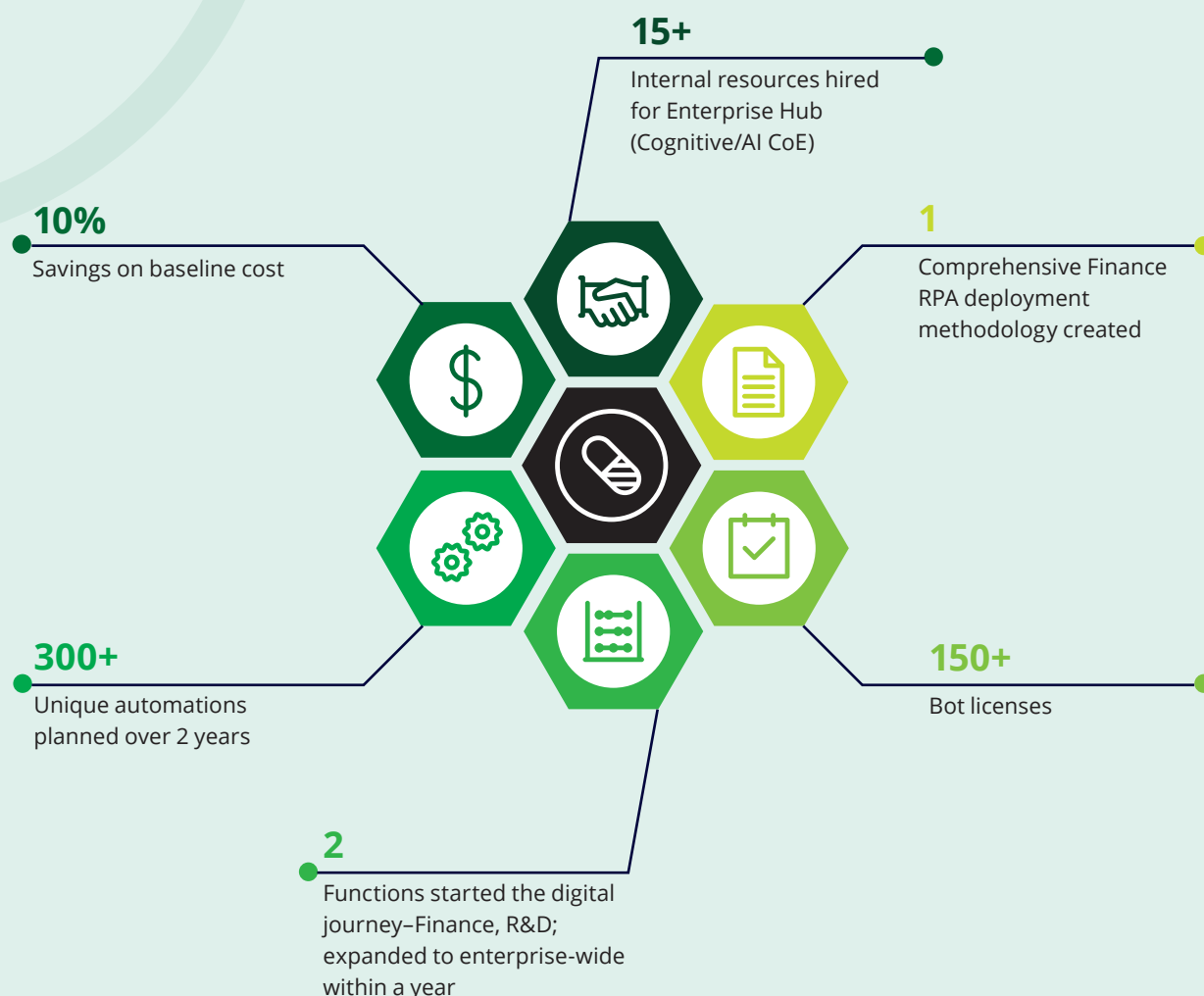
- Develop a practical global digital strategy touching both the front office and back office—starting from Finance and expanding to R&D (e.g., clinical development activities).
- Establish a scalable enterprise governance model.
- Develop and execute an ambitious transformation roadmap.
- Build an enterprise hub (AI/Cognitive center of excellence) to translate business owners' use cases into prototypes and production-ready solutions.

As a part of the solution, 300+ senior leaders were educated on all aspects of digital—realities, myths and everything in between. Currently, the team is executing one of the largest digital finance programs in the world, featuring 300+ automations with 100+ automations already in production. The company also executed successful pilots for blockchain, cognitive, predictive analytics and other emerging solutions to understand their functionality, maturity and relevance and potentially build them into a future transformation roadmap for the company.

To achieve and sustain a large-scale digital transformation, the company built and scaled a functional center of excellence (CoE) within Finance, as well as a broader enterprise-wide AI / Cognitive CoE in IT.

Overall impact

- **Real margin improvement**—transformational OpEx and tax savings; 10-15% savings on baseline cost; realization on track
- **RPA at global scale**—300+ RPA automations in-flight, with 100+ automations in production today
- **Emerging solutions incubated**—successful pilots completed for emerging digital solutions (e.g., natural language generation, blockchain)
- **Capability building**—developed the company's internal capabilities, including CoEs for Robotics and AI/Cognitive, both jointly operated with Deloitte
- **Controls and compliance**—developed a framework to assess the impact of RPA on existing controls and internal/external audit
- **Digital integration**—infused digital into day-to-day operations through “future of work” activities, which included increasing adoption of digital in the workplace and defining innovative acquisition and development programs for digital talent
- **Digital M&A**—integrating digital into all future M&A transactions



Key Lessons Learned

- **Large-scale RPA deployment** is different than other operating model transformation work. In particular, there is considerable complexity surrounding the degree of standardization required to deliver RPA effectively at scale, which in turn requires significant resources and longer timelines to execute.
- **Results are generated through scale.** There are no “home runs” but a lot of “singles” that collectively drive impact.
- Enterprise automation solutions are not just a cost efficiency play; they enable **efficiency and effectiveness and improved controls.**
- Successful deployment of automation requires close **partnership and shared ownership** between business, IT, and compliance in order to manage risks, resolve issues quickly and align expectations.
- Enterprise automation solutions are **transformational to talent models.** New skillsets and capabilities will be required in addition to “traditional” business skillsets.

Looking ahead

Digital disruption, technology, and innovation are among the most powerful forces shaping the global marketplace and competitive landscape. And their impact is only increasing. Companies today need to harness those forces to their own advantage, using digital technologies such as cloud, automation, business intelligence, and cognitive to transform how they operate—streamlining their cost structures and generating strategic cost savings that are both significant and sustainable. These improvements can help a company achieve its immediate growth objectives while preparing itself to survive and thrive when the economic cycle inevitably reverses course. They can also position the company to capitalize on digital disruption, becoming the disrupter rather than the disrupted.



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Appendix A: Global insights from key industries

