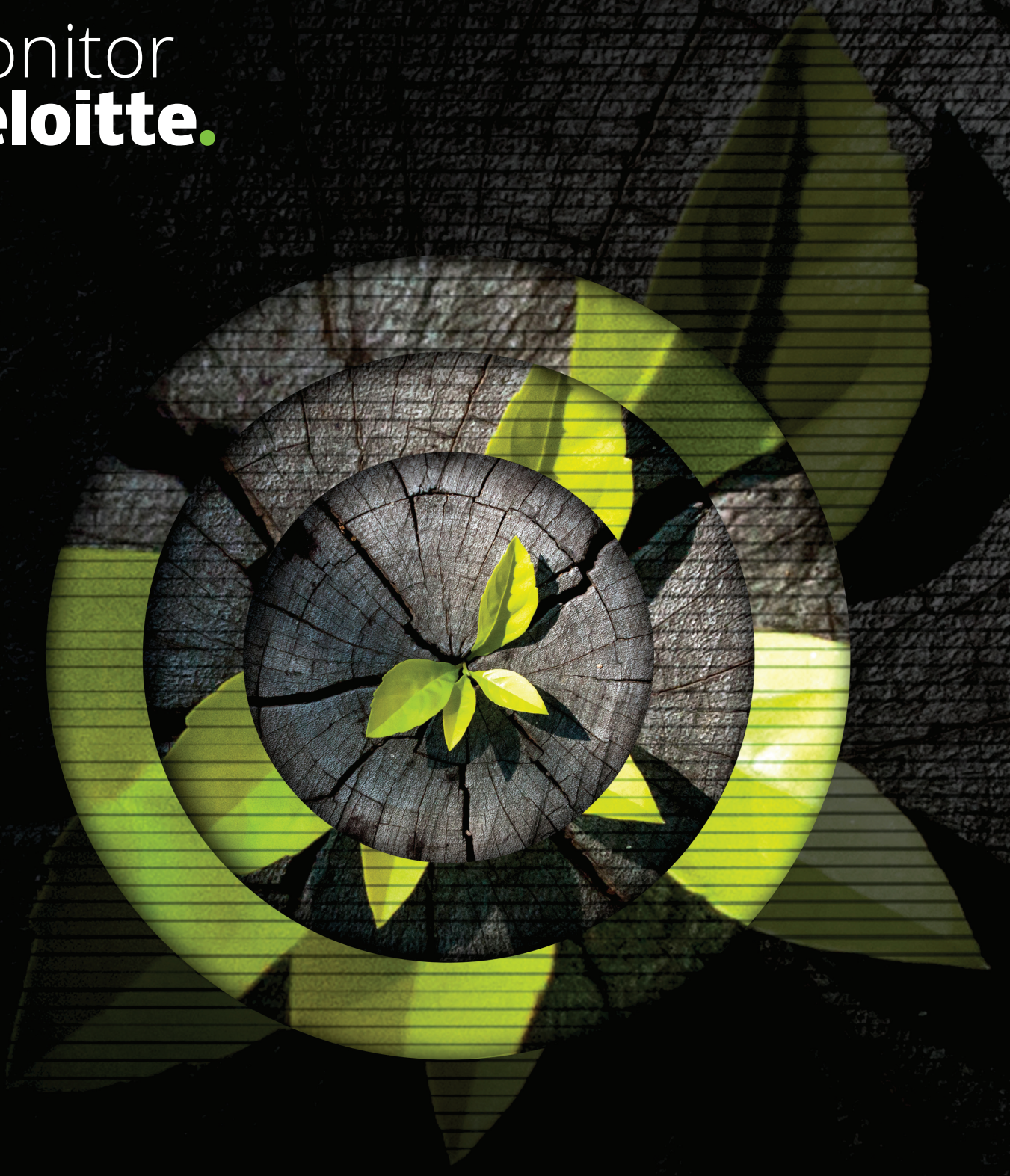


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## Save-to-thrive

An emerging markets perspective  
December 2020



MAKING AN  
IMPACT THAT  
MATTERS  
*since 1845*



*Respond-Recover-Thrive*

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# Foreword

Deloitte recently conducted a special mid-cycle version of our regular biennial survey of global cost management practices and transformation trends so we could gain insights into how companies are adapting to current pandemic circumstances. To be more relevant in the African context, ***we have analysed survey responses from emerging market companies relative to their global peers.*** In this report we highlight some of the differences.

The global survey evaluates the responses from 1089 organisations across the globe, with the emerging markets data representing just over a quarter of the organisations surveyed. In this report, we discuss the key survey findings using a three-stage framework (Respond-Recover-Thrive) to analyse companies' actions and expectations as they cope with the pandemic and position themselves for the post-crisis world (the "next normal").

The objective of the emerging markets thought piece is to draw insights into the actions, and objectives of similarly positioned organisations in order to understand which levers are available to embark on a successful strategic cost reduction endeavour within your own organisation. A critical insight from our global 2019 survey highlights that despite an increasing number of organisations undertaking cost reduction targets of more than 10%, 81% of respondents were unable to fully meet their cost reduction objectives. This trend continues through the pandemic, when emerging markets are targeting cost out even more aggressively. As the emerging market data emphasises, technology and automation will remain a key margin improvement lever but the most important short-term survival lever is managing liquidity.

The Save-to-Thrive mindset will be crucial for emerging markets organisations to gain stability in the current period in order to pull through to the "next normal" which emerging markets are confident about the prospects for.



**Daryl Elliott**  
Consulting Director  
Strategy & Business Design

# Executive summary

No strategy remained intact during the COVID pandemic, every organisation was faced with either threat or opportunity. The close interlink of strategy to an organisation's operations meant that transformation was a definite action.

Harsh lockdowns imposed by governments coupled with consumer fear has led many organisations in the first world to refocus priorities to online channels and shift to a heavy focus on technology. While emerging markets initially needed to find cash flow stability their future priorities are very aligned here.



