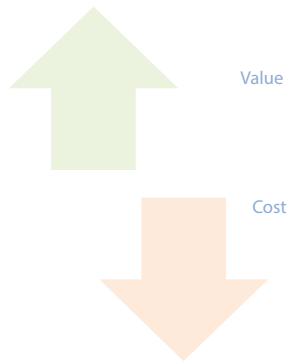


NAVIGATE TO BUSINESS VALUE WITH DIGITIZED COST TRANSFORMATION

Abstract



Cost can be an opportunity as well as a competitive advantage, which can ensure a profitable future. However, this edge will only be available to those who risked going that extra mile against their competitors. A business transformation expert is tasked with alignment of many co-dependent factors in order to ensure a better world with

the help of Cost Transformation. Below are the key tasks of a business transformation expert:

- Integration of meticulous financial management with the culture of cost consciousness.
- Creation of a benchmark with respect to cost competitiveness, automation of operations and cultural efficacy amongst industrial peers and competitors.
- Creation of a structured Cost Optimization Program to ensure a nexus between in-house initiatives and mandates of external experts.
- Designing and executing initiatives focusing towards cultural alignment and process automation.
- Assessment of Cost Transformation program through a self-appraisal system as well as an independent audit by third party using the cultural transformation metrics as a basis for the assessment.

- Nurturing an environment of leadership where executives on grounds can take up the role of a leader when it comes to the execution of Cost Transformation program.

The key question over here is who should drive this transformational initiative? Majority of the experts will state CEO as an obvious choice. However, even your CEO is also only a player in the entire organizational structure, of course with the power of final decision. Cost Transformation initiative is more than just business. It essentially resonates with the culture of an organization. Hence, a cultural committee consisting of selected senior players of the organization under the leadership of a CFO should manage this program. CSR head, HR Head, chief of family trust (in case of a family business) along with business transformation experts should assist the CFO, as all of these officers are responsible to protect the basics of business.

Cost Transformation, to stimulate growth engine ethos

Cost Transformation is one of the most complex aspects of the entire business transformation process. Any wrong choice with respect to allocation of resources to business priorities may adversely affect the performance of the organization.

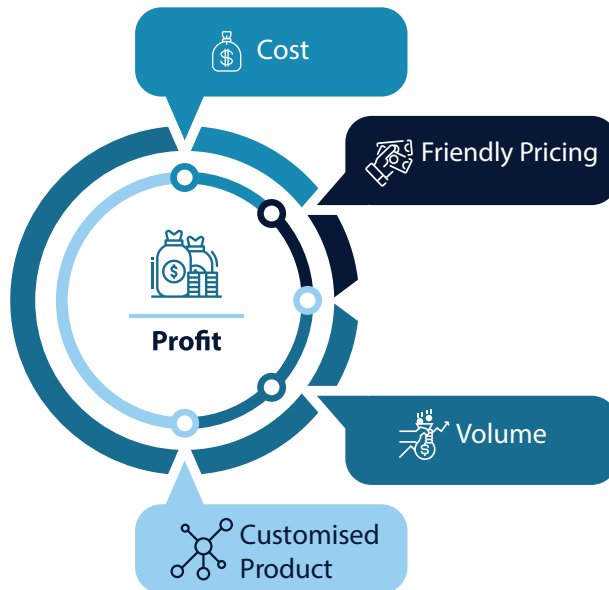
Hence, experts need to design this entire initiative towards creation of a culture focused towards cost consciousness for long-term competitiveness. This will help in understanding the details of the cost structure and its behaviour with respect to business performance.



The corporate world, whether it is the manufacturing sector or the service sector, is facing massive disruptions and changes across the entire value chain of the business. The new changes are harshly testing the current business models from both the ends i.e. from revenue as well as the profitability.

Hence saving a few percentage points from here and there are not enough for CXOs to ensure sustainability of the business model. To ensure a sustainable competitive advantage and the basic ethos of business for community as a whole, a CFO needs to design and execute a well-articulated Cost

Transformation program with the objective of business transformation. Indeed, cost control is one of the important priorities of such a program but the crucial objective is to refocus your resources and capabilities to stimulate growth engine to restore stakeholder's confidence.



