



**Expense Reduction
Analysts**

ERA Cost Barometer

NAVIGATING STORMY WATERS

Save-to-Steer through these turbulent times



EXECUTIVE SUMMARY

Across almost all industries, the past ten years has seen a substantial level of uncertainty become normality. Long-held beliefs have been turned on their heads by both political and economic pressures and with COVID-19, further unpredictability has carried us into the new decade.

The reality for many businesses is that this uncertainty will continue to play a significant role in decision-making and strategy. CFOs are tasked with steering the path to security and growth. This challenge is becoming more complex than ever before.

Our latest whitepaper considers how CFOs plan to navigate through these testing waters, analysing statistical data and research collated from a breadth of credible sources.

Both expansionist and defensive strategies must be employed so that businesses can manoeuvre within this ever-changing business world. The wider implications of embedding these strategies - or failing to embed - must be fully explored.

In a turbulent corporate landscape, we take a look at the potential barriers that CFOs need to overcome to achieve long term success. Our report highlights the need to 'Save-to-Steer' through these challenging times and maximise operational efficiencies - something that is becoming increasingly important for major businesses. We also take a look at how intelligent, long-term strategies must be the way forward when faced with such uncertainty.

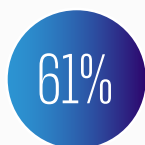
KEY TAKEAWAYS



ERA predicts the percentage of **CFOs** feeling less optimistic will increase.



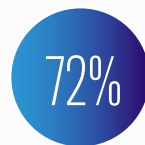
Risk appetite has decreased to -65% amongst **CFOs**, down from -32% at the beginning of 2018.



of European **CFOs** noted that management challenges in implementing initiatives were the main barrier to cost reduction.



CFOs will start to 'Save-to-Steer' and use cost savings to navigate through these testing times.



of **countries** named cost reduction as the most popular defensive strategy.



2020 **global** growth could fall between -1.5% and -0.5%, resulting in the next recession.



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CFO OPTIMISM

The saying goes that 'familiarity breeds contempt'. Although a period of seemingly reliable stability occurred during the mid-2010s, a sea of uncertainty has been the underlying tone since the financial crisis of 2008. Pressures are coming from all sides - mainly political and macro-economic factors, with COVID-19 currently having quick and sudden repercussions for the economy. These create truly testing times for CFOs across all sectors.

The below graph illustrates research conducted by the Duke CFO Business Outlook and shows the optimism - or lack of optimism - felt amongst European CFOs between December 2018 to December 2019. The varied sentiment reflects the 'up and down' nature of the economy and political environment over the last decade, which translates into harsh fluctuations over quarterly periods.

With the spread of COVID-19 at the start of this new decade, ERA predicts the number of CFOs feeling less optimistic compared to previous months, will rise dramatically.

The problematic economic picture shows little sign of improvement. As mentioned, the primary reasons behind the decline in CFO optimism can be roughly grouped into two main areas - political and economic. The global political picture is showing an increasing appetite for change, with major and minor economic powers producing surprise election results. These radical changes bring an increased risk of operational upheaval that not only impacts domestically but also internationally.