**Strategic Cost Transformation programmes** have historically been framed by market triggers and the impact thereof on an organisation's ability to **achieve its strategic objectives**.



As organisations continue to navigate the evolving Covid-19 environment, **strategic priorities are highly dependent on the behaviour of the market**. Priorities are also expected to shift through a series of phases we have labelled **Respond, Recover, Thrive**, with increasing focus on **sales growth** and constant focus on **technology initiatives**.



Strategic priorities for emerging market organisations broadly **align with those of other global counterparts, except in the respond phase** where they exhibited a more significant focus on liquidity as a business sustainability lever, followed by safeguarding talent through recovery.



As organisations continue to respond to and recover from the Covid-19 pandemic, a clear shift in business models is expected, where **digital channels are envisaged to play a greater role in future revenue generation**.



**Globally and locally**, the essential goods **Retail and IT/Telco industries are expected to Thrive and Grow**, whereas Tourism and the Aviation industries are likely to experience headwinds.



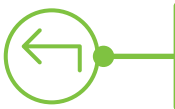
**In emerging markets** we see Insurance, Automotive and selected Energy & Resources industries **potentially under strain** relative to global counterparts.

# Historical cost transformation drivers and objectives

Strategic Cost Transformation programmes have historically been framed by **market triggers** and the impact thereof on an organisation's ability to achieve its **strategic objectives**.

As businesses attempt to make it through difficult economic conditions with slowing revenues resulting from lowered business activity during government imposed lockdowns, the impact across industries in different markets has been highly influenced by the length and severity of lockdowns. Given that each industry has experienced a different level of exposure, the cost cutting endeavours have taken on many different forms. Despite the form of cost cutting endeavours, however, it is important to recognise that enabling the business to exist in a future state is just as important as surviving the current state. This moves away from rapid cost cutting to survive and toward a strategic cost transformation.

## Deloitte's cost survey has indicated behaviour that drives strategic transformation, the mindset has evolved through five major categories



**Save to turnaround** – a focus on immediate cost reduction solutions, maximise liquidity, bring stability, and capture savings to avoid further deterioration of the business.



**Save to fund** – when a business is on a downward trajectory/survival stage. The aim of these cost-cutting/saving efforts is to fund the day-to-day operations and as far as possible protect the "business as usual".



**Save to grow** – objectives here are to transform the business from what it was to one that is better positioned to serve its customers and markets.



**Save to transform** – fundamentally change the business, in cases where there is excess cashflow and a strong balance sheet.

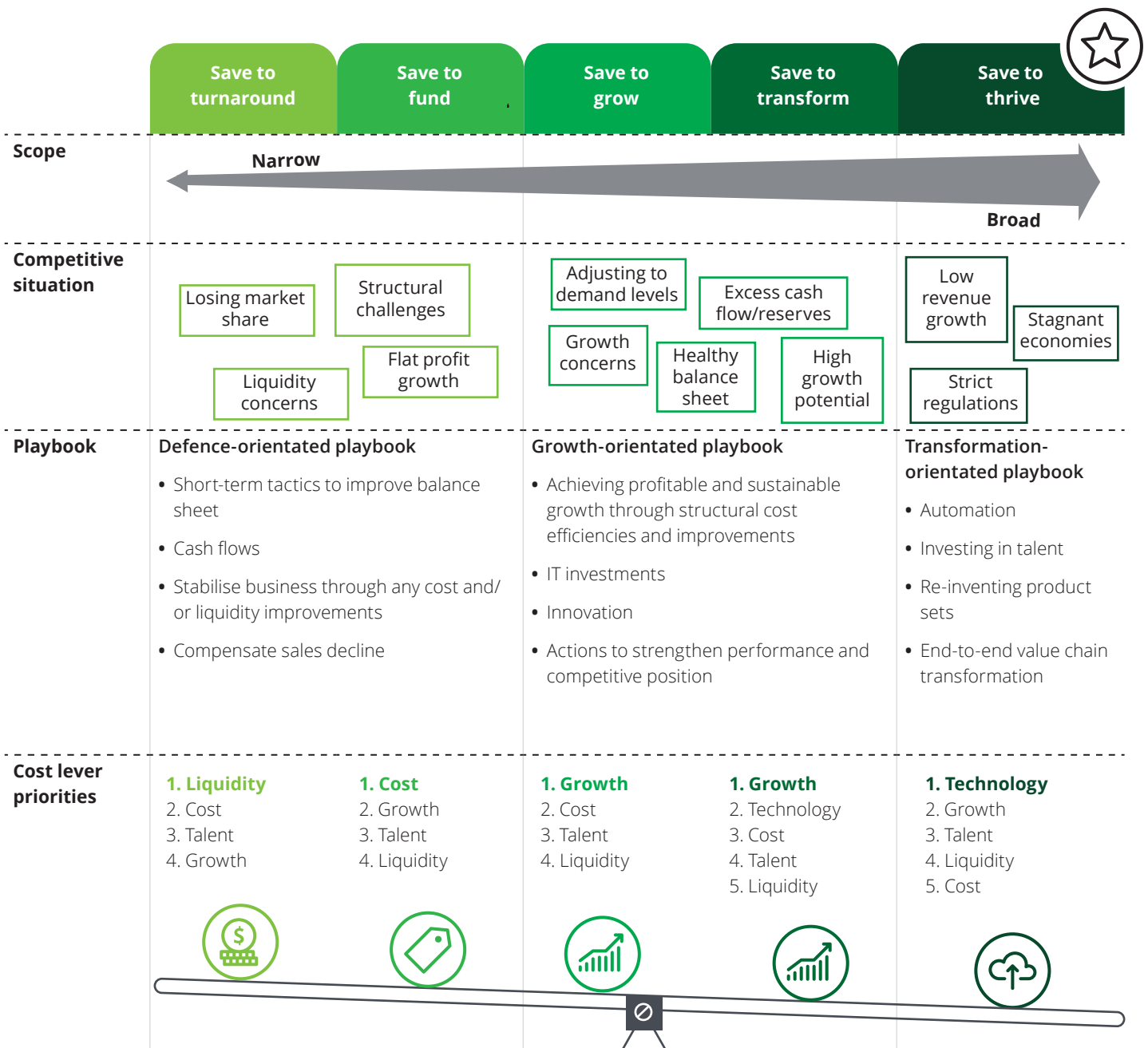


**Save to thrive** – Opportunities to purchase distressed assets especially in these economic times are beginning to arise. Leveraging the benefits of technology to reinvent the organisation for the next normal arising out of Covid.



