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## **Streamlining costs and expanding opportunities**

A sustainable cost transformation approach in consumer products

## A holistic approach to cost management

Every organization is seeking ways to manage costs, and in today's climate, that challenge is more complex than ever. Consumer product companies, in particular, face a unique set of challenges, including a volatile economy, shifting trade policies, supply chain disruptions, and evolving consumer expectations. Leaders focused on growth must address margin pressures, economic uncertainty, and the competitive nature of innovation with more than superficial cost-cutting measures.

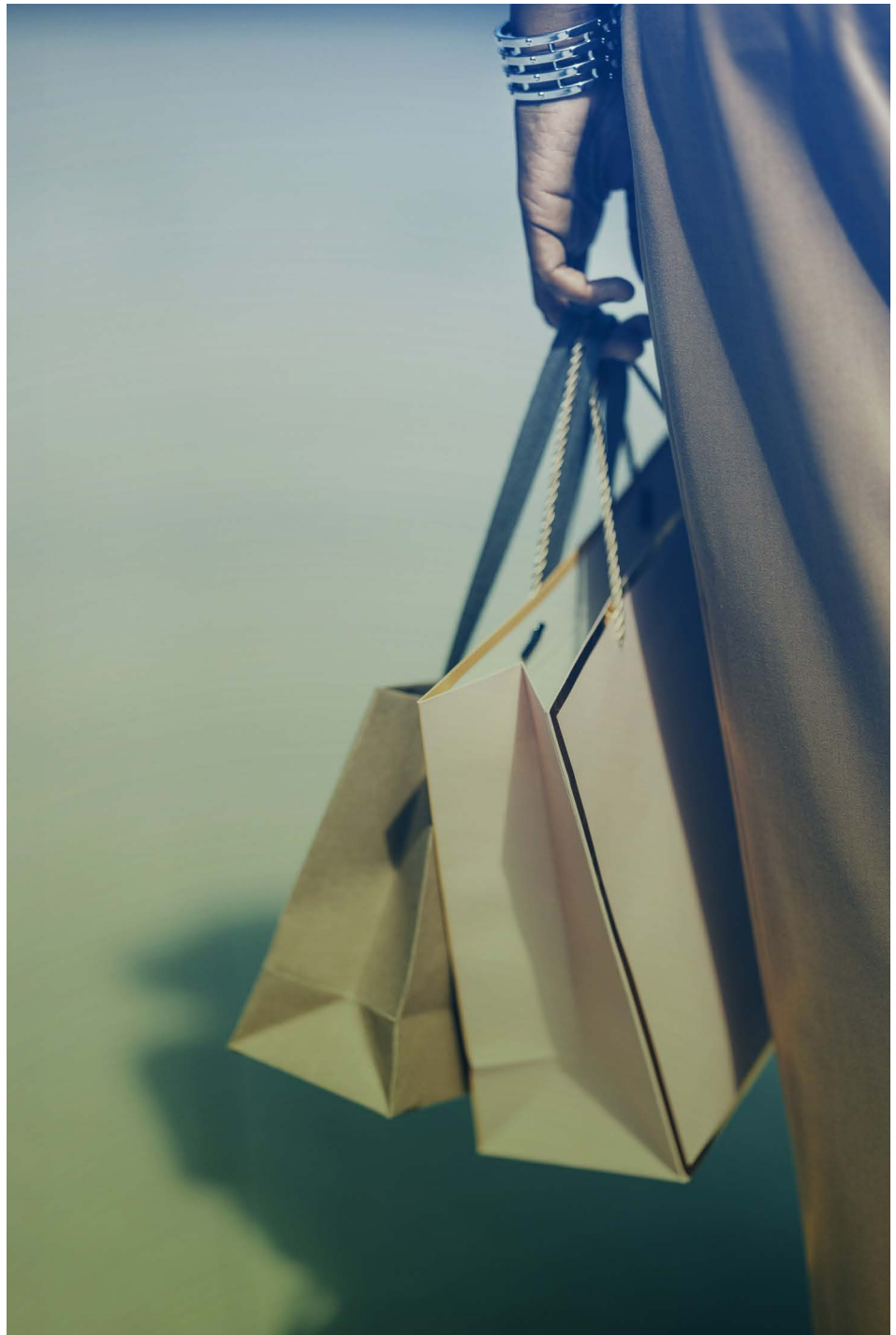
In response to changes in trade policies, businesses are focusing on enhancing the resilience of their supply chains<sup>1</sup>, achieving a new balance of agility, resilience, and cost efficiency that has emerged post-pandemic.<sup>2</sup>