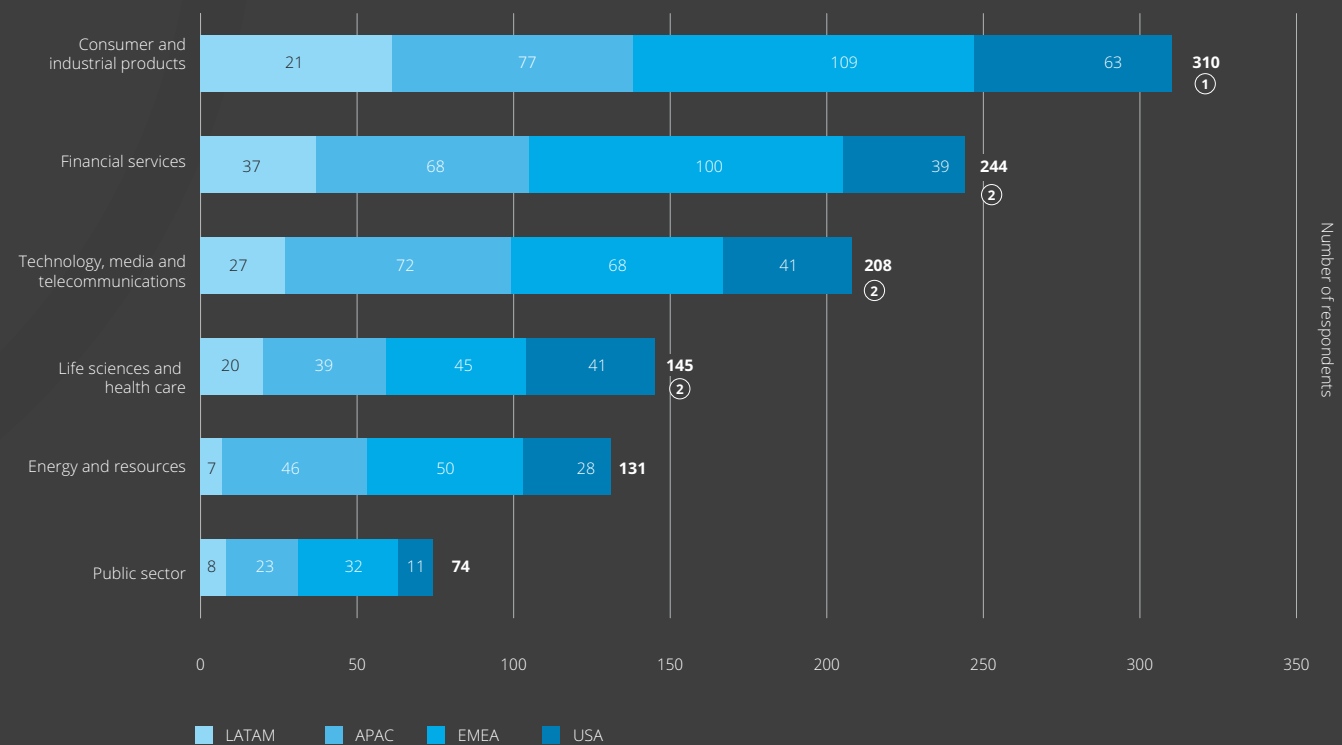
Summary

- Global respondents were categorized into six major industry groupings—including Consumer & Industrial Products (C&IP), Financial Services (FS), Technology, Media & Telecommunications (TMT), Life Sciences & Health Care (LSHC), Energy & Resources (E&R) and Public Sector (PS)—to uncover industry-specific cost management insights.
- Surveyed industries reported a similarly high likelihood for cost reduction (71 percent on average, ranging from 60 percent to 79 percent), with LSHC and Public Sector showing the lowest rates.
- The majority of respondents across all industries reported cost targets of less than 20 percent, with high overall failure rates—TMT (75 percent) and PS (73 percent) being the only two industries with failure rates below the average of 81 percent.
- Perspectives on revenue growth are generally similar to the past with 86 percent of respondents expecting revenues to increase. However, growth expectations vary by industry (sometimes significantly; for example, TMT expects +4 percent nominal growth; E&R expects -5 percent nominal growth).
- External risks are perceived differently by industry, which might be relevant to understanding the rationale and focus for cost management programs.
- Macroeconomic concerns and commodity price fluctuations rated first as external risks for TMT and E&R, respectively.
- For C&IP, commodity prices (66 percent) were the most significant concern, compared to the average of 59 percent.
- Political climate risks were rated above the average (59 percent) for E&R (63 percent), TMT (62 percent), and PS (61 percent).
- Digital disruption is perceived as a top risk for TMT (65 percent) compared to the average of 61 percent; LSHC (53 percent) and PS (56 percent) were well below average.
- Cybersecurity is consistently rated as a top risk across all industries (ranging from 60–65 percent, except PS at 52 percent).
- Concerns about currency fluctuations were above the average of 58 percent in E&R (64 percent), TMT (61 percent) and C&IP (61 percent).
- Cloud is the most implemented technology in all industries, especially C&IP.

Six major industries analyzed

Global respondents were categorized into six major industry groupings to uncover industry-specific cost management insights (see figure A-1).

Figure A-1. Industry presence across regions

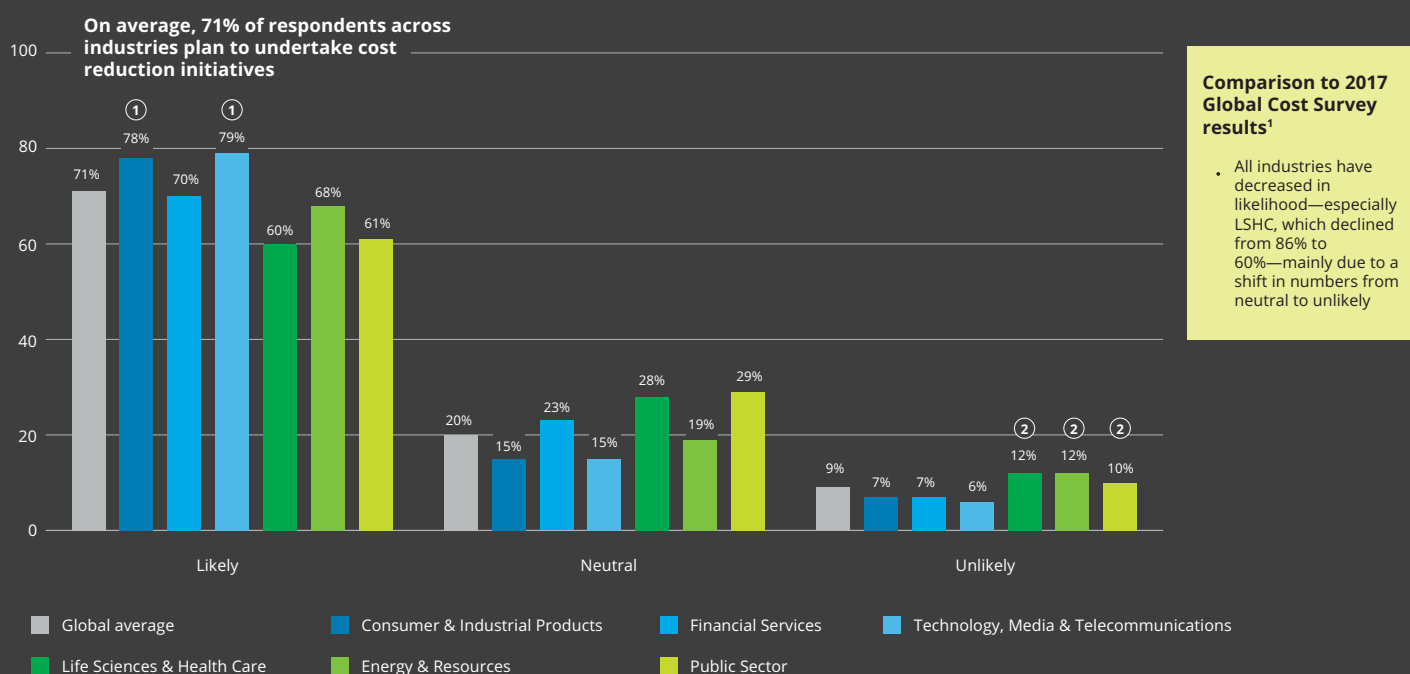


1. Consumer & Industrial products is the most represented industry globally, with 25% of total respondents
2. Across regions, Consumer & Industrial Products, Financial Services, and TMT are the three most represented industries—with the exception of the United States, where LSHC ranks as the third-most represented industry

Cost reduction is prevalent in all industries

All industries reported a similarly high likelihood for cost reduction, ranging from 60 percent to 79 percent, with LSHC and PS reporting the lowest rates at 60 percent and 61 percent, respectively (see figure A-2).

Figure A-2. Likelihood of cost reduction in next 24 months



¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

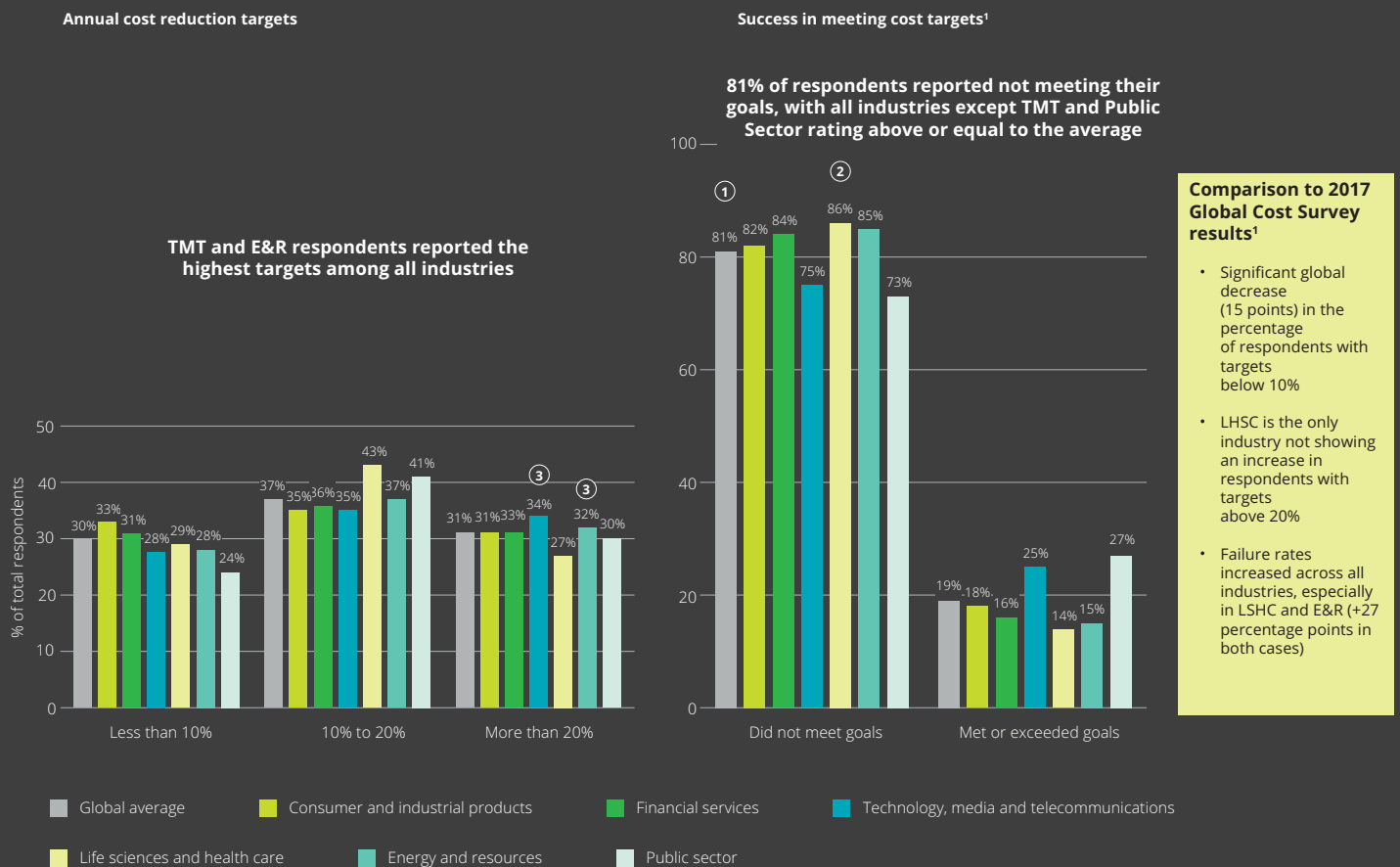
Key findings

- ① C&IP (79%) and TMT (78%) have the highest percentage of respondents likely to undertake cost reduction initiatives
- ② LSHC (12%), E&R (12%), and Public Sector (10%) have the highest percentage of respondents unlikely to undertake cost reduction

All industries had overall failure rates of at least 73 percent

The majority of respondents across all industries reported cost targets of less than 20 percent, with high overall failure rates—TMT (75 percent) and PS (73 percent) being the only two industries with failure rates below the average of 81 percent (see figure A-3).