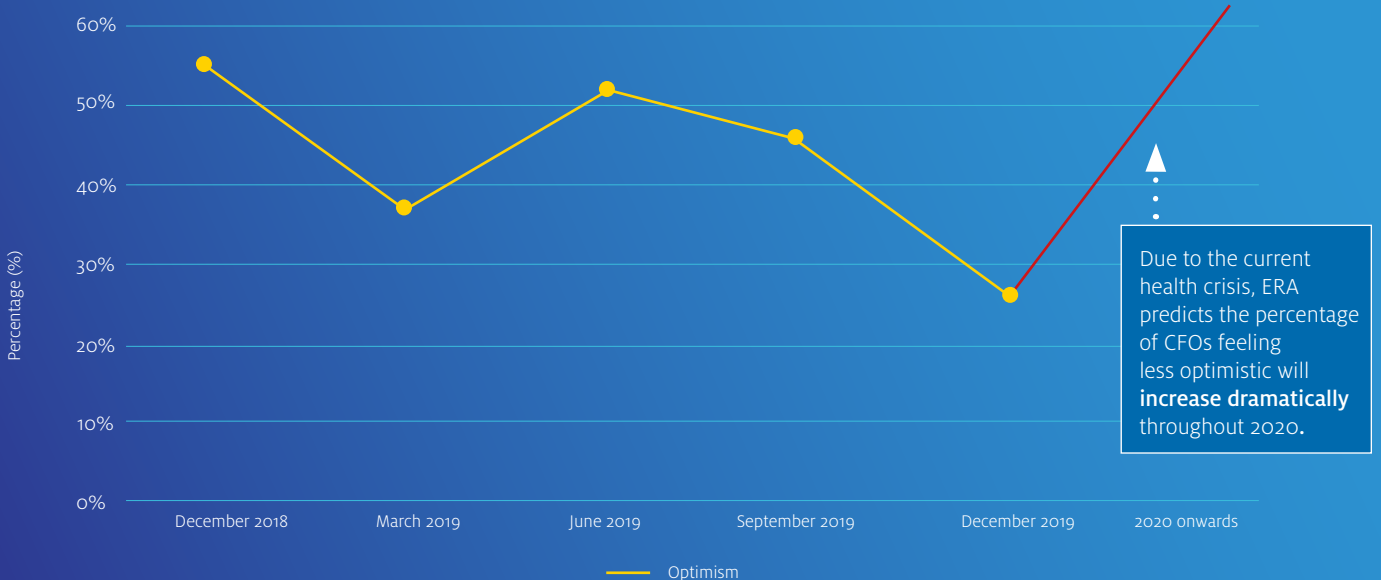
There are fears that a new financial crisis may be on the horizon, fuelled by slowdowns in major markets and an abrupt change in consumer behaviour.

Sudden changes in domestic policy can have substantial repercussions across global supply chains, with this disruption frequently cited as a critical driver of business uncertainty.

The combination of economic and political uncertainty has created a fog which is becoming increasingly challenging for CFOs to traverse. However, while these factors are the cause of business' lack of optimism, they may not be the symptom for this condition. This lack of optimism is not born out of global pressures, but the corporate environment that they have created and the subsequent expectations on their shoulders.

Politics and economics are always linked, but the last few years evidence the strength of that connection and the problems that can arise as a result. An increasing number of trade disputes both in the EU and abroad have caused economic declines in key markets, slowing demand and increasing economic uncertainty. With the addition of COVID-19 to the mix, there are added fears that a new financial crisis may be on the horizon, fuelled by slowdowns in major markets and an abrupt change in consumer behaviour.

CFOs that feel **less** optimistic



POTENTIAL SCENARIOS

Assumptions	QUICK RECOVERY	GLOBAL SLOWDOWN	GLOBAL PANDEMIC & RECESSION
PUBLIC HEALTH RESPONSE	● Similar effectiveness to China	● Less effective than China	● Less effective than China
SEASONALITY	● Virus is seasonal	● Virus is seasonal	● Virus is not seasonal
FATALITY RATIO	● Similar to flu	● Higher than or near flu, dependent on health-system response	● Higher than or near flu, because of disease characteristics or insufficient health-system response
CHANGE IN BEHAVIOUR	● Localised. Working populations change some habits but most economic activity persists	● Mostly local, some general. Greater shift in daily behaviours	● Generalised
Expected economic impact	QUICK RECOVERY	GLOBAL SLOWDOWN	GLOBAL PANDEMIC & RECESSION
CHINA	● Recovery is largely complete, including Hubei by early Q2	● Recovery is largely complete, including Hubei by early Q2	● Recovery leads to resumption of pre-outbreak routines, drives new transmissions.
REST OF WORLD	<ul style="list-style-type: none"> ● Relatively fast rebound by end Q1 in Europe and US after initial acute drop in consumer demand ● Other countries see varied impact 	<ul style="list-style-type: none"> ● Europe, US see economic slowdown until mid Q2 ● Certain sectors (aviation, hospitality) deeply affected ● Other sectors see acute initial drop 	<ul style="list-style-type: none"> ● Europe, US see generalized reaction ● Global recession ● Consumer confidence does not recover until end Q3 or beyond

The COVID-19 outbreak is first and foremost a global tragedy affecting hundreds of thousands of people. With the outbreak moving quickly, it is also necessary to explore the impact it is having on the global economy and what it may mean for your business.