Cost Transformation, a culture of cost consciousness

An efficient Cost Transformation program should focus to re-strengthen the organization rather than blindly cutting the costs around all the corners. The beauty of this program should be renovation of business models along with restructuring of the organization via reallocation of valuable resources of the organization to facilitate new growth even in stress environment.

Distress in environment also brings new opportunities but only for those leaders who like to see the other side of the story with passion and determination. Hence, new frameworks for restructuring have to be based on some disruptive philosophies to find the new path:-

- **Be optimistic:-** Focus on new opportunities which have emerged due to crisis.
- **Always target for the long term to ensure financial viability:-** reshape the business model to address the new realities of the market.
- **Resources are limited not the ideas and efforts:-** Restructuring of business boundaries via M&A like acquiring the distressed but useful assets for business.
- **Ad hoc cost reduction in overheads generally comes at cost to a company:-** Introduction of AI led technology to discover the hidden facts of business value chain for a revised corporate performance



Development of a culture within an organization takes years where each individual accepts and practices certain values of the company as per their common belief system. This holds true even in the case of creation of Cost awareness culture.

Adoption of a Cost Transformation program should lead to a soundless execution of competitive strategies to achieve the status of a cost leader or a differentiator, thereby ensuring better values to the stakeholders.

management system .

- **Think and go for bigger picture with open commitment:-** Large transformation

programs generally produce better results especially when leaders make it in public.

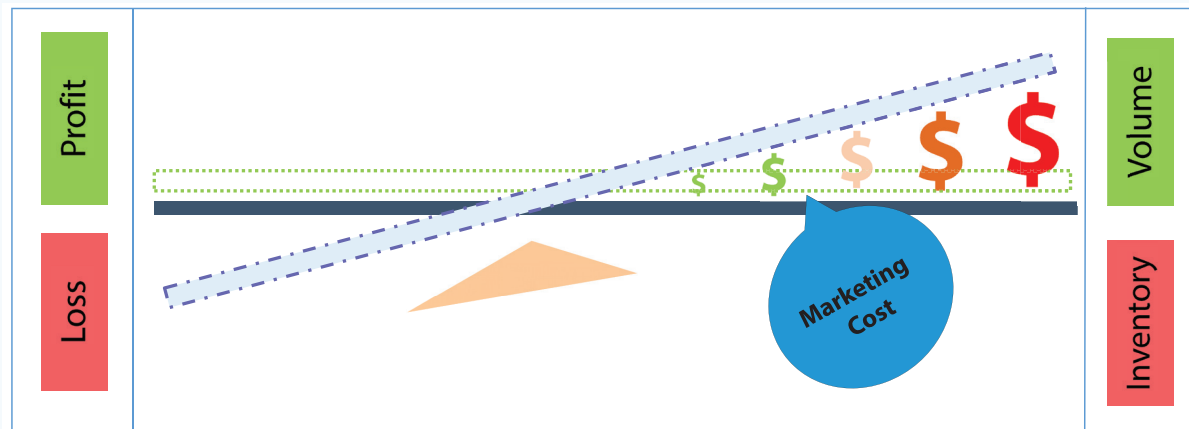
Cost Transformation via UIN (Unit Identification Number) Profitability

The manufacturing sector, especially the auto sector, is struggling to maintain its performance in line with the past trends due to continuous challenges of pricing, demand and margins faced by it. Globally, the auto industry is in a big trouble, more

than what was anticipated by the experts. This is because of a drop in demand, strict norms of emissions and rising input cost majorly due to the incentive and warranty programs.

Auto Industry always played the leading role in designing and execution of efficient cost management's programs across the entire value chain of business. However, due to immense pressure of taking control

over the market share, their cost especially those related to marketing such as rebates, incentives and dealership schemes, are out of their management's controls. Automakers usually spend about 10 to 20 percent of their revenues on incentives (Source: McKinsey Report, *Boosting Car Incentive 2018*), these expenses are likely to remain on the higher side in the near future as well.



UIN Profitability, the Driving Forces

Due to latest developments in technologies along with frequent changes in preferences of customers, OEMs are under immense pressure to develop customized solutions according to the preferences of all segments of customers. These solutions are also expected to generate appropriate margins for all the

stakeholders. Development of customer specific but price friendly products with long-term assurance of quality and extension of warranty terms to ensure low maintenance cost to the customer is not a big concern. The major challenge, which a CFO has to address i.e. to maintain a balance between friendly pricing and profitability to ensure sustainability of the industry.