### *Effective cost management is essential for achieving sustainable growth*

Organizations must look beyond short-term cost solutions and adopt a strategic and holistic approach to cost management. Effective cost management is essential for increasing margins and achieving sustainable growth. For growing companies, this involves generating positive operating leverage, where revenue growth outpaces cost growth, allowing for reinvestment in long-term opportunities. For companies facing challenges, focusing on costs is crucial for stabilization and survival.

1. Deloitte Insights The new supply chain equilibrium

2. Deloitte Insights Enhancing supply chain resilience in a new era of policy



## Rethinking traditional approaches

Is “cost” a four-letter word? Traditional accounting-based approaches aimed at minimizing costs, such as lean manufacturing with just-in-time inventory, are increasingly challenged by frequent supply chain disruptions. Further staff reductions may offer diminishing returns or risk leaving companies without essential talent. Therefore, strategies focusing on historical cost bases or current inventory are not effective for future needs, highlighting the necessity for adaptable and resilient cost management approaches.

While external factors can drive change, genuine transformation must originate internally. Many perceive cost measures as detrimental to revenue growth and compromising customer value, leading to inaction due to uncertainty about where to start or fear of degrading value. Without proper guidance, companies may undertake limited cost-reduction projects and make obvious tradeoffs, missing broader opportunities.

### *Genuine transformation must originate internally*

These scenarios underscore the importance of embracing models that focus on a company's core capabilities and performance improvements. No company has ever cut its way to prosperity. Organizations should reframe their approach, moving away from traditional and piecemeal cost management to create strategic efficiencies across the board.<sup>3</sup> This approach allows them to redeploy resources—whether capital, equipment, or people—to accelerate prosperity. It's a bold new era of cost management.

### A result-driven approach for sustainable and cost-effective operating models

We examined how organizations are fundamentally rethinking their approach to cost management. For consumer product companies, enhancing operational efficiency is imperative for long-term success. To achieve this, organizations focus on key objectives such as collaborating with strategic partners, optimizing physical assets, streamlining supply chains, leveraging advanced automation including artificial intelligence, and managing their workforce more effectively. The goal is not merely to reduce costs but to reinvest them in the business's future.

While some strategies may take years to implement, others can yield quicker results. Our recommended approach supports three levels of sustainable cost transformation:

**Incremental changes:** Achieving 5-10% savings within 3-6 months

**Structural changes:** Realizing 10-20% savings within 6-12 months

**Disruptive moves:** Attaining 20% or more savings within 12 months or longer

The ultimate goal is to establish a sustainable and cost-effective operating model while enhancing business execution capabilities. Collaborating closely with business leaders, we focus on six key tactics that drive growth and efficiency:

- 1 Eliminate procurement inefficiencies:** Streamline the procurement process to prevent maverick spending and cost leakage.
- 2 Optimize network structure for profitability and flexibility:** Reshape the supply chain network to improve efficiency, reduce costs and remain adaptable to market changes.
- 3 Standardize best practices and ensure compliance:** Develop clear policies, processes, and performance metrics to replicate industry best practices and stay ahead of regulatory changes.
- 4 Optimize Cost of Goods Sold (COGS) and SG&A expenses:** Adjust operational spending to align with growth objectives, ensuring resources are used effectively to support expansion.
- 5 Foster a high-performance organization:** Create organizational structures that focus on enhancing productivity, leveraging core strengths, and cultivating a performance-driven culture.
- 6 Drive efficiency through digital and automation solutions:** Implement digital tools and automation across operations and back-office functions to improve profitability and streamline processes.