The potential scenarios illustrated above map out the affects of a quick recovery to the possibility of a global pandemic and recession.

Recession – a word that haunts businesses and professionals alike. Europe has been slowly recovering since the 2008/2009 crash but with COVID-19 and other economic uncertainties, is your business prepared for the next recession? Whilst many CFOs may answer yes, this response is slightly hasty. The next recession could potentially arrive sooner than we once imagined.

A pandemic and recession scenario assumes that the virus is not seasonal and continues to spread throughout Q2 and Q3.

This will globally overwhelm healthcare systems and affect consumer confidence until Q3 and beyond. These factors could cause 2020 global growth to fall between -1.5% and -0.5%, resulting in the next recession occurring this year or during early 2021.

If we do not assume the worst, a quick recovery paints a different picture. The virus will continue to spread given its high transmissibility and daily behaviours will change - but not so much that the population turn to survival mode. Industries that typically require human interaction, for example hospitality, will feel a negative impact. In a quick recovery scenario, 2020 global growth will fall from 2.5% to 2.0%.

Whether COVID-19 results in a global pandemic and recession or a quick recovery, entire industries can still face disruption. It is extremely beneficial to plan for the possible than wait and be backed into a corner during a crisis. The next economic downturn remains uncertain, no one knows it's scale, duration or the surprises in store – but we do know that it will inevitably happen.

DEFENSIVE STRATEGIES

In light of the current economic situation, the importance of a solid foundation on which to build is more important than ever before. According to Deloitte's European CFO Survey, overall business strategies are becoming more defensive, with cost reduction being the top priority in almost half the countries surveyed.

• Risk appetite has decreased to **-65%** down from -32% at the beginning of 2018

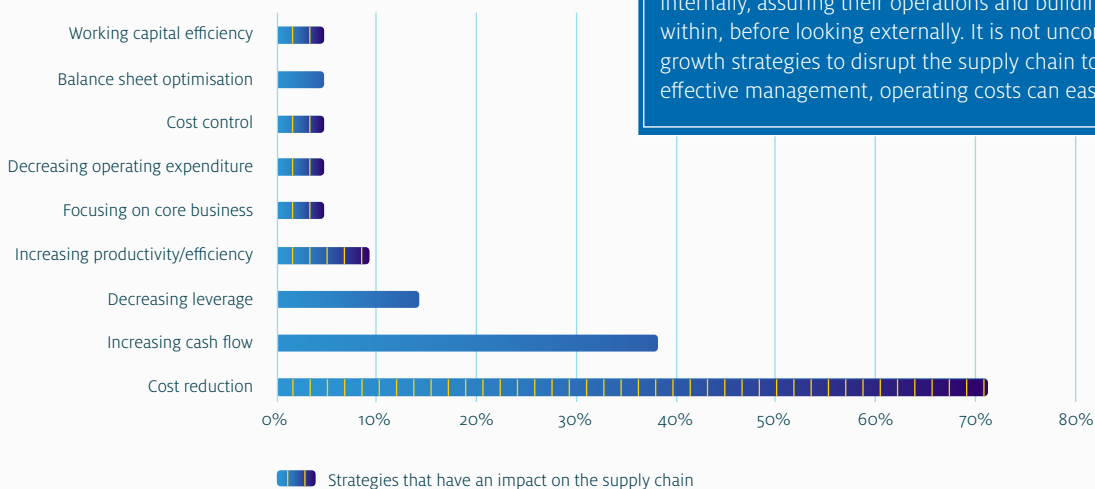
The growing consolidatory nature of business operations is evidenced by the survey's findings concerning risk appetite amongst CFOs. According to Deloitte, the risk appetite amongst Europe's CFOs has decreased to as low as -65%, down from -32% at the beginning of 2018.