The prevailing trends of stagnating

demand due to better options of transportation, increasing numbers of suppliers and transparency in pricing are pushing the OEMs towards greater value at low pricing.

There are other couple of significant factors, which are pushing finance experts to design a new system in relation to costing and pricing of products at the deepest possible level, may be at an individual product level as well.



UIN Profitability, Factors to Address

Marketing and dealer incentive programs designed to promote the interests of dealers and to boost the declined profitability in an extremely competitive market is also proving to be a great burden on the OEMs. This is due to continuous growth of such expenditures to lure more and more customers. Beside the above

factors, transportation and sourcing cost elements are also responsible for a high product cost.

The surge of competitive forces due to entry of new low cost OEMs, the growing second hand vehicle markets (due to its reliable information structure via Block chain technology) and frequent changes in the world's business economy together with introduction of a new AI enabled

technologies, are putting a lot of pressure on manufacturers to revamp the current business model to adopt to the new realities of the economy.

In such situation, the entire life cycle of business value chain needs transformation; starting from conceiving of new models to designing, sourcing of raw material, assembly and final delivery of products to customers at competitive price.



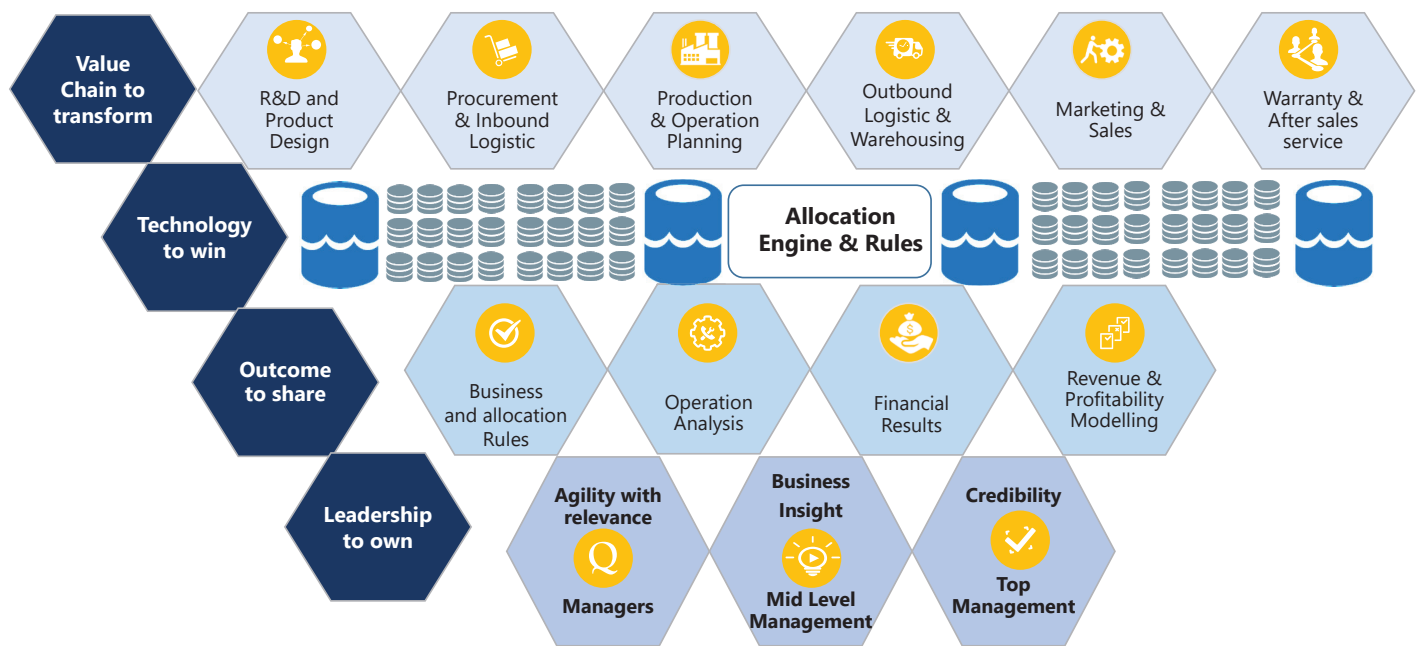
UIN Profitability, Restructuring of costing model