These strategic moves prepare businesses to withstand both controllable and uncontrollable challenges, ultimately creating lasting value. However, even strategic moves need a starting point, often beginning with initiatives that save to grow, as demonstrated in our following case study.

3. Deloitte Insights Unlocking the promise of cost optimization





## CASE STUDY

### Strategic supply chain cost transformation for long-term stability and competitiveness

Consider the case of a Canadian consumer product company operating in over 10 locations, serving customers nationwide, and generating more than \$1 billion in revenue with a workforce of approximately 3,000 employees.

The company was dealing with rising costs that threatened its competitive position. Like others in the industry, they faced increasing supply chain expenses, leading to distribution costs 20-30% higher than competitors. An extreme weather event further inflated rates, which were never readjusted, forcing the business to consider raising prices, thereby risking their competitive advantage.

*Higher supply chain expenses forced distribution costs to increase 20-30% more than competitors*

Our cost transformation approach aimed to develop an enhanced operating model through significant changes in their supply chain, beginning with route optimization and transportation costs. This involved:



#### Route optimization

- Enhancing route design
- Reducing delivery costs
- Optimizing transportation and distribution staff
- Enhancing fleet asset utilization



#### Transportation costs

- Streamlining carrier services
- Renegotiating carrier pricing
- Optimizing carrier selection
- Enhancing contractor management

It was crucial to examine both financial and non-financial factors necessary for strong transportation partnerships. The company was operating with a fragmented and outdated system, incurring additional costs as a result. We collaborated to simplify their supply chain while enhancing service. Through a tailored plan, the company achieved significant, lasting improvements in efficiency, reducing overall transportation costs by 25%—exceeding their original ambitious target.

By addressing inefficiencies and integrating logistics, the company not only saved money but also reduced risk and improved service levels, enhancing customer experiences. They gained valuable insights into their

# 25%

*A tailored plan reduced overall transportation costs by 25%—exceeding an already ambitious target*

transportation network, leading to a more stable and efficient supply chain. The company is now more agile, with improved real-time data, transparency, and a better understanding of fixed and variable costs, empowering management, and executives to make informed decisions for the long-term benefit of the company and its customers. This alleviated margin pressures and can serve as a starting point for cost transformation in other business areas.

## Five key takeaways lessons from this strategic cost transformation case study

### 1. Emphasize data-driven decision making



**Insight:** Establishing a strong framework for data collection and analysis is essential for identifying cost-saving opportunities.



**Action:** Use real-time data on transportation costs, shipment routes, performance metrics, and supplier capabilities to identify inefficiencies and make informed decisions about supplier optimization or replacement. Avoid excessive analysis; adopt a hypothesis-driven approach when necessary.

### 4. Prioritize change management and employee engagement



**Insight:** Transformation efforts often face internal resistance, especially from employees accustomed to existing processes and relationships.



**Action:** Engage employees early in the process, clearly communicate the reasons for changes, provide necessary training, and offer leadership support. Ensure that all levels of the organization understand how the transformation aligns with broader business objectives.

### 2. Define supplier requirements clearly



**Insight:** Supplier optimization is not just about finding cheaper alternatives but selecting partners that enhance your value proposition.



**Action:** Evaluate and choose suppliers that align with your strategic needs for mutually beneficial relationships. For example, this company valued on-time, in-full deliveries at straightforward rates and found greater value with transportation companies that had compatible routes for their predominantly one-way shipments.