Figure A-3. Cost reduction targets



1. Respondents that selected "no specific targets were established" were not plotted in the graph

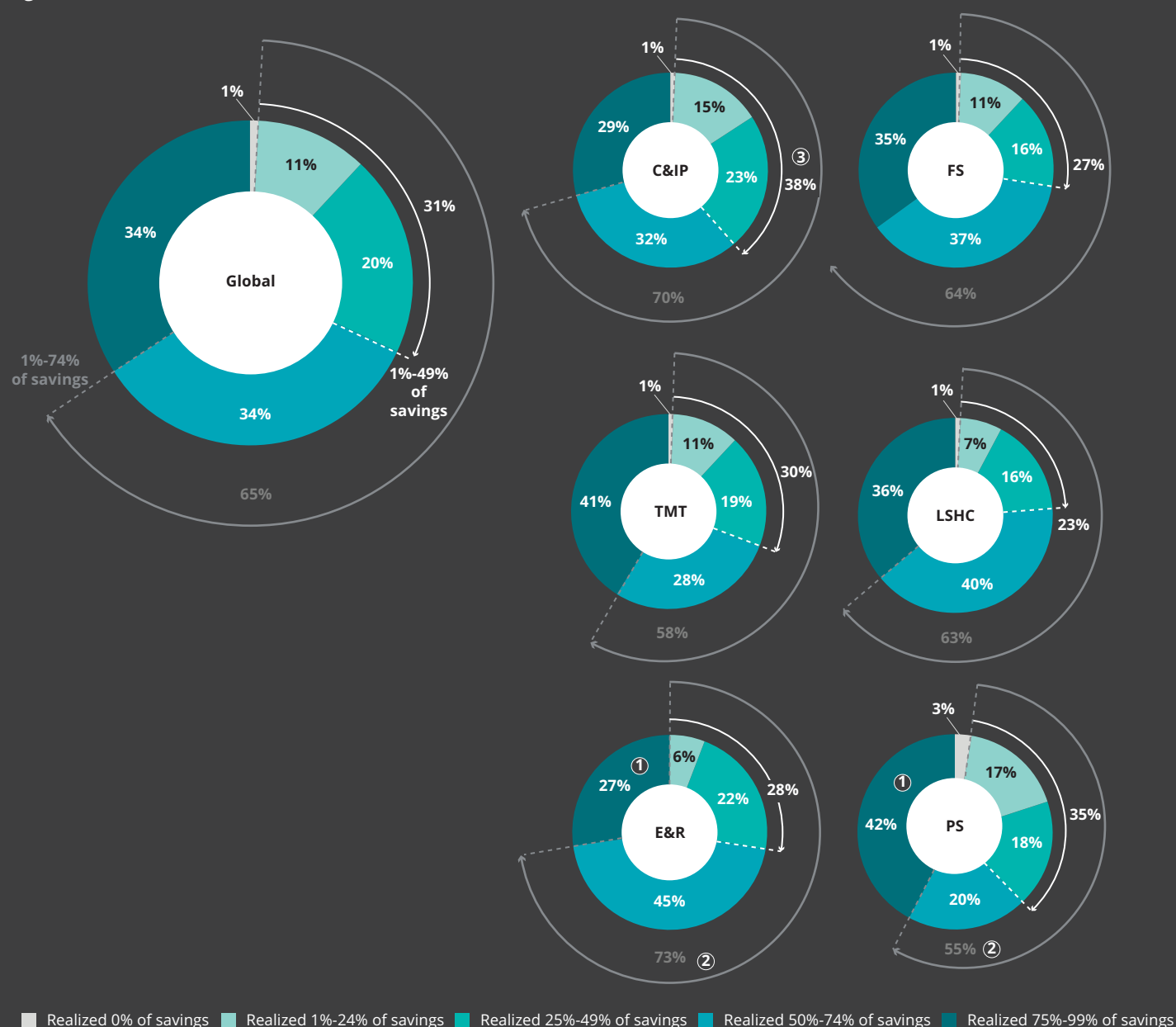
Key findings

- Respondents in all industries generally fell short of their cost reduction targets (average of 81% failure across all industries, range from 73%-86%)
- LSHC and E&R reported the highest failure rates (86% and 85% respectively)
- TMT (34%) and E&R (32%) had the highest percentage of respondents with targets above 20%

Detailed failure rates vary widely

Percentage of savings realized varies widely by industry, except for FS and LSHC, which show similar results (see figure A-4).

Figure A-4. A closer look at failure rates



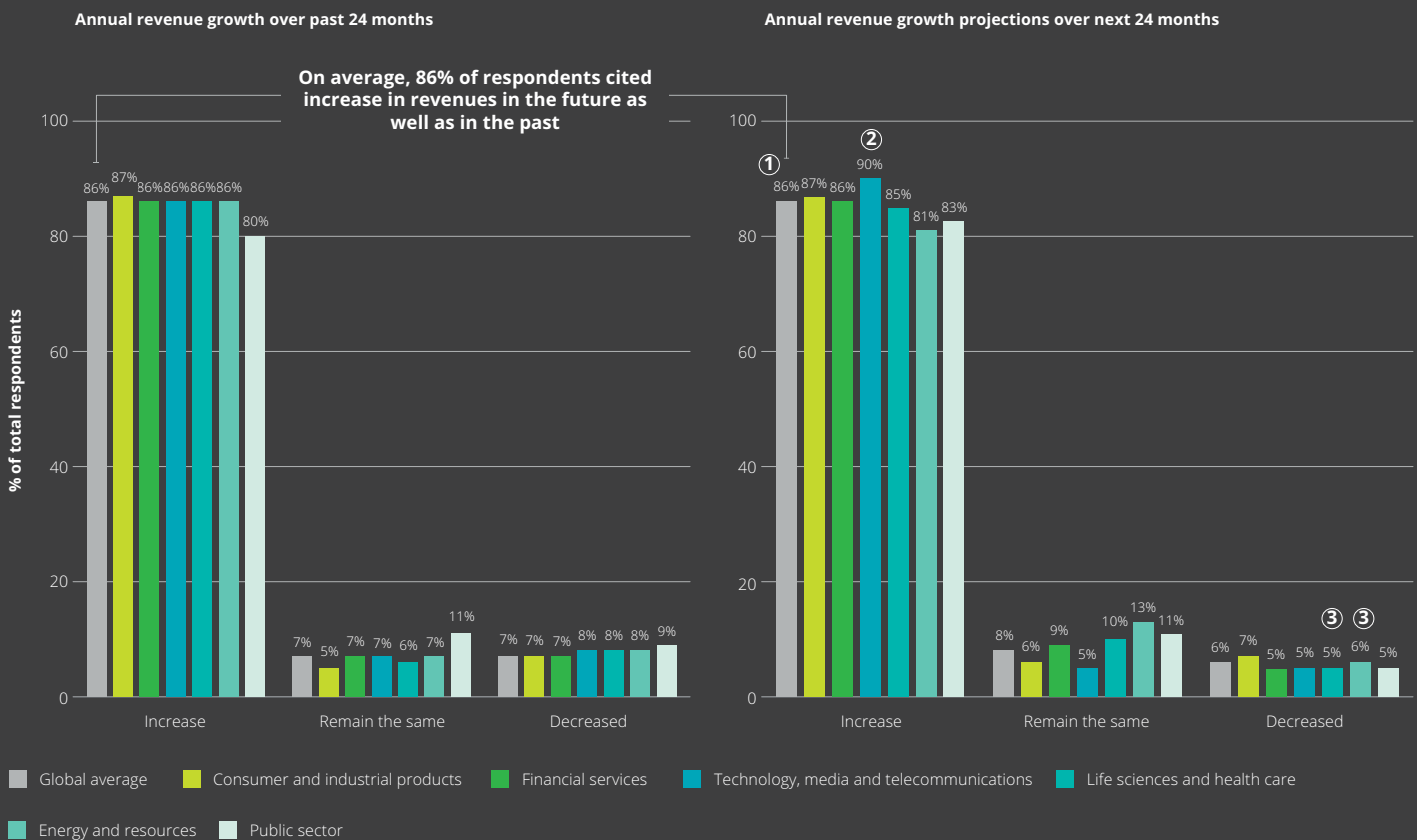
Key findings

- At 42%, PS has the highest proportion of companies realizing 75%-99% of targets; E&R has the lowest at 27%
- 73% of respondents in E&R met only 1%-74% of goals, the highest percentage in this range across industries; PS had the lowest percentage in this range (55%)
- C&IP has 38% of respondents with savings realization of 1%-49%, the highest all sectors for this range

Growth expectations are consistently positive

Perspectives on revenue growth are generally similar to the past, with 86 percent of respondents expecting revenues to increase. However, growth expectations vary by industry (see figure A-5).