**Insights from our global 2019 survey** highlighted that despite an increasing number of organisations undertaking cost reduction targets of **more than 10%**, **81% of respondents were unable to fully meet their cost reduction targets** with more than two thirds of organisations unable to reach **75% of their target**.

Evolution of cost transformation objectives

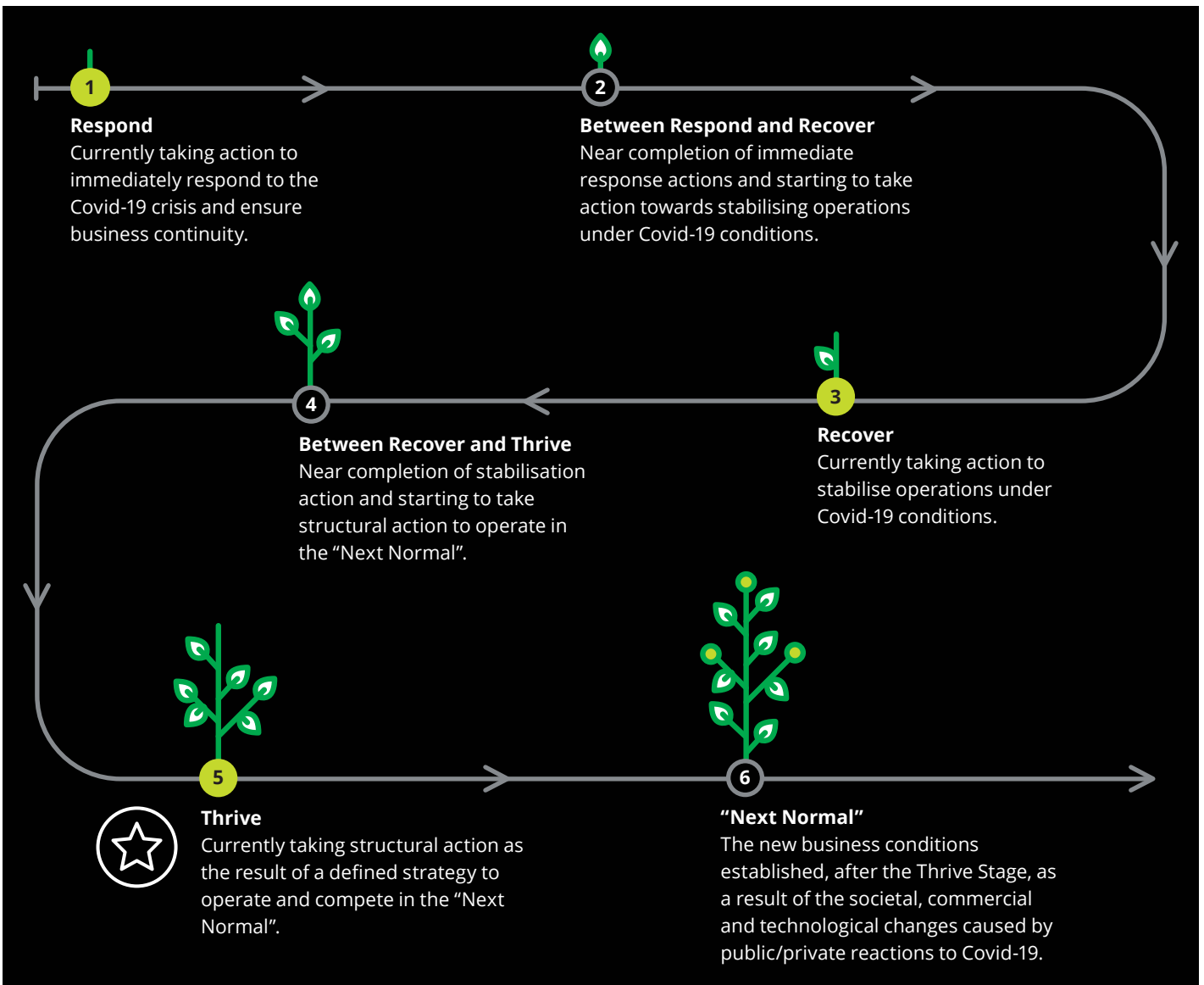


# Recovery effort phases

**The Global spread of Covid-19** has **disrupted traditional and ongoing programmes**, leaving organisations **focusing recovery efforts** along the lines of **three broad phases** – Respond-Recover-Thrive.

Required actions to address the Covid-19 crisis can be divided into three major phases: **Respond, Recover and Thrive**; with these three stages interspersed with two additional interim stages and culminating in a long-term operating environment we call the **Next Normal**.