Finance experts are required to define a different model of profitability across the life cycle of products. This is necessary to protect the basics of the Industry and elimination of overstressed pricing & cost reduction program including reduction of over allocation of resources on marketing & warranty programs. The new model needs to be equipped with distinct computational procedures and techniques

relating to resource allocation and tracing of cost elements until the activity level of product and services to customer. The concept of this approach of modelling at UIN (Unit OR Vehicle Identification Number) level is based on an idea of identifying the value addition at each phase of business including the design, procurement, production, distribution and post sales phases while enabling the evaluation of related options and their effect on final profitability and pricing. The biggest concern while developing

this kind of a model is that historically manufacturing companies are already well equipped to decode the analysis of manufacturing cost with the help of techniques like standard costing, activity based costing, zero based budgeting and now another notion of UIN may add on to their current work load.

However, the current competitive environment demands tracing of activities and its respective cost at every possible level to understand its impact on organizational performance.



The corporate culture is going through an era of digital transformation but digitization should be accompanied with disruptive business solutions to deliver value to society i.e. less consumption of natural resources, contribution in growth of economy and augmentation of competency of human resources.

UIN Profitability - Need of a strong engine for Re-allocation of resources

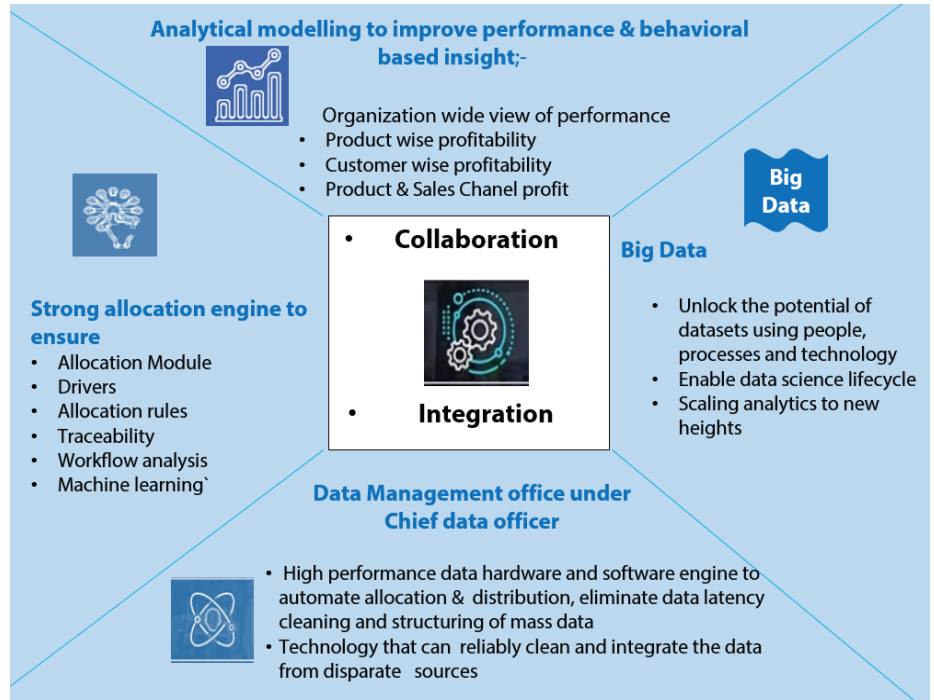
The success of the new model depends upon on the availability of a strong allocation engine along with the capability of tracing all relevant data from every imaginable and vital source system

including social networking structures to understand customer preferences about product and pricing.

The system requires a technically strong but user-friendly engine with the capability of designing, defining and understanding of business rules to trace all expenses, trends and sentiment at the bottommost level. An exhaustive and precise analysis of

data across the organization is required to support the Product wise, Customer wise, Region wise and Sales channel wise cost structuring as well as restructuring also. This enormous analysis and allocation of cost data helps in determining the behaviour based or value based pricing which is necessary in the current environment for a sustainable growth.