This pessimistic outlook is felt most amongst the continent's leading exporters and those vulnerable to political and economic challenges. In Autumn 2019, the two most risk-averse EU countries were the United Kingdom (-87%) and Germany (-84%).

Across Europe, just 18% of CFOs at the end of 2019 believed it was a good time to take risks. This figure has declined since a peak of 34% in Spring 2018. Fuelled by growing macro-economic uncertainty, more business leaders are considering consolidatory strategies to help traverse this uncertain period. With CFO optimism set to decrease and the impact of COVID-19 reaching more of us as the days go by, risk appetite is likely to plummet further.

In pursuit of creating a sense of reassurance and to combat the lack of risk appetite, the most popular defensive strategy remains cost reduction, with nearly three quarters of countries surveyed

Top Defensive Strategies



CFOs that wish to focus on balance sheet optimisation and cost control will be inclined to consider their current supply chain processes and procedures to create more streamlined practices.

seeing cost reduction as the primary defensive strategy over the coming period.

Increasing cash flow is seen as the next most important consolidation plan for major businesses, as CFOs seek to ensure capital is available to protect from any further sudden downturns. Similarly, the third most popular defensive strategy in the Autumn 2019 report is decreasing leverage, prioritised by 14% of countries surveyed.

The vast majority of defensive strategies will involve scrutinising the supply chain. Considering all the answers highlighted by Deloitte, over three-quarters of defensive strategies favoured by European CFOs going forward will have a direct or indirect impact on supply chain operations.

CFOs that wish to focus on balance sheet optimisation and cost control will be inclined to consider their current supply chain processes and procedures to create more streamlined practices. Meanwhile, large-scale improvements in efficiency and productivity will often be derived through effective supply chain management.

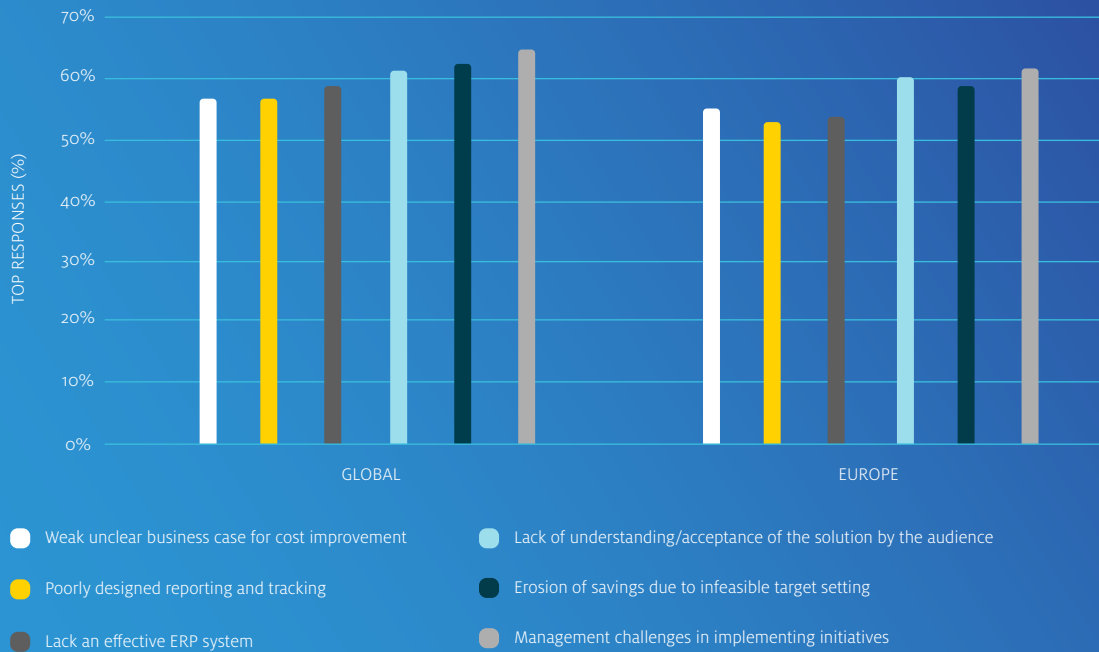
Without expert management, it is hugely difficult to deploy defensive strategies that will have a material impact to the balance sheet, whilst also maintaining an optimised supply chain.