Figure 1: The Respond-Recover-Thrive Framework

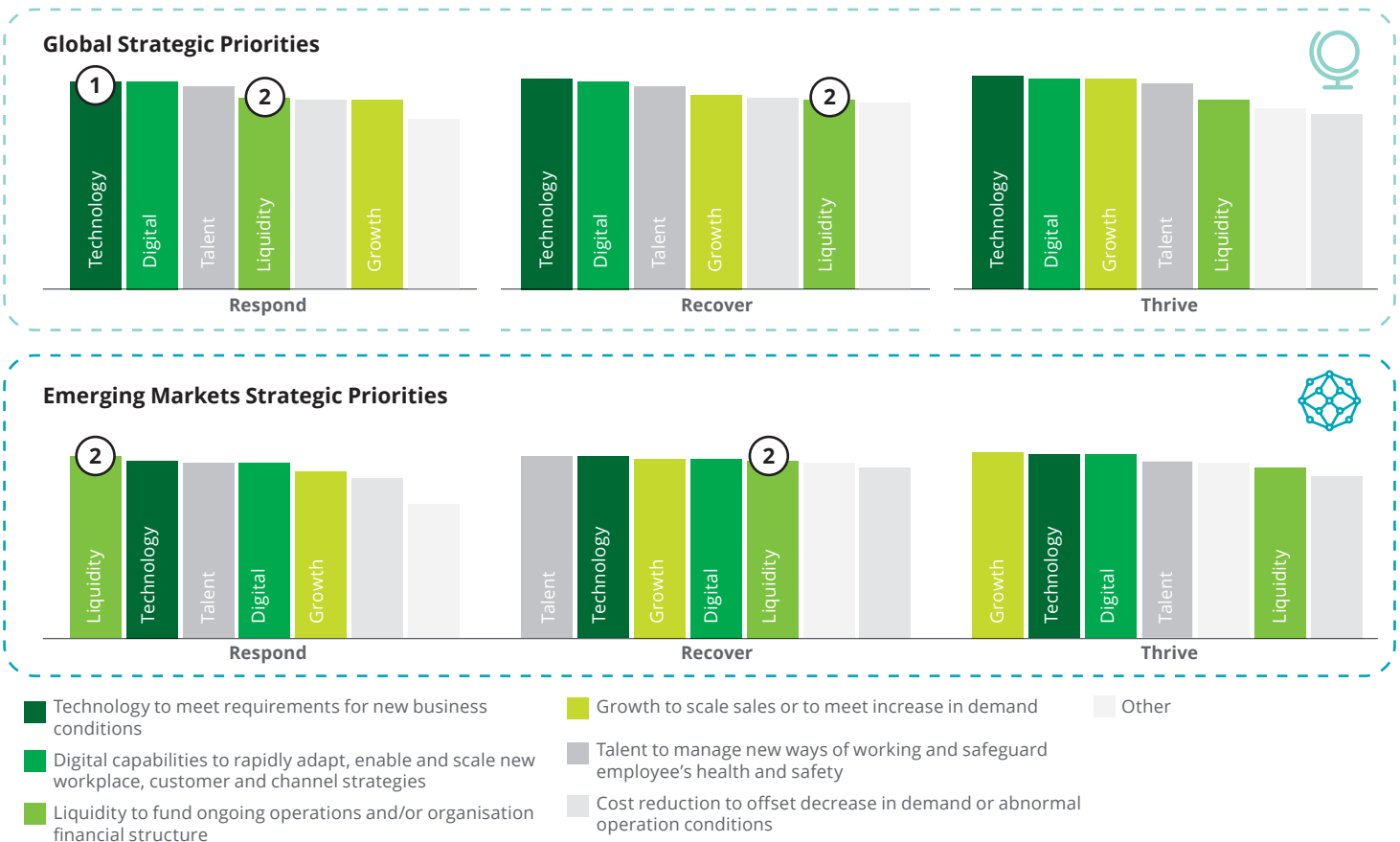




# Global and emerging markets strategic priorities

As organisations continue to **navigate the current Covid-19 environment, strategic priorities** are expected to **shift through each of the Respond-Recover-Thrive phases**, with **increasing focus on sales growth** and constant focus on **technology initiatives**.

Figure 2: Global and Emerging Markets Strategic Priorities by Covid-19 Recovery Stage (2020)



## Key Findings

- 1 While technology strategic priorities top the list across all three stages for global respondents, emerging markets show a shift across all three stages with a strong focus on digital enablement due to an expected sales growth priority
- 2 An inverse trend is found with liquidity to fund ongoing operations (84% in respond phase gradually contracting to 79% in the thrive phase for emerging market respondents compared to global respondents)

Growth expectations are very positive in the thrive phase for emerging markets where key enabling factors are driven by the focus on talent, technology and digital capabilities. Although ranked lower during the recover and thrive phase, emerging markets still expect to leverage liquidity management to enable initiatives to transform via strategic cost transformation.

Growth expectations are very positive in the thrive phase for emerging markets where key enabling factors are driven by the focus on talent, technology and digital capabilities.

# Emerging transformation objectives

**Automation is the top priority action arising from the Covid-19 crisis.** The shift in organisational mindset had global and emerging market organisations pursue automation in all three stages of respond, recover and thrive, making it the clear leader in transformation actions from the Covid-19 crisis.

In comparison with **global markets**, emerging markets are aligned in focusing on automation and collaborations throughout the transformation stages, however, they also place focus on the transformation of the supply chain and business processes and M&A's or divestments.





Figure 3: Likelihood of Transformation Actions at Each Stage



**According to global and emerging market respondents:**

- Automation is the key transformation objective and likely to be implemented across all stages for addressing the Covid-19 crisis
- Implementing labour/non-labour cost reduction initiatives was an immediate response/recover reaction but will be deprioritised for the thrive phase
- Emerging markets showed objectives geared to transforming their supply chain as the lockdowns across the world triggered severe side-effects for non-agile supply chains
- While emerging and global markets might prioritise similar actions during the respond and thrive phase, **their key differentiation is in the priority of supply chain transformation.**

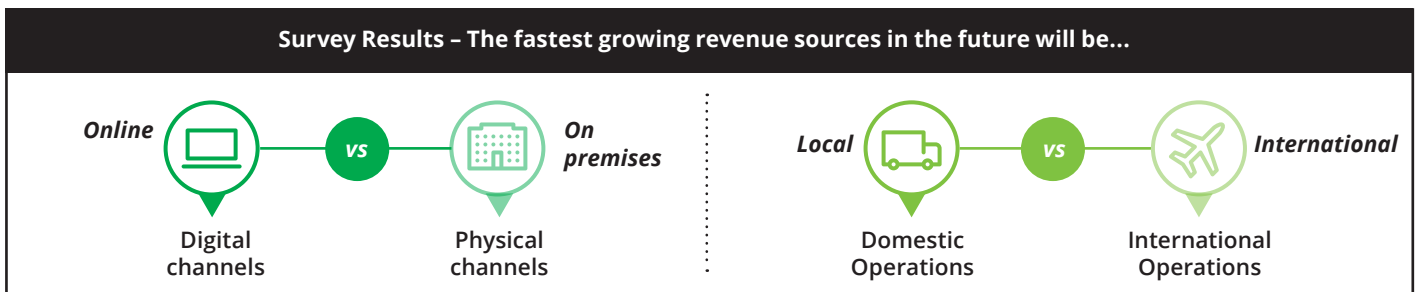
**Top 4 likelihood of transformation actions during the Recover phase for emerging markets**