An efficient and user-friendly IT system will be the backbone of Cost Transformation Program, which should not only be a transaction processing machine but a tool which can also help you to take a deep dive into the cost structure or DNA of the organization. This will help in guiding and pushing the organizational culture and the human resources to deliver their best to enhance their contribution in world business economy.

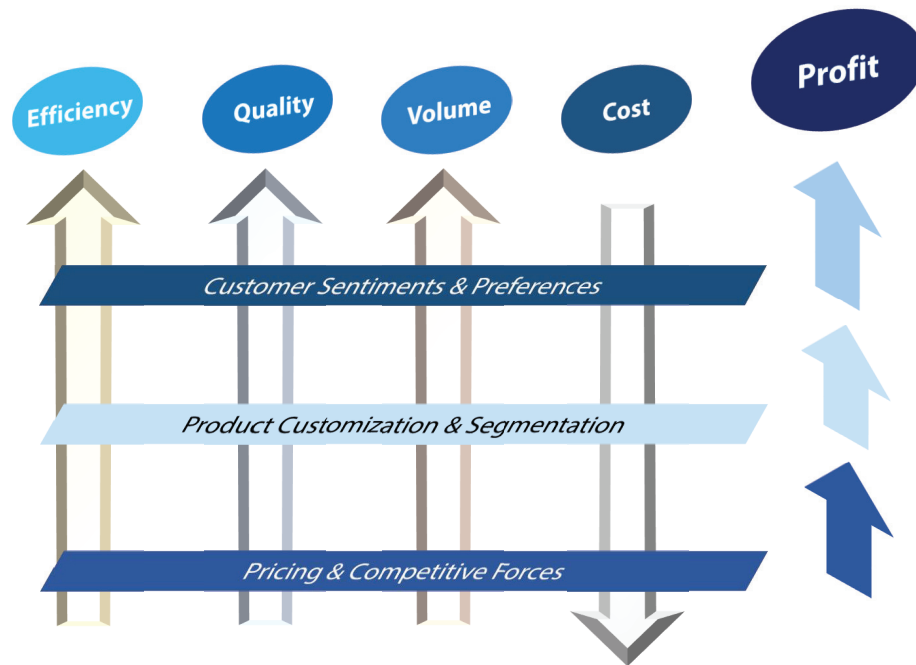


Cost Transformation, to improve bottom line

The success of Cost Transformation program via UIN modelling implies improvement in financial health of the organization in terms of profitability, volume, cost optimization and transparency of business insights.

A well-executed Cost Transformation program will accelerate the quality of operation to produce savings across the organization. Accurate and detailed analysis of right data in relation to cost, revenue, pricing, volume and sentiments along with their respective processes are the key focus

areas for the transformation experts. This will also require a robust and integrated functional architectural solution, which can clean, transform and map the disparate data sources to reveal and report the hidden business insights at shortest period in a structured manner.



Profitability and pricing are the outcomes of a market economy and decisions of Industry leaders.

However, the current leadership is also in a state of deep confusion especially about the selection of right set of business drivers and which one should be control first?

Economy, technology, politics and social environment are some of the drivers, which a CFO has to deliberate and prioritize to reduce the gap between what the CFO office is doing against the new-fangled expectation from the CFO office to ensure optimization of the business performance and to protect the basics of business for community as a whole.

The reliable insights about the complex aspect of business like target segment of customers, product customization, penetrating pricing, logistics costs ,

warranty and marketing incentives' effects along with competitive intelligence will ensure additional profits to the manufacturing industry

including the Auto Sector, which at present, is in trouble and desperately requires additional demand and profitability.

Leading ones organization towards a glorious future is a tough task but true leaders are meant for it



About the Author



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Mukesh is an experienced finance professional with two decades of experience in Manufacturing and Consulting sectors. He has successfully performed the roles of finance controller, functional consultant and corporate performance manager (CMD office) with leading organizations of different cultures. He carries a strong exposure of accounting & finance, cost management, business performance management and turnaround initiative to improve organizational performance. He is a qualified CMA with professional qualifications in International Finance & Advance Strategy Management.

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"Any manager can cut costs but my focus is on value addition" ...

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