For some businesses during this uncertain time, the best defence is a good offence.

Despite the need for solid defensive strategies, expansion will still remain popular as a strategy of survival for businesses, even in testing times. Given the current challenges, major companies will primarily look to grow internally, assuring their operations and building from within, before looking externally. It is not uncommon for growth strategies to disrupt the supply chain too - without effective management, operating costs can easily creep up.

BARRIERS OF COST REDUCTION

Top Barriers to Successful Cost Reduction



61% of European CFOs noted that management challenges in implementing initiatives were the main barrier to cost reduction, more than any other response.

Source: *Save-to-transform as a catalyst for embracing digital disruption* | Deloitte's second biennial global cost survey

With cost reduction being the most necessary strategy for survival moving forward, it is important to look at the challenges surrounding the implementation of cost reduction initiatives across businesses.

According to Deloitte, 61% of European CFOs noted that management challenges in implementing initiatives were the main barrier to cost reduction, more than any other response. Implementing new ideas in an existing framework is clearly a challenge, and buy-in from key stakeholders is paramount to reach targets.

Internal struggles appear to be more of a concern to companies using zero-based budgeting (ZBB) as their current expense management method. A lack of understanding or acceptance was cited as a significant issue by more than half of all European businesses, but that figure rises to 64% when only considering firms conducting ZBB. For those companies, this is the main issue, which points to an inability to adapt, particularly in these challenging times.

Nearly two thirds of all European businesses surveyed noted infeasible target-setting as a cause of cost reduction failings. As the second-highest response, this likely points to a lack of experience in the field of cost reduction, causing companies to underestimate the strategy's complexity, or even supply chain management itself.

A lack of experience in cost reduction causes companies to underestimate the strategy's complexity, or even supply chain management itself.

Meanwhile, 59% of respondents noted the lack of an effective ERP system as a barrier. Again, this ties into the belief that many companies are unprepared internally for the scale of cost reduction they are looking to achieve. As a result, many businesses are unable to take full advantage of the potential opportunities available in digitalisation.

There are other reasons for unsuccessful cost reduction noted in the survey, such as an unclear case for cost improvement (55%) or poorly designed reporting (55%). Regardless of the reason(s), these statistics clearly show that most businesses do not have the ability to achieve the expense reductions desired.

The data suggests that if businesses really want to hit ambitious cost saving initiatives, they have two options. Firstly, they can invest heavily in their procurement team to fully audit their costs profile so that savings targets are obtainable. Alternatively, they can instruct third party specialists to fully benchmark their costs against the marketplace.

COST MANAGEMENT

Having highlighted the barriers to cost reduction initiatives, it is important to emphasise the consequences of failing to overcome them. Not only does ineffective cost management result in failing to meet targets, but it affects long-term value creation - the core to business growth and profitability.

As previously highlighted, the 2008 financial crisis left finance leaders urgently seeking ways to translate long term-growth bets into sustainable profitability. Due to the current health crisis and other political factors, the competitive pressure for top-line growth has continued with just as much force as we've begun the new decade.

According to Gartner, companies that grow the top-line whilst reducing costs - and are able to hit both short and long-term targets - are successfully pursuing 'efficient growth'. This means companies are able to reinvest their cost savings to fuel transformative innovation and growth. Efficient growth is important for driving shareholder returns and ultimately, keeping business profitable.

However, growth or transformative initiatives do not immediately come to mind in times of macro-economic uncertainty such as now. CFOs often turn their focus to bottom-line costs which does not support long-term value creation. An example of this is apparent if we rewind and look at the decisions made during the last recession.