Figure A-5. Revenue trends and projections



Key findings

- ① Global respondents reported similar increases (86%) for both past and expected future revenue growth
- ② Technology, media and telecommunications reports a slightly more positive outlook (90%) compared to the global average (86%)
- ③ Life sciences and health care and Energy and resources are the only industries that project a revenue decline over the next 24 months, at 1% and 5%, respectively

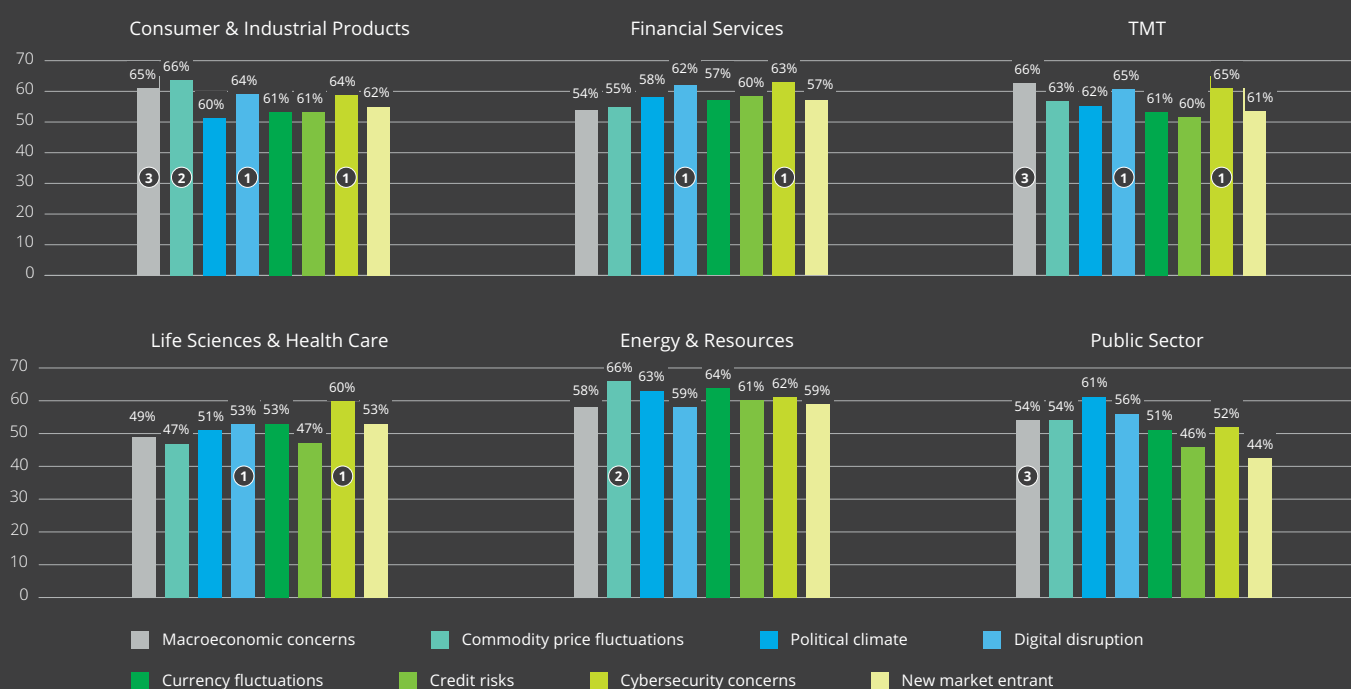
Perceived external risks vary significantly

External risks are perceived differently by industry, which might be relevant in understanding the rationale and focus for cost management programs (see figure A-6).

Macroeconomic concerns and commodity price fluctuations rated first as external risks for TMT and E&R, respectively. For C&IP, commodity prices (66 percent) were the most significant concern, compared to the average of 59 percent. Political climate risks were rated above the average (59 percent) for E&R (63 percent), TMT (62 percent), and PS (61 percent). Concerns about currency fluctuations were above the average of 58 percent in E&R (64 percent), TMT (61 percent), and C&IP (61 percent).

Digital disruption is perceived as a top risk for TMT (65 percent) compared to the average of 61 percent; LSHC (53 percent) and PS (56 percent) were well below average. Cybersecurity is consistently rated as a top risk across all industries (ranging from 60–65 percent, except PS at 52 percent).

Figure A-6. External risks



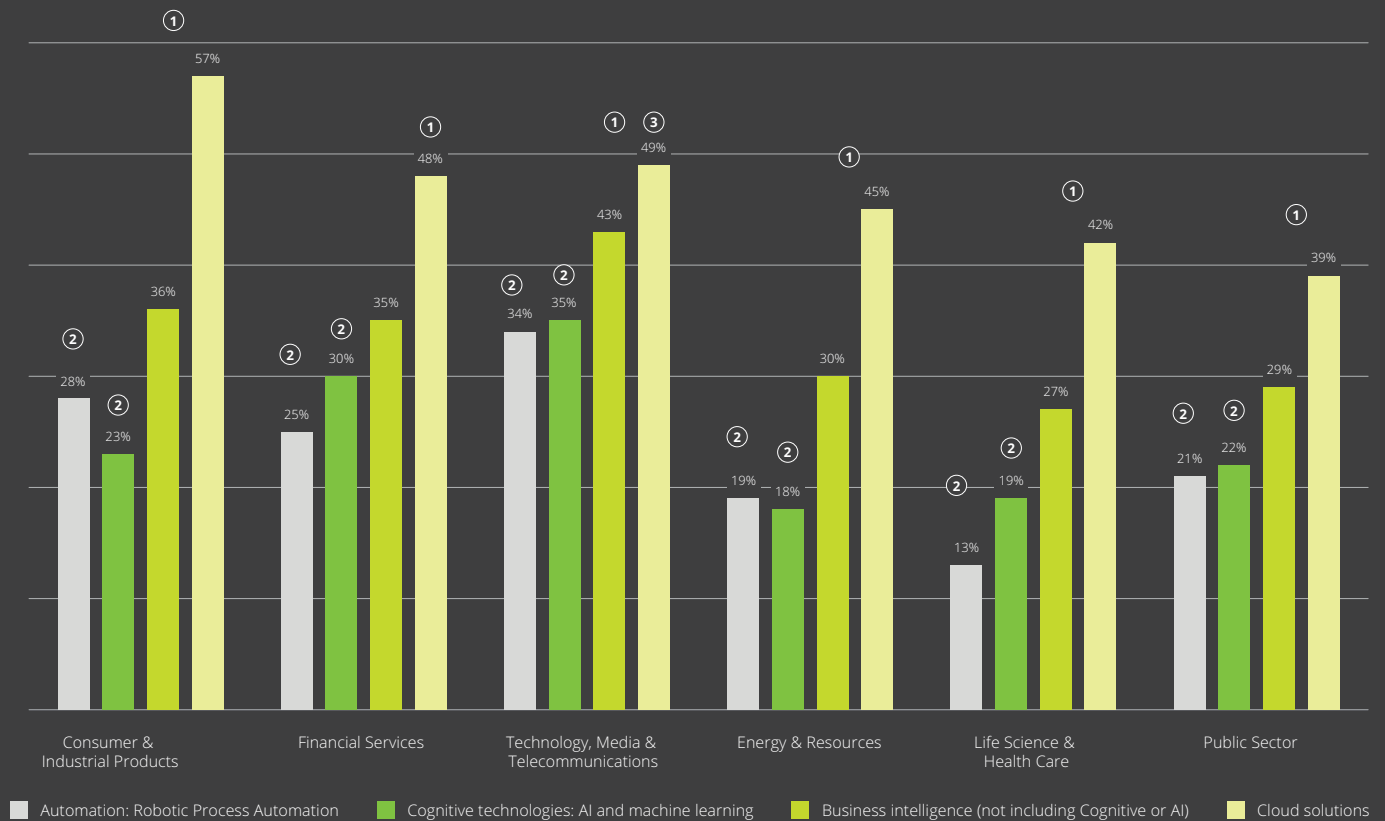
Key findings

- ① Cybersecurity and digital disruption are some of the top risks for C&IP, Financial Services, TMT, and Life Sciences & Health Care
- ② Commodity price fluctuations is perceived as a top risk in C&IP and Energy & Resources
- ③ Macroeconomic concerns ranks high in C&IP, TMT and Public Sector

Cloud implementation dominates

Cloud is the most widely implemented technology across all industries, especially in C&IP (see figure A-7).

Figure A-7. Implementation of technologies¹ (past 24 months)



Key findings

- ① Cloud is the most widely implemented technology across industries, followed by business intelligence
- ② Level of technology implementation follows a similar pattern across sectors, with automation and cognitive the least implemented
- ③ TMT has the highest implementation levels across all technologies except for cloud, which is implemented more in C&IP

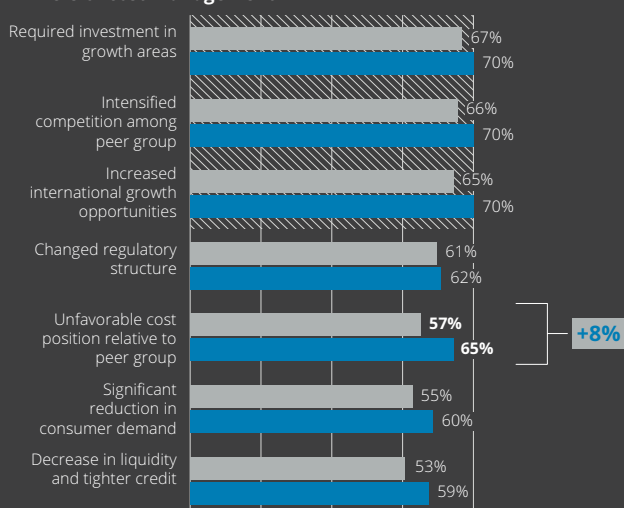
Cost management insights by individual industry

Consumer & Industrial Products (C&IP)

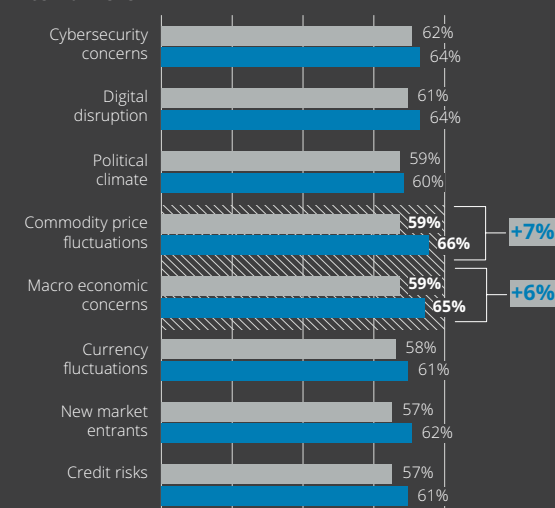
- Top drivers are to gain competitive advantage over peer group, invest in growth areas and global expansion for growth.
- Risks beyond commodity prices focus on macroeconomics, cybersecurity, and digital disruption.
- Top strategic priority is sales growth, followed by technology implementation, product profitability and cost reduction.
- Likely cost actions of changing business configuration and implementing automation/cognitive technologies ranked higher than other actions, which were on par with the industry average in most cases.