-  Automate activities through AI, Cognitive, IoT technologies
-  Collaborate with companies/government to provide products and services related to new needs
-  Transform supply chain
-  Labour & Non-Labour cost reduction



# The “Next Normal” – new business conditions after Covid-19

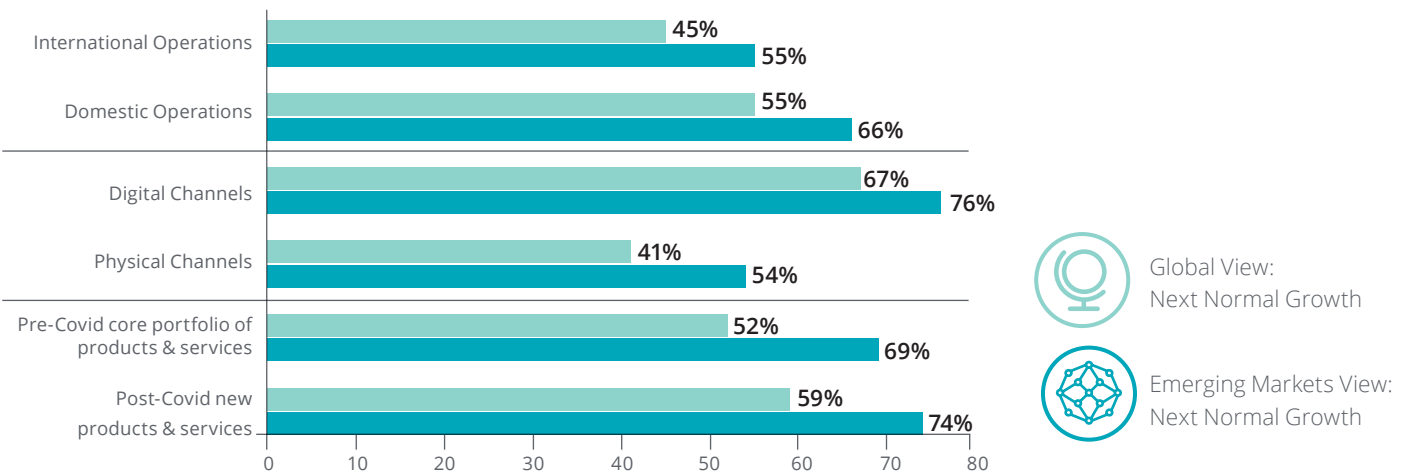
As organisations continue to emerge from the Covid-19 pandemic, a clear shift in business models is expected, where **digital channels are envisaged to play a greater role in future revenue generation.**



### Revenue sources will be fundamentally different in the next normal

Thanks to practices such as social distancing and shelter-in-place that restrict access to the physical world, the Covid-19 crisis has greatly accelerated the shift from physical to digital channels. It has also revealed the limitations and risks of globalisation and global supply chains, leading many companies to re-prioritise domestic operations. Meanwhile, Covid-19 driven changes to how people live and work are boosting demand for new kinds of products and services (see Figure 4).