The severity of the previous recession meant numerous areas for cost reduction have already been exhausted and digging deeper in the 'obvious' bottom-line areas are likely to be dangerous for business. In general, many organisations

turn to their support functions to find quick and easy cuts, for example, General and Administrative (G&A) activities. As a result, the majority of companies have failed to achieve greater efficiency over a 4 year period in areas such as this - even with technological advances.

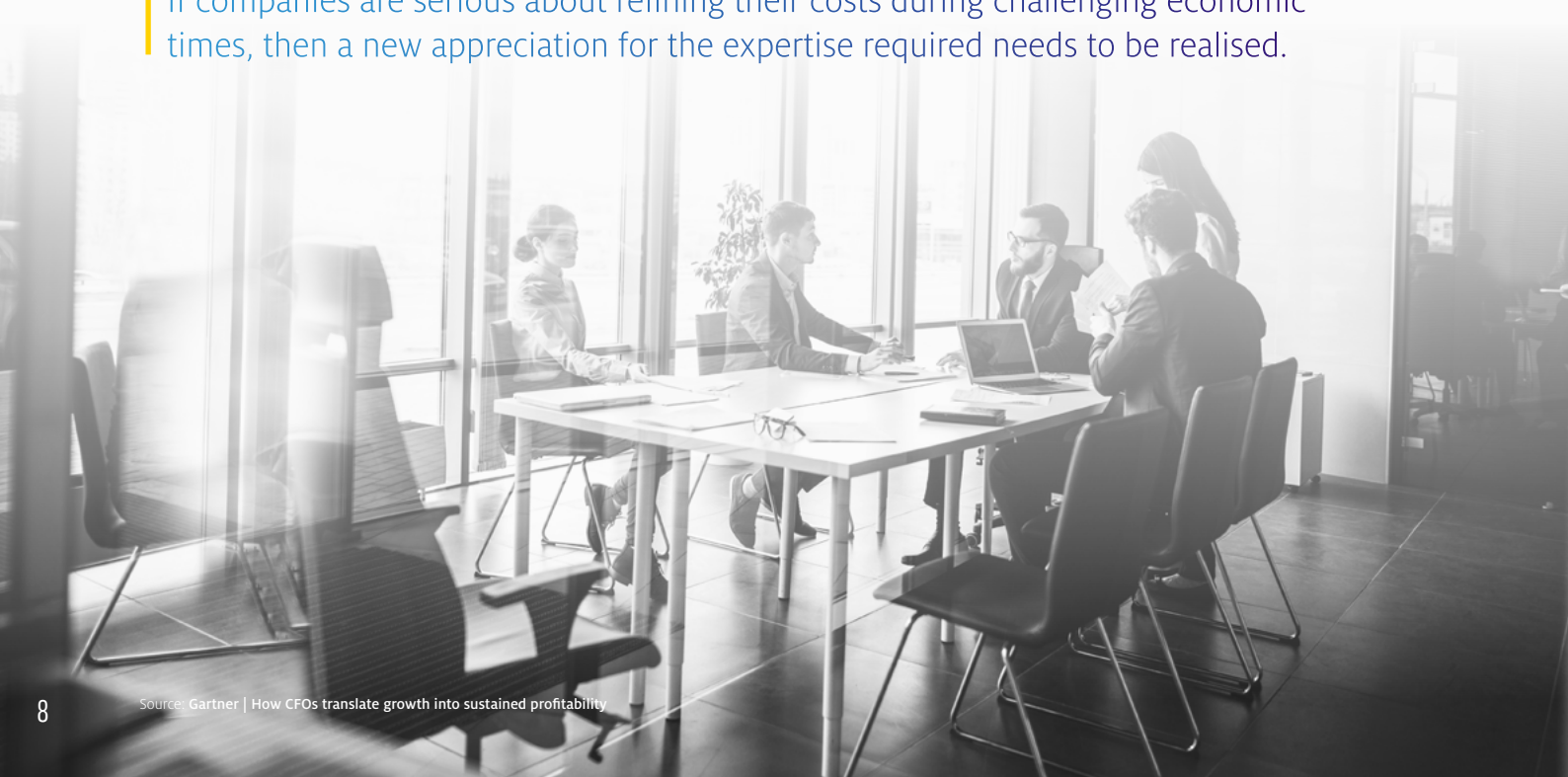
One apparent reason for the lack of efficiency includes workers 'spreading themselves too thin'. As we are all aware, asking staff to do more with less is not sustainable and results in a lack of enthusiasm to be innovative, little time to fulfil new growth initiatives and reduced service levels. With CFO optimism already set to decrease, it is dangerous for this sentiment to filter across the wider workforce.