Figure A-8. Consumer & Industrial Products

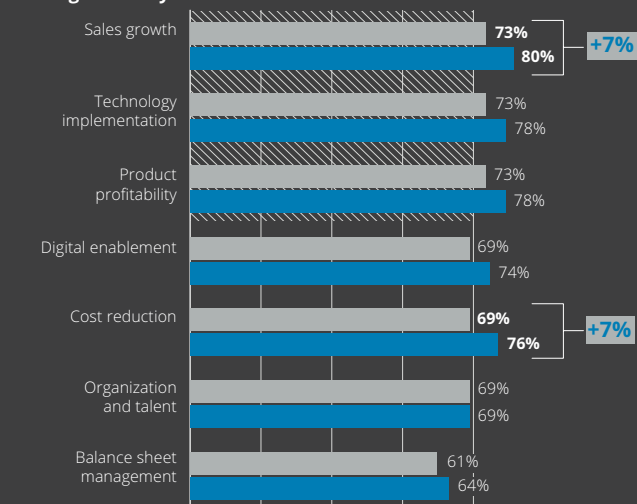
Drivers of cost management



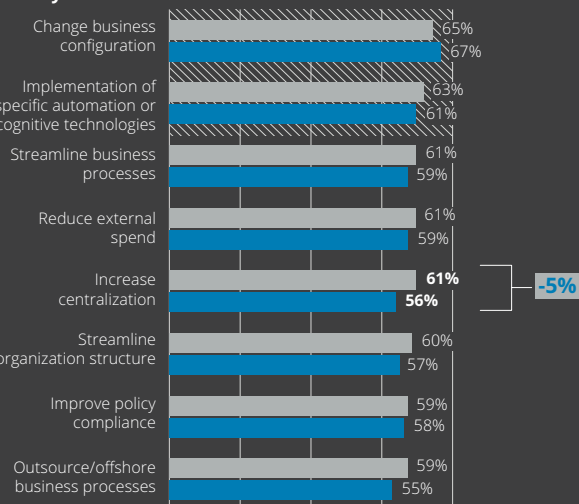
External risks



Strategic Priority



Likely cost actions



Top categories

% Highest differences between global average and industry results

Global Avg

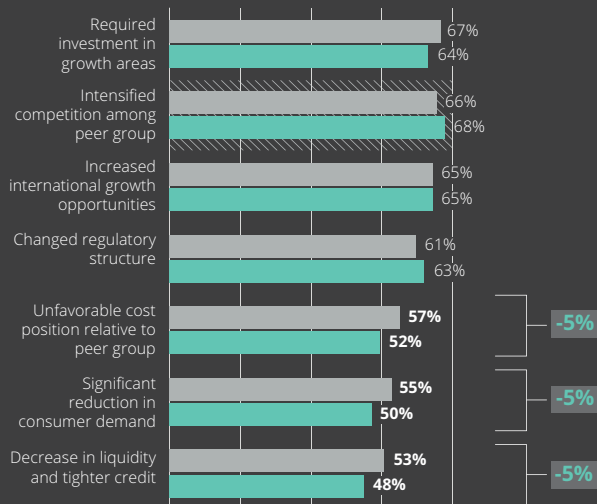
C&IP

Financial Services (FS)

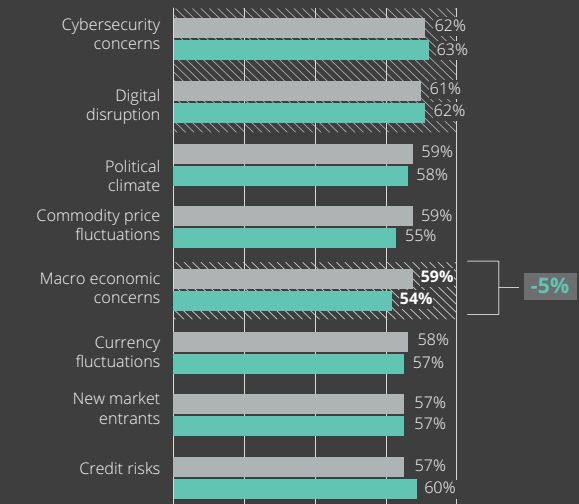
- Gaining competitive advantage was the top driver, followed closely by investment in growth areas and global expansion (all close to the averages across industries).
- Cybersecurity and digital disruption were identified as top risks, similar to other industries.
- Strategic priorities related to product profitability and digital enablement ranked highest, followed by technology implementation and sales growth. These priorities are similar to other industries.
- Likely actions include changing business configuration and adopting AI or cognitive technologies.

Figure A-9. Financial Services

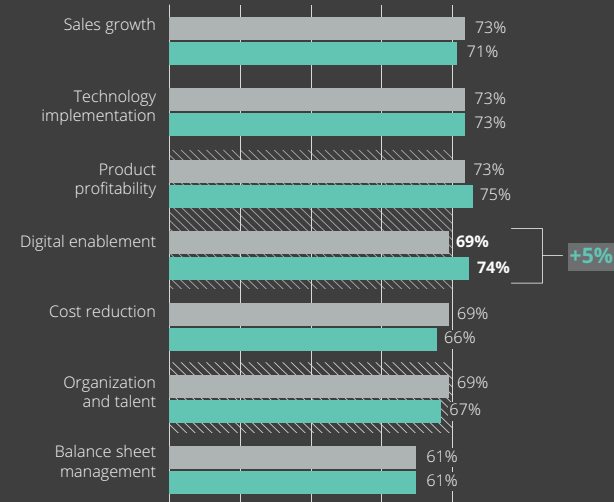
Drivers of cost management



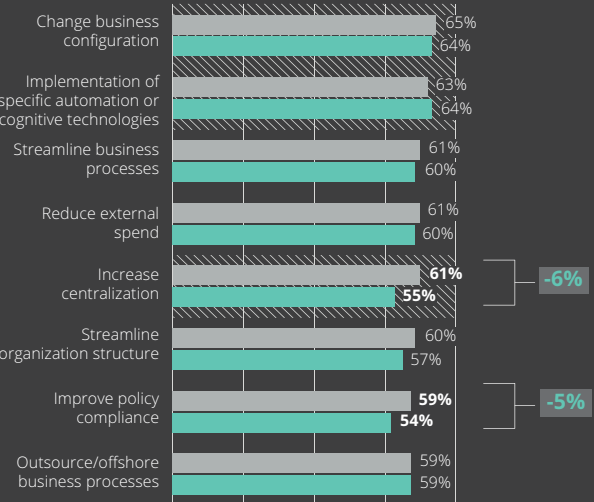
External risks



Strategic Priority



Likely cost actions



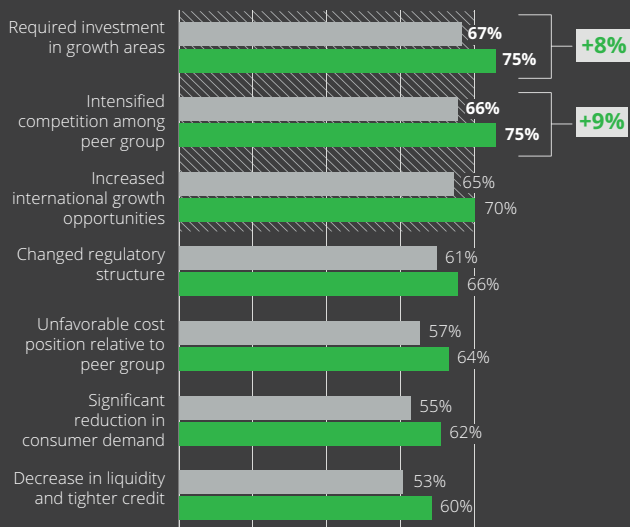
Top categories
 Highest differences between global average and industry results
 Global Avg
 FS

Technology, Media & Telecommunications (TMT)

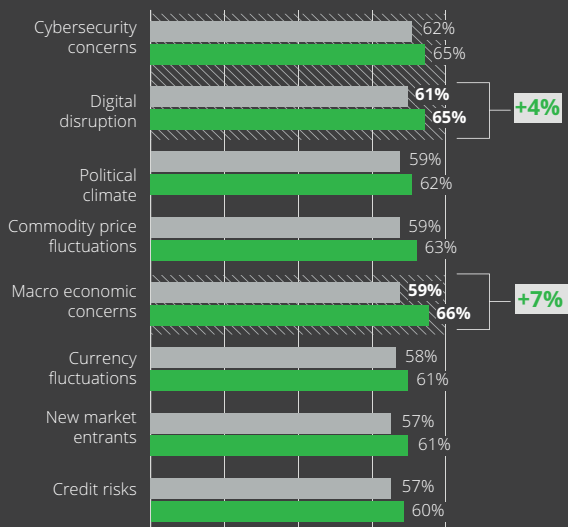
- Response levels for investment in growth areas and gaining competitive advantage drivers significantly exceeded the averages across industries.
- Risks beyond macroeconomic, cybersecurity, and digital disruption are rated equally.
- Strategic priorities for TMT are similar to other industries, with sales growth and technology implementation rated higher than the average across all industries.
- Top likely cost actions: increasing centralization and implementing AI and cognitive technologies.