**Figure 4: Sentiment towards Expected Growth by Revenue Source in the Next Normal**



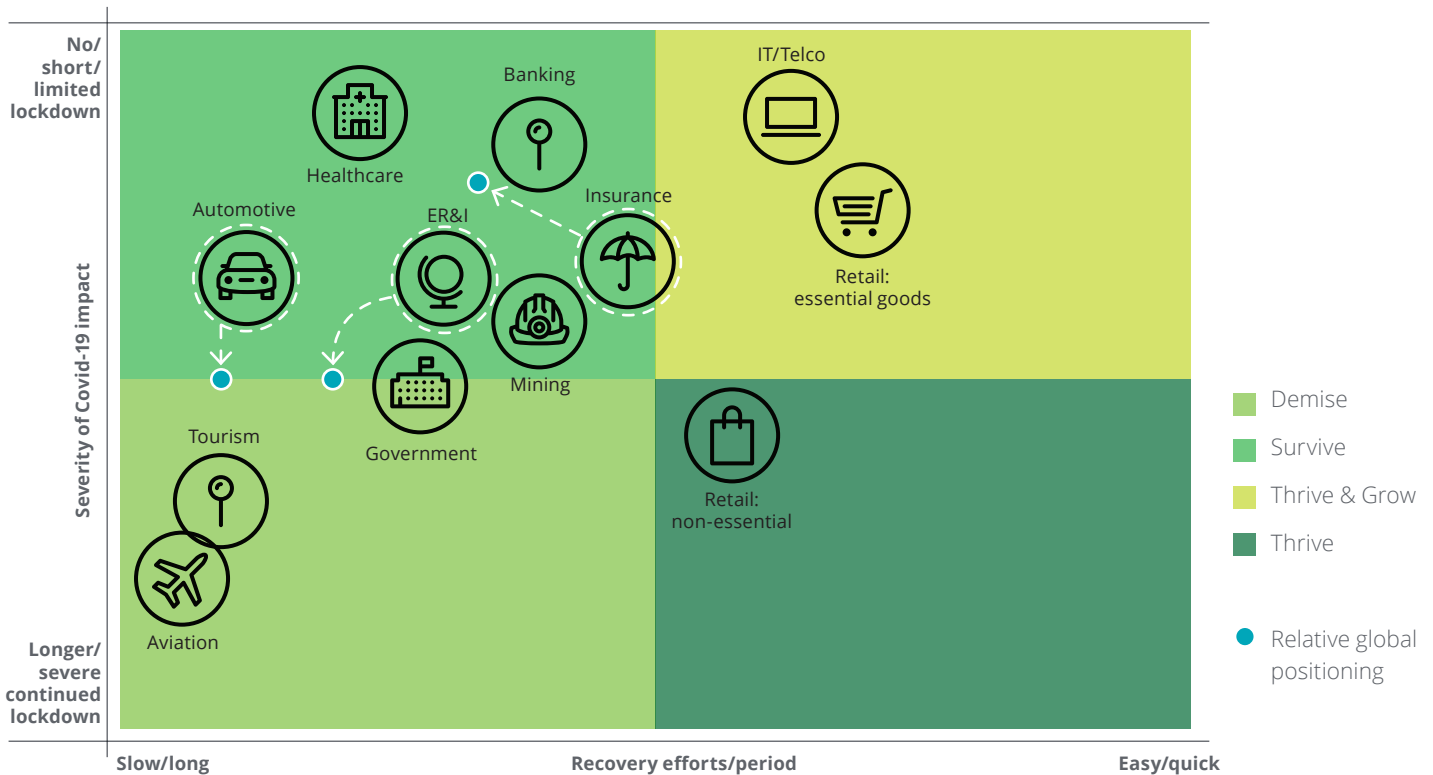
### Key findings




- Global and emerging markets are largely aligned as to the source of future growth, sentiment is stronger in emerging markets, largely owing to being slightly behind the Covid-19 curve and understanding what developed markets have already been through.

# SA industry sector analysis

Both the **IT/Telco and Retail (essential goods) industries are expected to Thrive and Grow** while the Tourism and Aviation industries are currently experiencing headwinds and will require extended recovery periods both in South Africa and globally.

Figure 5: Implications of the pandemic on industries



-  **Automotive:** consumers are reluctant to act due to personal mobility uncertainty as well as low digital channel adoption. The pandemic has, and will continue to, accelerate the digital adoption.
-  **Insurance:** insurers see the opportunity to re-invent themselves to become more relevant to an underpenetrated customer base in emerging markets and to grow through inorganic opportunities that present themselves given that some of the stronger players are actively looking for distressed insurers.
-  **ER&I:** from a global perspective, demand levels have reduced and organisations have been focusing on domestic markets, coupled with revenue and cashflow pressures. The lockdown measures also varied between global and emerging markets thus some operations managed to fill demand while supply was cut off elsewhere. On a global level, disruption to supply chains has been a major issue.

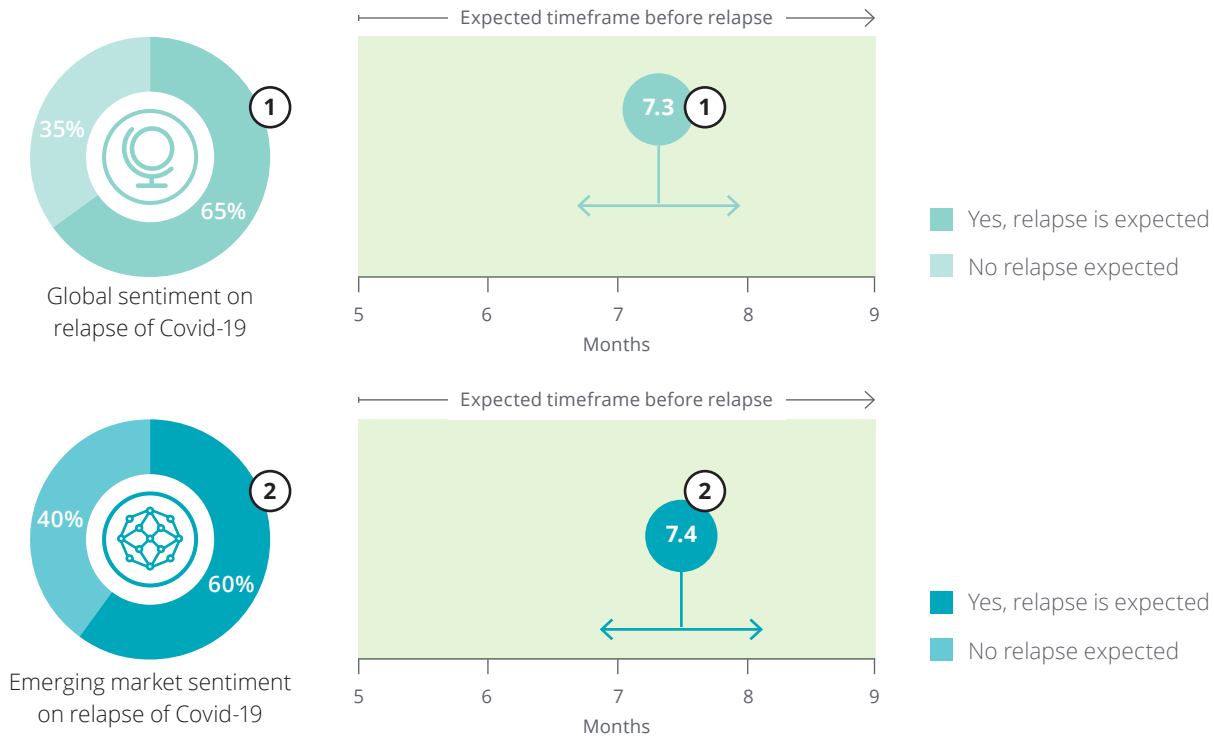
From a local and global perspective as employees adapt to the new normal, **Telecommunications and IT services** will be the backbone of digital transformation and “work from home” solutions across industries

The majority of industries in emerging markets will find themselves focused on **surviving**, largely driven by the contracting economy as well as a reduction in consumer disposable income.

# How optimistic were different geographies about recovery

Most companies at the time of the survey, correctly anticipated a **second wave of Covid-19** with the majority of global respondents (65%) and emerging market respondents (60%) expecting a Covid-19 relapse. **Those that follow strategies consistent with Save-to-Thrive will likely be the ones best positioned to weather potential challenges** resulting from a second wave.