Whilst this is just one previous cost reduction example, the situation highlights how substantial department cuts, wherever they are made, can take years to overcome. Turning to traditional cost management strategies may be inherent, but they will not suffice when the next recession arrives.

With wider business uncertainty persisting, cost reduction targets will turn from being aspirational into something that companies must meet for their survival. Therefore, it is vital that major businesses seriously consider how they can optimise their performance in the most appropriate way for their business. They must ensure their value creation does not get lost in the race to demonstrate cost-cutting efforts to protect shareholder returns.

For many companies, success in cost reduction may start with improving the maturity of their current processes and seeking the help of third party specialists.

If companies are serious about refining their costs during challenging economic times, then a new appreciation for the expertise required needs to be realised.



SAVE-TO-STEER THROUGH THESE TURBULENT TIMES

Throughout the years, businesses have pursued different 'Save-to-' approaches. The two most recent and popular approaches have been Save-to-Grow and Save-to-Transform.



Save-to-Grow



Save-to-Transform



Save-to-Steer

First came Save-to-Grow where companies were saving to grow already present areas of the business. For example, expanding the workforce or developing further product/services to add to an existing offering.

Then came Save-to-Transform. Here, companies use/d savings as leverage to start transforming their business digitally. In particular, investing in new infrastructure to streamline operations; there has been a widespread movement towards the use of Artificial Intelligence, Big Data, robotic process automation and cloud technologies - just to name a few. Having the capabilities and funds to invest in some of the emerging technologies improves competitive advantage and prepares businesses for the future and the inevitable digital revolution.

Whilst the Save-to-Transform approach is effective and necessary given swift advancements in technology, the pause button will be pressed as businesses move to a Save-to-Steer approach as a result of the current climate.

If there's one thing the business world hates, it's uncertainty. Many companies will start to revisit how they manage their costs and look at other areas in which to use their savings. A Save-to-Steer approach uses cost savings to survive, focusing on immediate actions to reduce costs and maximise liquidity to avoid further deterioration of the business. It is happening now, all companies must prepare for the short/medium/long-term effects of the COVID-19 virus. In an environment where cash and EBITDA (Earnings before interest, taxes, depreciation, and amortisation) are kings, CFOs must do so to understand and mitigate risks on their company's fiscal outlook.

There are several questions currently on the desk of all CFOs. All questions below have significant implications.

What parts of the business are, or have the potential to be, impacted by the virus?

Do we have delayed close cycles on sales orders?

What is the (almost) inevitable impact on the supply chain — and what are all the potential ranges of that impact based on global manufacturing regions and customer location?

With respect to customers, how have buying habits changed by region, by product category?

Will we or can we transition to a remote workforce, and if we can't, how will disruptions to workforce availability impact our ability to make, sell and supply our products and services?

If the primary question is, "what do we know?" the critical follow up is "and who knows it?". CFOs should proactively engage business partners within the organisation who can shine a light on exposure from their unique lens into the business.

CFOs must address the risks and opportunities posed by a range of virus scenarios, building high-level models of business cases to quantify the impact to P&L, cash flow and the balance sheet. Revising should address driver-based - it should account for implications on productivity (buying, investment and capex decisions, travel-related impact to closing deals).

It should include an assessment of hidden costs (delay in buying and hiring decisions, lost productivity, remote work, and the associated investment in technology to enable that work).