Figure A-10. Technology, Media and Telecommunications

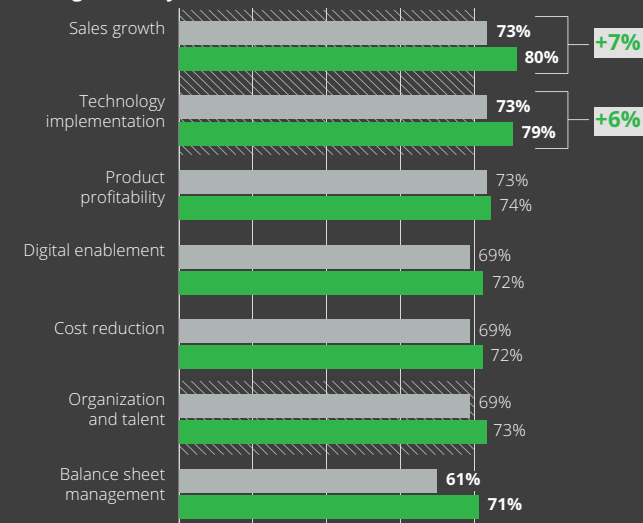
Drivers of cost management



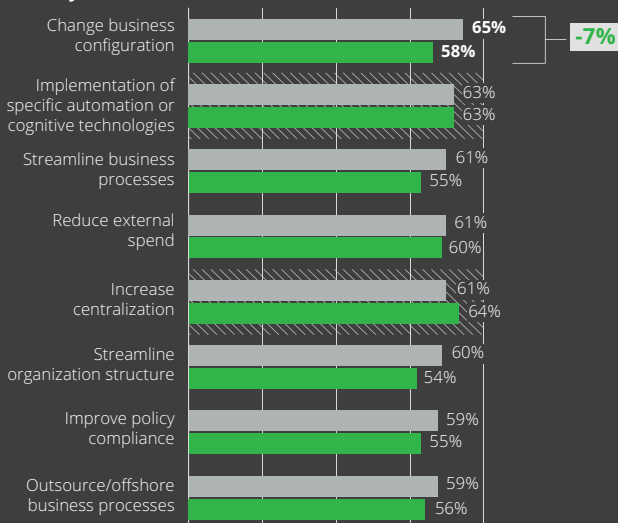
External risks



Strategic Priority



Likely cost actions



Top categories Highest differences between global average and industry results

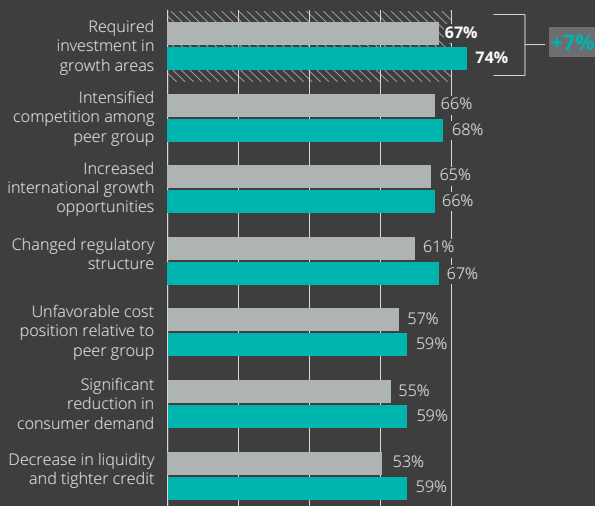
Global Avg TMT

Energy & Resources (E&R)

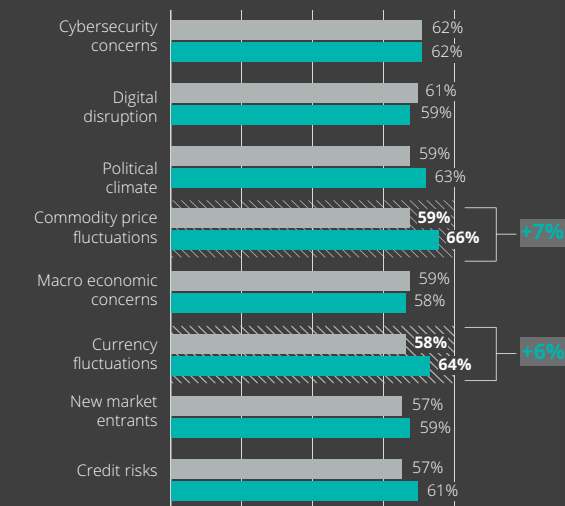
- The top driver of cost management in E&R—required investment for growth—was rated much higher than the cross-industry average. Ratings for other drivers were similar to other industries.
- Biggest perceived external risk is commodity price fluctuations.
- Product profitability and organization and talent are the top strategic priorities. The strategic priority of sales growth was rated much lower than the cross-industry average.
- Changing business configuration is the most likely action and was rated much higher than the average for all industries.

Figure A-11. Energy and Resources

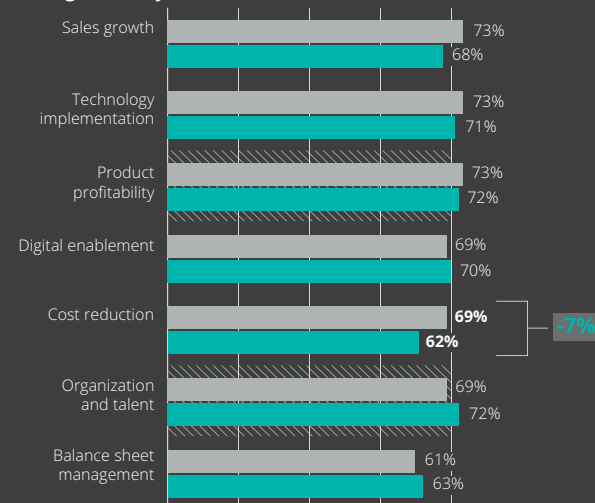
Drivers of cost management



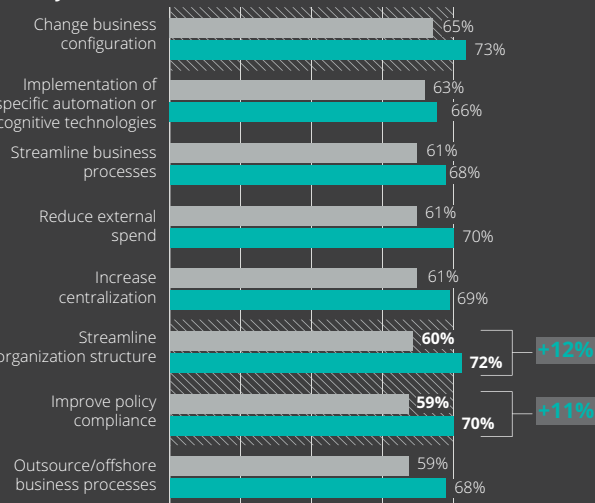
External risks



Strategic Priority



Likely cost actions



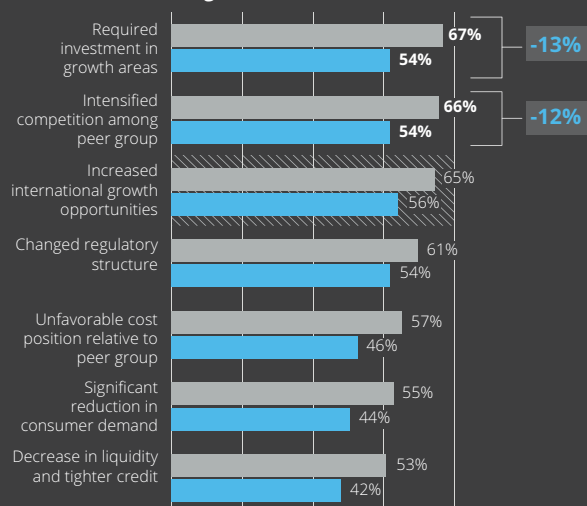
Top categories
 Highest differences between global average and industry results
 Global Avg
 Energy and Resources

Life Sciences & Health Care (LSHC)

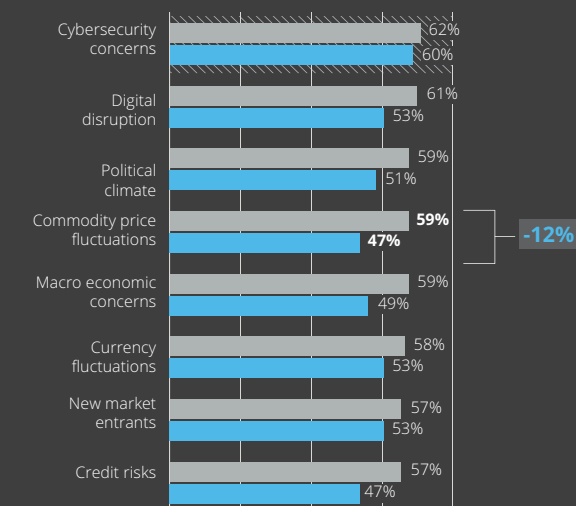
- Ratings for all the cost management drivers in LSHC differ significantly from the cross-industry averages. The top driver is international growth opportunity.
- The top external risk is cybersecurity, followed by digital disruption, currency fluctuations, and new market entrants
- Sales growth was ranked as the highest strategic priority, but the rating was significantly lower than the cross-industry average.
- The top likely cost actions are to change business configuration, implementation of technologies (automation/cognitive), streamline business process, reduce external spend, and increase centralization.