Figure 6: Survey outputs



## Key findings

- ① Globally, 65% of respondents expect a relapse of Covid-19, with an expected timeframe of 7.3 months from the date of the survey.
- ② In emerging markets, 60% of respondents expect a relapse of Covid-19, with an expected timeframe of 7.4 months from the date of the survey.

# Cost reduction is on the rise

An increasing number of respondents are indicating a pursuit towards **aggressive cost reduction targets (> 10%)** to mitigate the negative economic effects brought upon by the Covid-19 pandemic; with **Emerging Markets generally investing more in cost reduction strategies** and programmes over global markets versus 2019.



## Globally

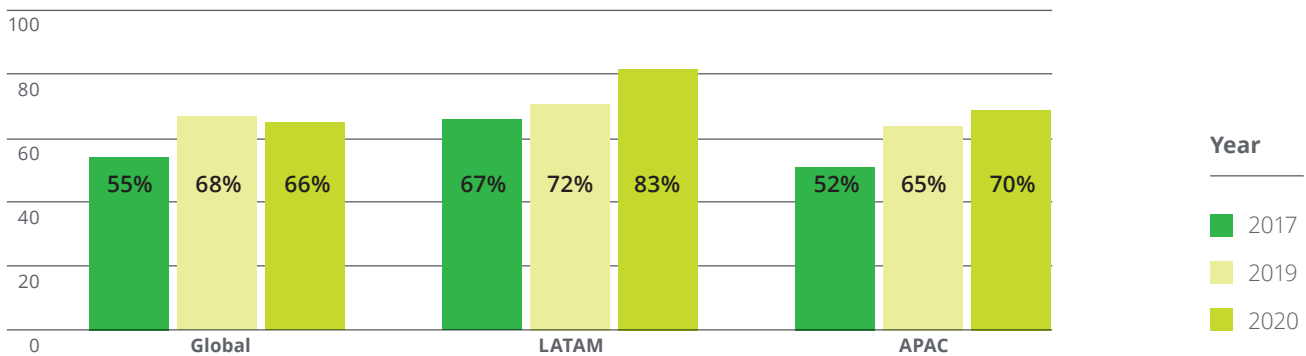
As of 2020, two thirds of **companies globally (66%)** now have **cost reduction targets that exceed 10%**.



## Emerging Markets

Regionally the percentage of companies with aggressive targets is **highest in LATAM (83%)** while **APAC has increased their focus on aggressive cost reduction** initiatives since 2017. See Figure 7.

Figure 7: Respondents Reporting Annual Cost Reduction Targets Greater than 10%



## Key findings

- The **global cost reduction benchmark** has shown a **negligible decline** from 2019 to 2020 (2p.p). **US and European markets** placed a **focus on technology initiatives** to **transform** and to **reduce costs** with a **higher cost management maturity** level already in 2019 versus emerging markets while **global markets** place an emphasis on developing a validated **case for change** over **quick investments and implementations**.
- Between 2017 and 2019 there were already major increases in the number of respondents undertaking aggressive cost cutting initiatives, with **2019 to 2020 showing limited movement in developed markets and intensifying of emerging markets embarking on aggressive cost reduction targets**.