CFOs who have developed a robust understanding of the possible short/medium/long-term virus implications and who have conducted best case/worst case assessments, must then seek to understand the available levers to pull in each case.

What are my liquidity levers?

How can I raise more cash?

How can I collect faster?

Do I have inventory management levers I can pull in case of a surplus, in the form of additional markets or inventory fire sales?

What are my supplier levers in case of potential supply chain issues? Are there other manufacturers I can use to ensure product flow even at higher premiums that impact margin?

Are there capital purchases that can be delayed until the market stabilises?

What areas of discretionary spend can I adjust, pause, or altogether cancel?

Learning the levers now will mean they can be deployed more quickly, more effectively, and more successfully later.

CONCLUDING REMARKS

The findings outlined throughout this report evidence the turbulent optimism of CFOS and the growing need for expertise when it comes to achieving successful cost reduction. The sheer level of expertise required to keep on top of typical business costs and continually monitor them is prohibitive for many. The need for support in achieving cost management initiatives is one of the many reasons why major businesses across industries are turning to specialists such as Expense Reduction Analysts (ERA).

This report addresses the growing impact COVID-19 is having on the global economy and the possible scenarios that could occur as a result of the virus. Whether the global economy experiences a recession or we find ourselves recovering quickly, the outbreak has already left its mark on businesses and they must act accordingly - in the form of cost management.

This report has highlighted how vital supply chain management is when it comes to maximising profitability, with the majority of defensive strategies outlined as popular having an impact on the supply chain.

Despite many organisations aiming for such strategies, cost management is not a one-time fix. For many businesses, it is a process that needs to be refined and tailored to deliver consistent results. This is supported further by the consequences of cuts made in the 2008 recession and the Save-to-Steer approach that is vital to survive today.

One of the most effective ways to streamline your business, meet your goals and pursue the best strategy to steer your business during challenging times is to partner with Expense Reduction Analysts.

Partnering with ERA means that businesses can fully focus on what's important – protecting their business.

ABOUT ERA

For the past 27 years, ERA has worked with its clients to unearth Value through Insight™, optimising supply chains and processes to find efficiencies. Partnering with ERA means that businesses can fully focus on what's important – growing their business.

The volume of consultants we have for every type of cost your business faces means that our advice is unrivalled. Our frequent conversations with suppliers across all verticals mean that we are fully aware of market value, pricing structures, new competitors and cost-saving initiatives that could have a positive impact on your operating costs.

We take a long-term approach to all our work, ensuring the savings achieved can be kept and improved.

The strategies we use are designed for lasting performance, helping to develop sustainable supplier relationships long into the future.

At Expense Reduction Analysts, we have the expertise and experience to deliver the cost management performance that your company requires, allowing you to prepare for the future. If you are interested in learning more, explore the many case studies available on our website. Alternatively, why not get in contact with our team today? We would be happy to help you achieve your goal.



The sheer level of expertise required to keep on top of typical business costs and continually monitor them is prohibitive for many.

THE RESEARCH

Through specialist knowledge and deep industry insights, Expense Reduction Analysts analysed research from a breadth of credible sources and gained a unique perspective on current CFO optimism and what cost management truly means for businesses in the current turbulent environment. Taking a holistic approach and dissecting all of the information available allows our experts to deliver their understanding in the most accurate, helpful and applicable manner.

Our insights apply to the following industries - industrial products and services; financial services; retail; consumer goods; construction; energy, utilities and mining; technology, media and telecommunications; transport and logistics; life sciences; business & professional services; automotive and tourism & travel.



Expense Reduction Analysts

We see opportunities
where you never
thought possible

At Expense Reduction Analysts, we have the expertise and experience to deliver the cost management performance that your company requires, allowing you to prepare for the future. If you are interested in learning more, explore the many case studies available on our website. Alternatively, why not get in contact with our team today? We would be happy to help you achieve your goal.

Learn more

[expensereduction.com](https://www.expensereduction.com)

Value Through Insight™