Figure A-12. Life Sciences and Healthcare

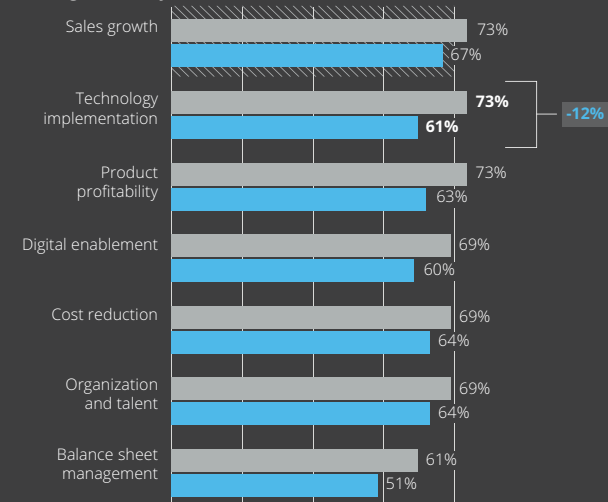
Drivers of cost management



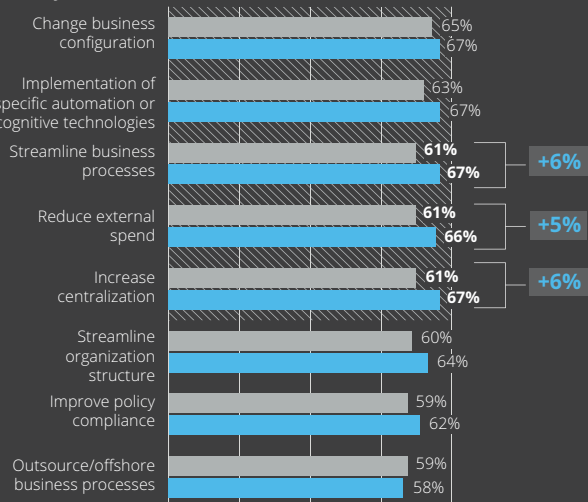
External risks



Strategic Priority



Likely cost actions



Top categories Highest differences between global average and industry results

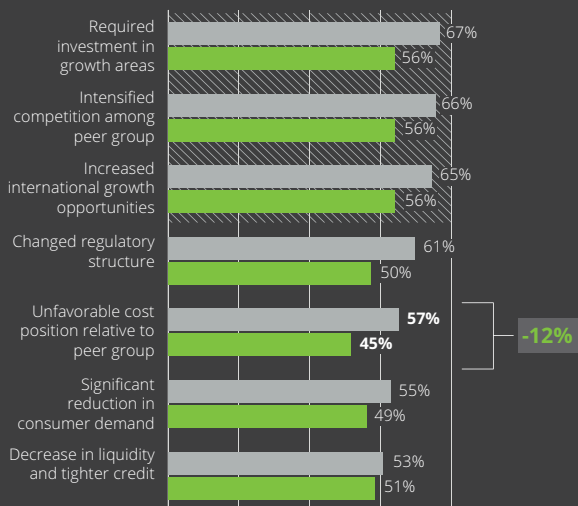
Global Avg LSHC

Public Sector (PS)

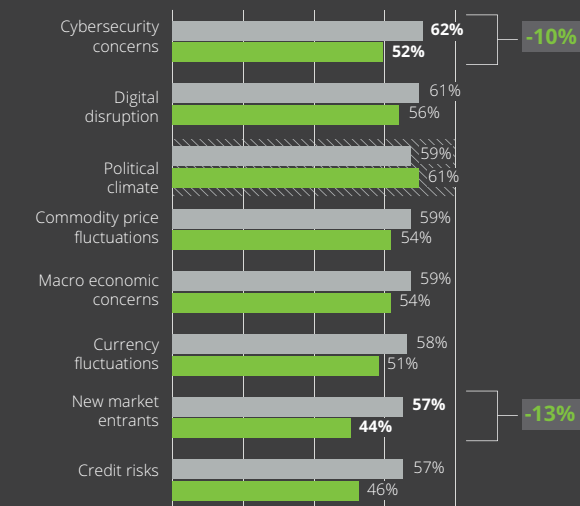
- PS ratings for most of the cost management drivers differ significantly from the cross-industry averages. The top drivers are investment in growth areas, global expansion and gaining competitive advantage.
- Political climate was rated as the key risk, followed by commodity prices and macroeconomic concerns.
- Given the nature of public service, sales growth and product profitability rated much lower, making technology implementation by intensified competition among peer group.
- Streamline organization structure was rated as the most likely cost action.

Figure A-13. Public Sector

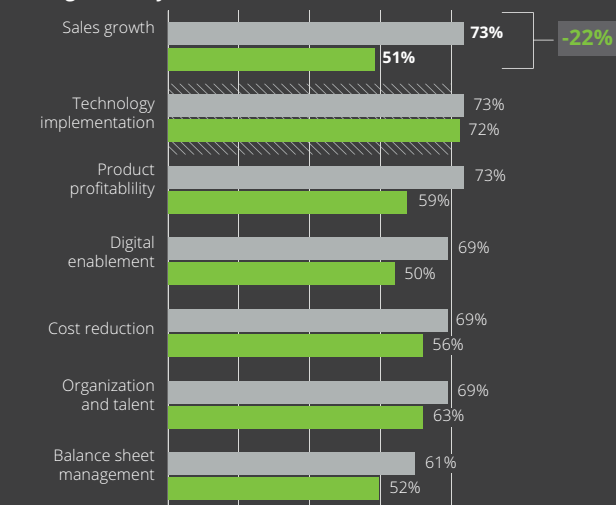
Drivers of cost management



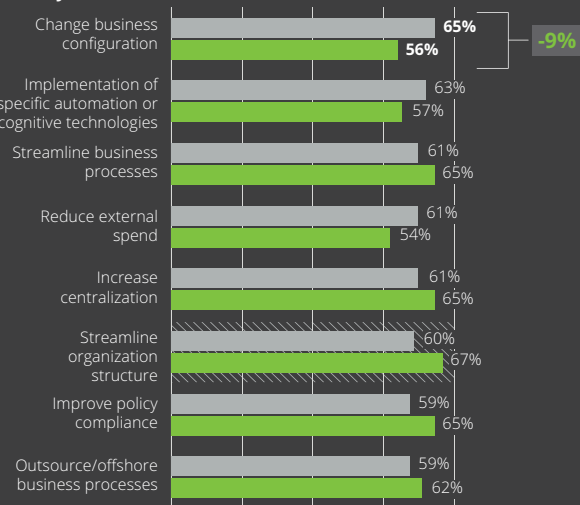
External risks



Strategic Priority



Likely cost actions



Top categories Highest differences between global average and industry results

Global Avg

PS



Appendix B: Zero-based budgeting



According to the survey results, zero-based budgeting (ZBB) was the least developed capability over the past 24 months, with only 12 percent of global respondents implementing it during that time. Compared to 2017, the global implementation rate for ZBB increased (+3 percentage points).

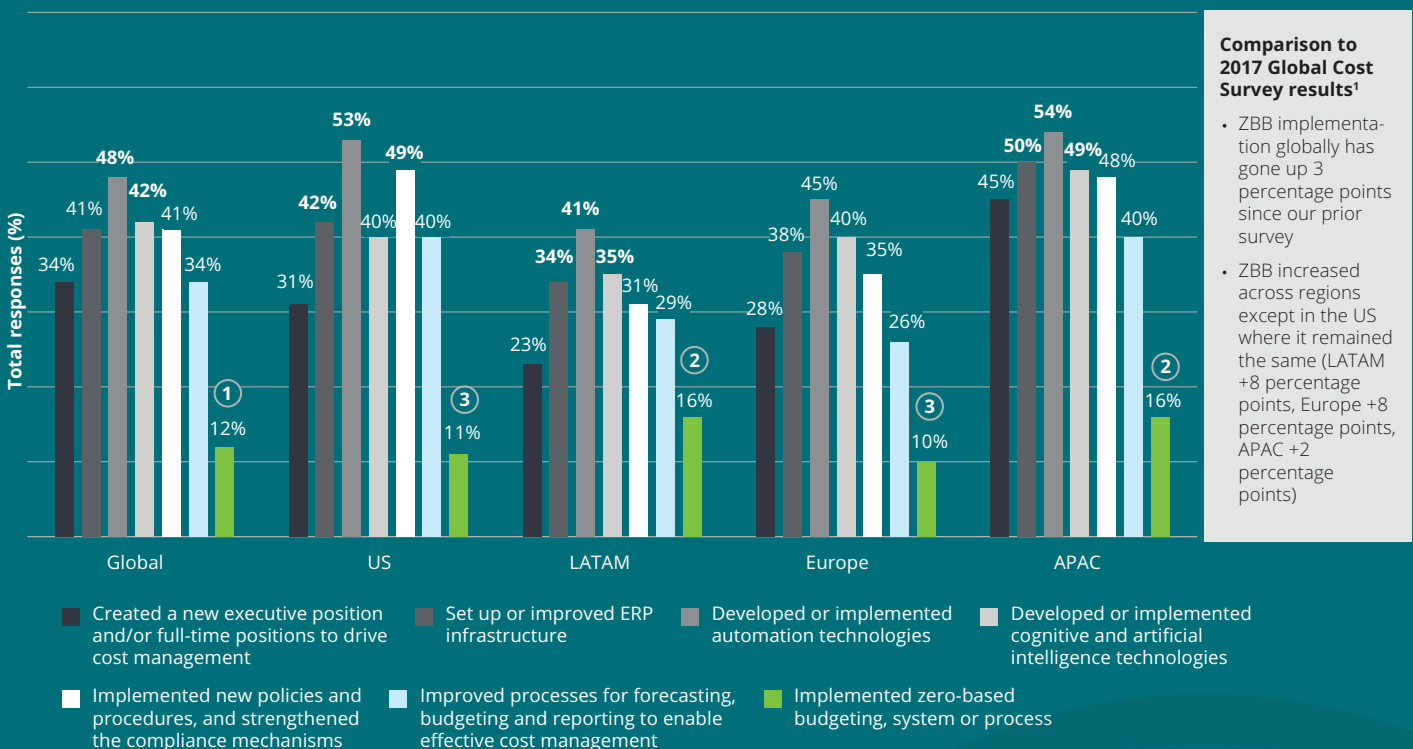
Zero-based budgeting continues as the least developed capability globally

According to the survey results, zero-based budgeting (ZBB) was the least developed capability over the past 24 months, with only 12 percent of global respondents implementing it during that time. APAC and LATAM were the most active, with both reporting implementation rates of 16 percent. Europe was

the least active (10 percent), with the United States just slightly higher (11 percent) (see Figure B-1).