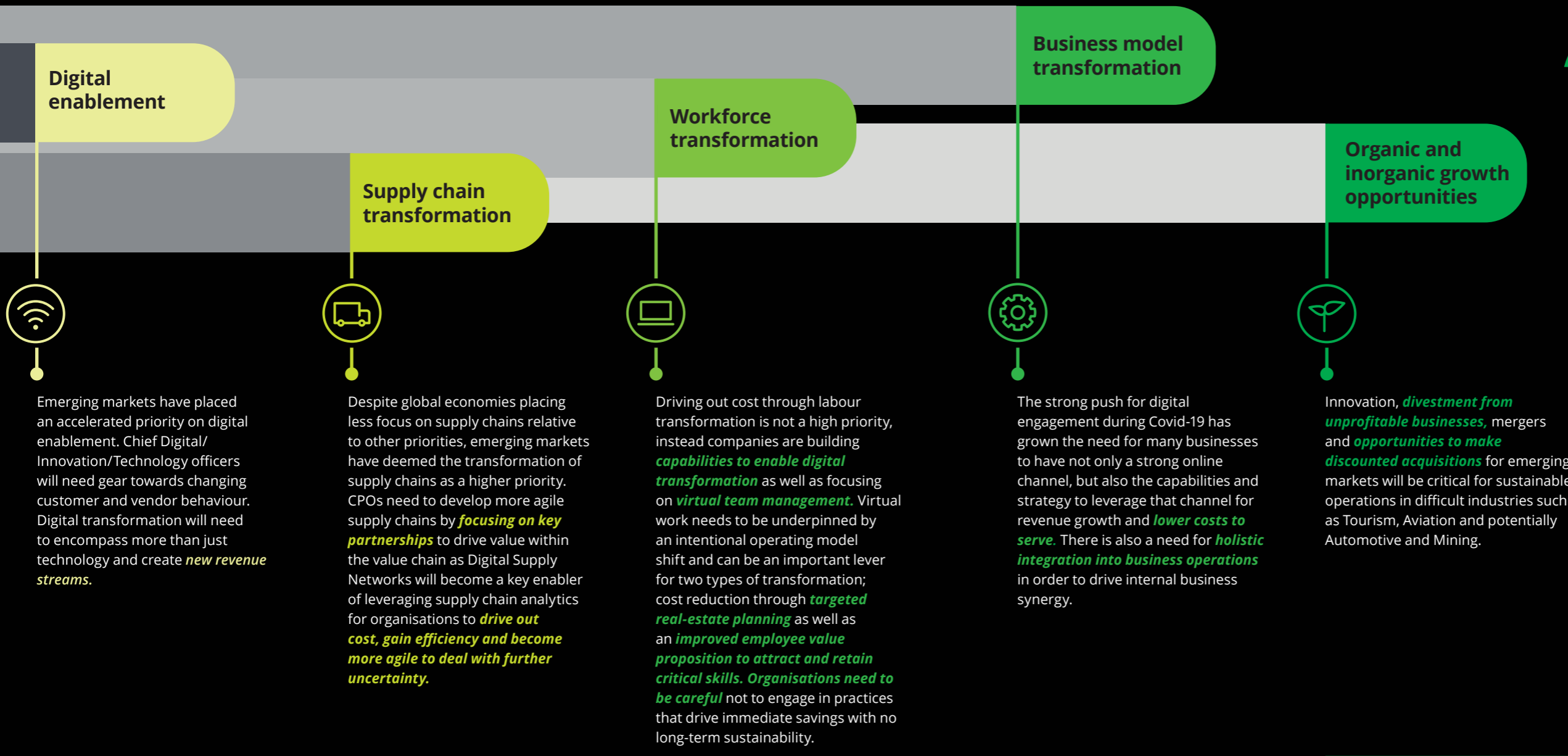


Cost programmes are tablestakes, with most organisations targeting more than 10%, emerging markets being even more aggressive yet success rates remain low.

# Conclusion

Executives will need to take deliberate steps to thrive.

Organisations that recognise a need for operations to evolve with the changing economic conditions are more likely to see growth and take business away from competitors in order to grow, if they adapt to changing customer behaviours, rescale business operations for changing demand profiles, manage costs aggressively, but also invest in efficiency in order to set up for sustainable operations in the future.



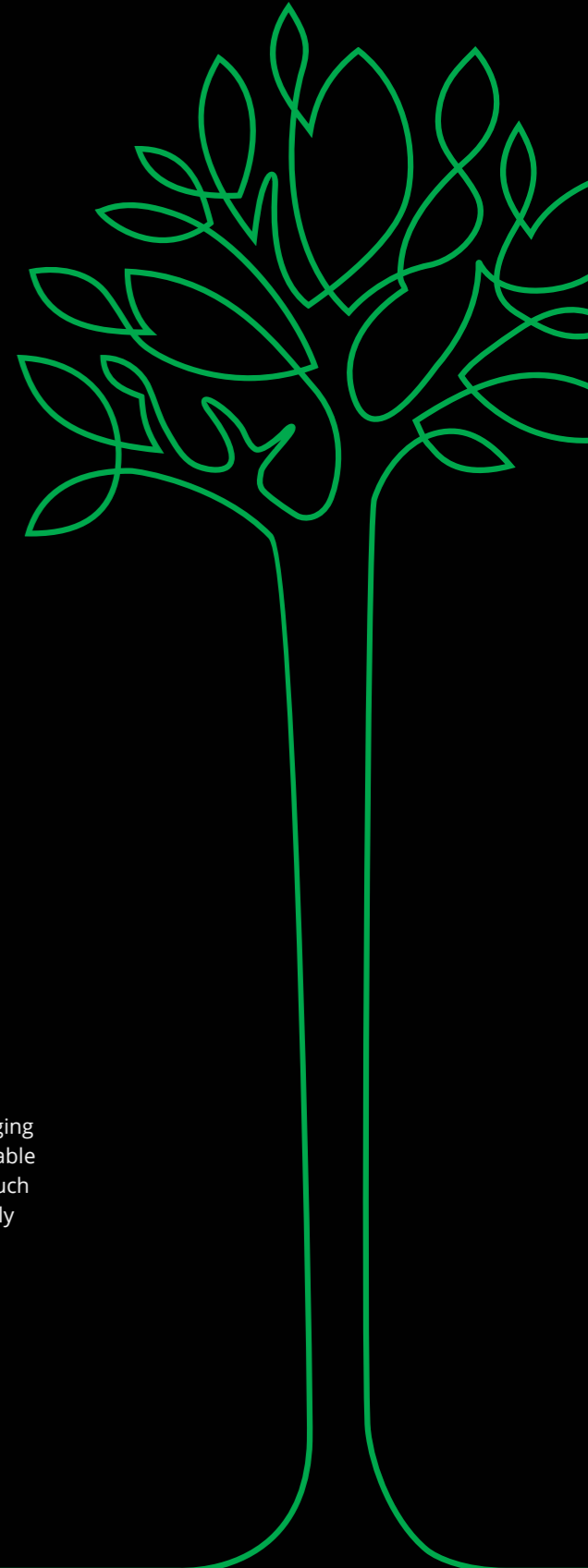
Emerging markets have placed an accelerated priority on digital enablement. Chief Digital/ Innovation/Technology officers will need gear towards changing customer and vendor behaviour. Digital transformation will need to encompass more than just technology and create **new revenue streams**.

Despite global economies placing less focus on supply chains relative to other priorities, emerging markets have deemed the transformation of supply chains as a higher priority. CPOs need to develop more agile supply chains by **focusing on key partnerships** to drive value within the value chain as Digital Supply Networks will become a key enabler of leveraging supply chain analytics for organisations to **drive out cost, gain efficiency and become more agile to deal with further uncertainty**.

Driving out cost through labour transformation is not a high priority, instead companies are building **capabilities to enable digital transformation** as well as focusing on **virtual team management**. Virtual work needs to be underpinned by an intentional operating model shift and can be an important lever for two types of transformation; cost reduction through **targeted real-estate planning** as well as an **improved employee value proposition to attract and retain critical skills**. **Organisations need to be careful** not to engage in practices that drive immediate savings with no long-term sustainability.

The strong push for digital engagement during Covid-19 has grown the need for many businesses to have not only a strong online channel, but also the capabilities and strategy to leverage that channel for revenue growth and **lower costs to serve**. There is also a need for **holistic integration into business operations** in order to drive internal business synergy.

Innovation, **divestment from unprofitable businesses**, mergers and **opportunities to make discounted acquisitions** for emerging markets will be critical for sustainable operations in difficult industries such as Tourism, Aviation and potentially Automotive and Mining.



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