### 5. Commit to continuous monitoring



**Insight:** Transformation is an ongoing process, as markets, regulations, and supplier dynamics are always evolving.



**Action:** Implement continuous monitoring and evaluation processes, such as regular supplier performance reviews. Be prepared to adjust as needed to sustain cost reductions and maintain performance.

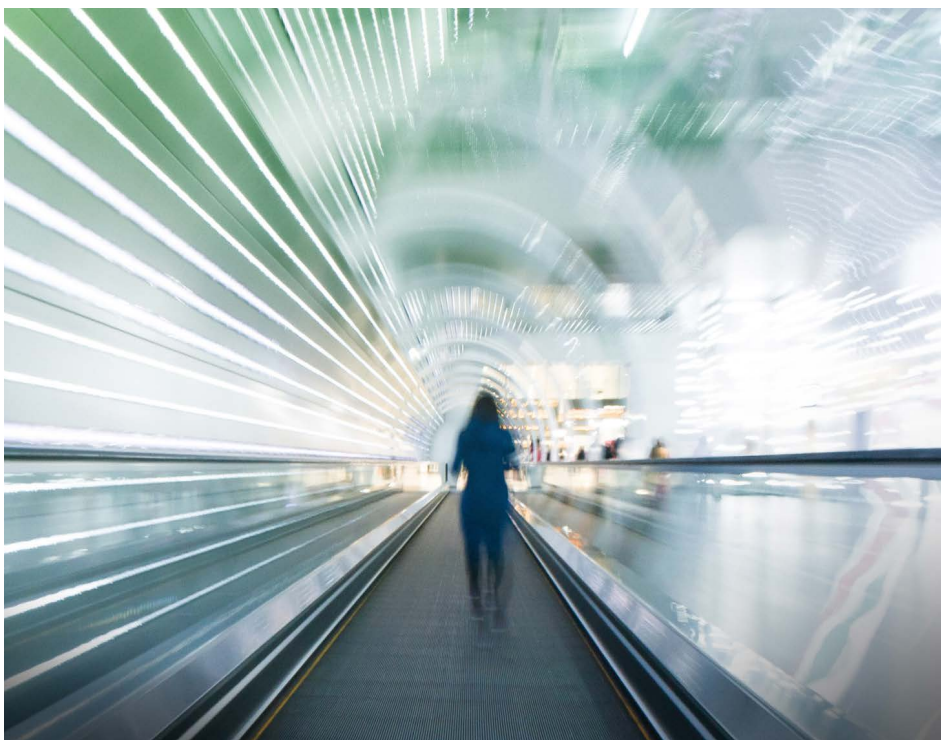
### 3. Adopt a holistic optimization approach



**Insight:** Effective cost transformation requires streamlining the entire supply chain ecosystem, not just negotiating prices.



**Action:** Assess the entire supply chain network, considering aspects like routing, shipment consolidation, load planning, or even changing the mode of transportation. Look for efficiency opportunities beyond individual initiatives.



## Sustainable cost transformation

### A path to future-readiness

Successful companies are those that continually evolve by strategically managing costs. This strategic approach does more than just streamline operations; it unlocks potential and provides the agility needed to navigate economic challenges and meet the dynamic demands of customers. Understanding cost drivers and their impact on overall value is crucial and will lead to sustained savings.

By ensuring that cost reductions are aligned with business goals, companies can reinvest savings into key initiatives such as digital transformation, product innovation, and market expansion. This reinvestment not only fosters growth but also creates a competitive edge. While quick wins might offer immediate relief, they often pave the

way for deeper inefficiencies and costly reversals. A focus on root cause analysis is essential to prevent these inefficiencies and promote sustainable growth.

Deloitte's Sustainable Cost Transformation strategies are meticulously designed to address both acute and long-term financial, strategic, and operational cost pressures. Our projects are closely aligned with clients' purposes and objectives, enabling organizations to concentrate on their most productive assets and realize enhanced capabilities. This comprehensive approach ensures that companies are not just cutting costs to survive but are strategically positioned for future growth and success.

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