Compared to 2017, the global implementation rate for ZBB increased (+3 percentage points). Looking at individual regions, the ZBB implementation rate increased in Europe (+8 percentage points), LATAM (+8 percentage points), and APAC (+2 percentage points) but held steady in the United States.

Figure B-1. ZBB implementation



¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

Key findings

- Globally, only 12% of respondents implemented ZBB over the past 24 months
- APAC and LATAM were the regions that focused the most on ZBB (16%)
- Europe is the region that focused the least on ZBB (10%) followed closely by the United States (11%)

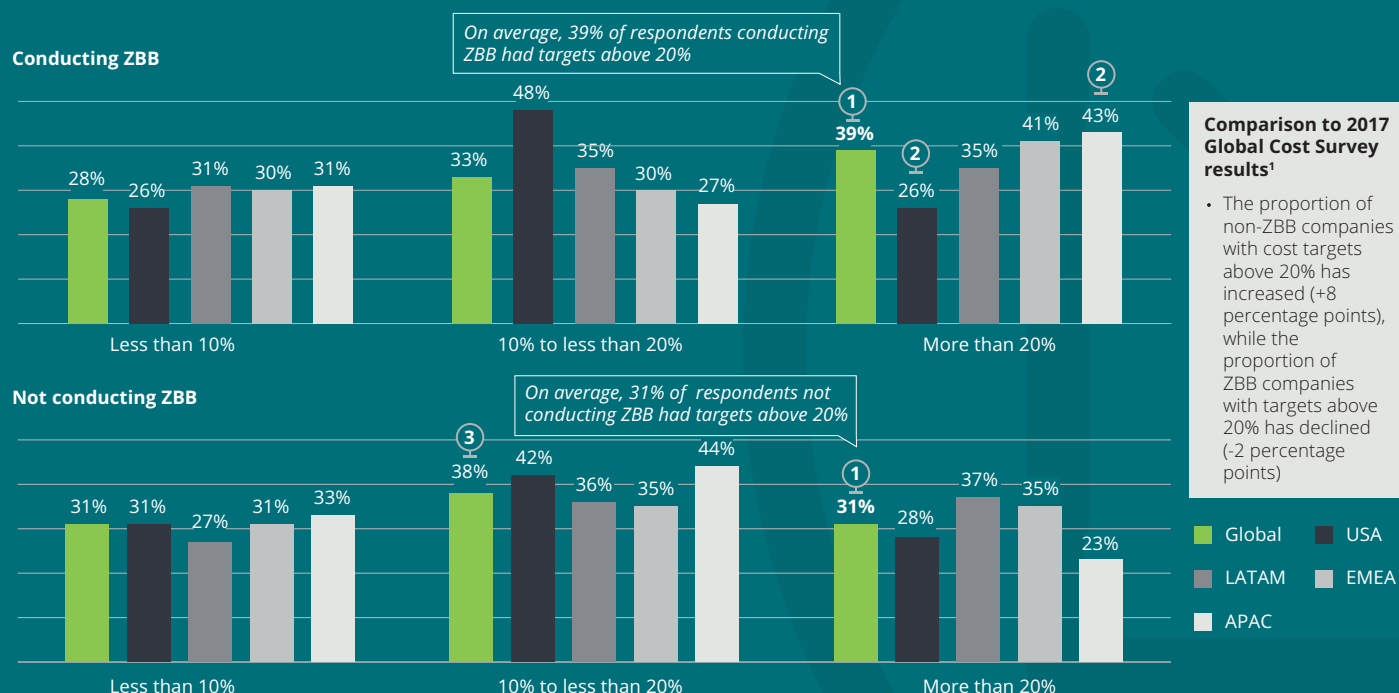
ZBB companies tend to have higher cost targets, but the gap is closing

Although ZBB is considered a tactical cost approach, companies that use it generally have higher cost targets. Globally, the percentage of companies pursuing cost targets above 20 percent is eight percentage points higher for companies that use ZBB versus those that do not. However, the gap seems to be closing. Since 2017, the percentage of ZBB companies with targets above

20 percent has declined by two points, while the percentage of non-ZBB companies with targets above 20 percent has increased by eight points (see Figure B-2).

ZBB cost targets vary widely by region. In the United States, only 26 percent of ZBB companies have targets above 20 percent, compared to 43 percent of ZBB companies in APAC.

Figure B-2. Annual cost reduction targets (ZBB vs. non-ZBB)



¹ Thriving in uncertainty in the age of digital disruption: Deloitte's first biennial global cost survey report, December 2017

Key findings

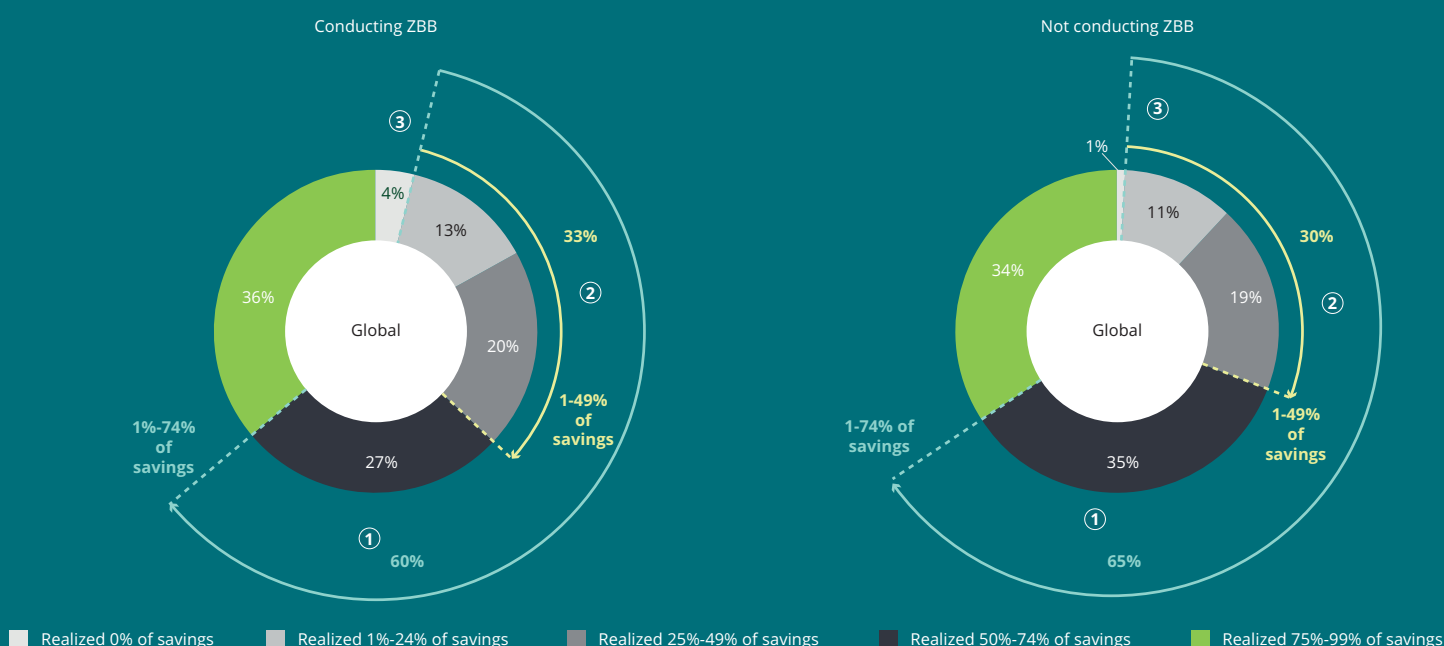
- ① Globally, the percentage of companies pursuing cost targets above 20% is 8 percentage points higher for ZBB-companies than non-ZBB companies
- ② Only 26% of companies in the US conducting ZBB are pursuing targets above 20%, whereas 43% of APAC companies are doing so
- ③ On average, 38% of companies not conducting ZBB set cost targets of 10% to 20%, with non-ZBB companies in APAC and the United States setting their targets at 44% and 42%, respectively

ZBB has higher reported failure rates

Globally, the percentage of companies that achieve 75–99 percent of their targeted cost savings is similar for ZBB companies (36 percent) and non-ZBB companies (34 percent). However, in the next tier down, ZBB falls significantly behind

with only 27 percent of ZBB companies achieving 50–74 percent of their targeted savings compared to 35 percent of non-ZBB companies. Also, the rate of total failure (0 percent of savings achieved) is much higher for ZBB companies (4 percent) than non-ZBB companies (1 percent) (see Figure B-3).

Figure B-3. A closer look at failure rates (ZBB vs. non-ZBB)



Key findings

- 60% of companies conducting ZBB met 1% to 74% of their savings goals, compared to 65% of non-ZBB companies
- 33% of ZBB companies met 1% to 49% of their savings goals, compared to 30% of non-ZBB companies
- 4% of companies conducting ZBB had total failures (0% of savings realized), compared to only 1% of non-ZBB companies

ZBB companies face more barriers

As was the case in the 2017 survey, companies that use ZBB reported higher rates on all barriers to effective cost management over the past 24 months. Management challenges in implementing initiatives was the most common barrier for

all companies in 2017 and remains on top this year for ZBB companies (68 percent). However, for non-ZBB companies, that same barrier is now the least common (35 percent) (see Figure B-4).

Figure B-4. Barriers to effective cost management (ZBB vs. non-ZBB)

Barriers to effective cost management over the past 24 months



Key findings

- Management challenges in implementing initiatives is the top barrier (68%) for companies conducting ZBB, whereas it is the lowest barrier (35%) for companies not conducting ZBB
- For companies conducting ZBB, that same barrier is rated the highest by APAC respondents (77%) and the lowest by Europe respondents (52%)



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