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Overhead Study 2011  
*Current Trends in  
Cost Optimization*



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*Also contributing to this Briefing were Claudia Gullotta, Philipp Kloecker, Roberto Liuzza, and Frédéric Pirker.*

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## EXECUTIVE SUMMARY

*During times of financial crisis, many companies look to overhead cost optimization programs to keep their organizations sound. In 2008, as the Great Recession gripped the world economy, Booz & Company surveyed 30 European companies to learn more about their approach to optimization programs and to identify the key drivers and tools. Three years later we conducted a new survey, expanding the original in breadth and scope—with results that have global relevance. One of the key findings of the 2011 study is that overhead cost optimization remains an important topic on the corporate agenda. In fact, 75 percent of the companies surveyed implemented an optimization program between 2008 and 2011.*

*Analysis of the survey responses reveals four other important trends. First, opportunities exist for significant savings: Recent programs delivered a minimum of 10 to 15 percent cost savings on average, and the survey results identify untapped cost-saving opportunities of an additional 5 to 10 percent, primarily in the HR, IT, and finance functions. Second, companies were undeniably influenced by the financial crisis. The need for urgent actions and fast results required shorter-term cost-saving levers, which resulted in a predominant focus on procurement. Third, companies realized the importance of structural, process, and behavioral change. In 2011, 90 percent of companies (compared to 68 percent in 2008) saw process standardization as a key enabler of overhead optimization. Finally, companies recognized that cost optimization can create value—particularly in terms of improving service quality and compliance.*

*These results should resonate with executives. They need to understand the total value of overhead optimization—as a vehicle for cost reduction but also as a value creator—as they seek to achieve sustained growth in an uneven economy.*

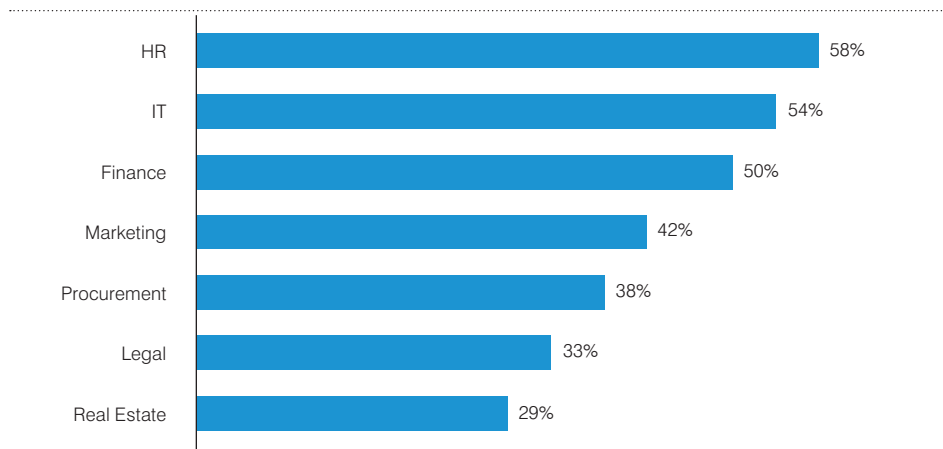
## KEY SURVEY FINDINGS

In recent years, cost cutting has been high on nearly every company's corporate agenda. To understand how executives are focusing their overhead cost optimization efforts, Booz & Company recently surveyed 30 leading companies in Germany, Italy, Austria, and Switzerland. This study followed up on a 2008 survey that covered similar themes but was narrower in scope, enabling us to analyze trends in cost optimization over the past several years. Our analysis of the 2011 survey data identifies five key trends in cost optimization programs, and reveals potential areas of additional cost savings. Although the survey focused on European companies, we believe these findings have global relevance.

1. *Cost optimization is still a hot topic for companies.* The results from the 2011 study show that most companies—75 percent of the 30 leading companies represented in the survey—have conducted a general and administrative (G&A) optimization program within the last three years. Of these programs, the majority (62 percent) were the result of a continuous cost optimization process, and the others were triggered by the financial crisis. The survey reveals that all participating companies were satisfied with the outcome of their effort, despite the fact that the amount of time required to accomplish their cost-saving goals increased from an average of 17 months in the 2008 study to 20 months in the 2011 study. In fact, 67 percent of participating companies reached their target savings level, and the remaining 33 percent exceeded it.
2. *Companies have identified new areas for potential cost savings.* Although recent programs delivered 10 to 15 percent cost savings on average, companies still see room for additional potential savings of 5 to 10 percent. Participants identify this savings potential mainly in HR (reported by 58 percent of companies surveyed), IT (54 percent), and finance (50 percent) (see Exhibit 1).

*Seventy-five percent of the companies represented in the survey have conducted a G&A optimization program within the last three years.*

*Exhibit 1*  
*Overhead Functions with Additional Savings Potential (% of respondents)*

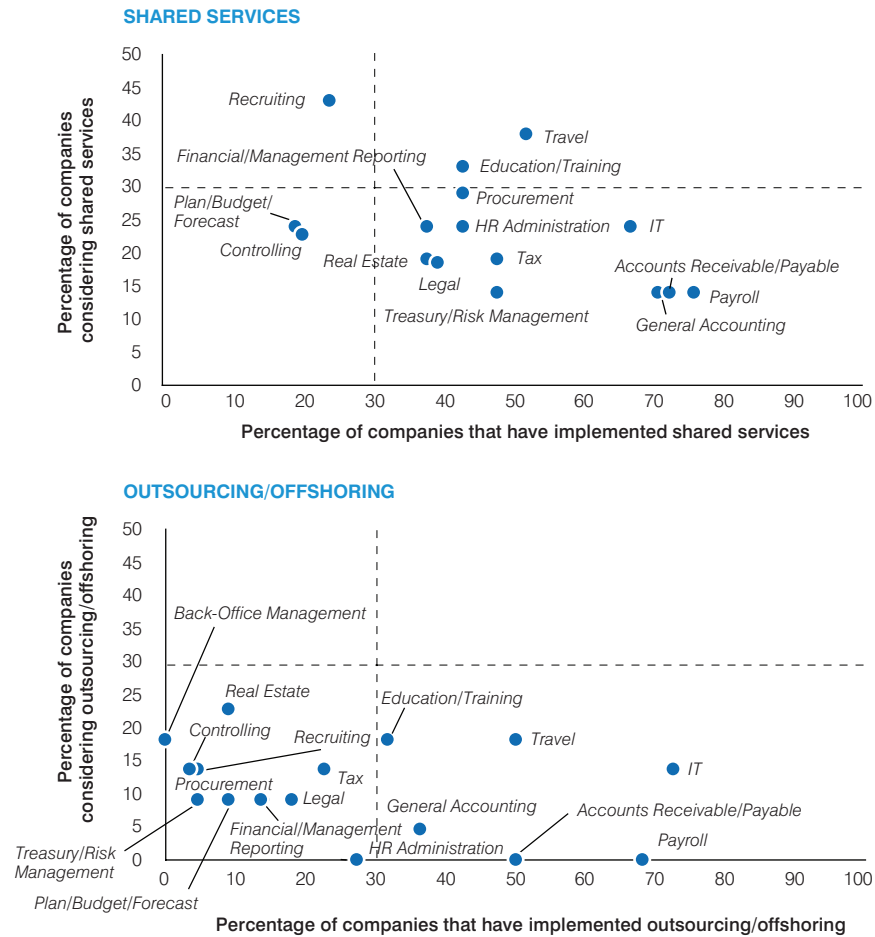


Source: Booz & Company analysis

To realize these additional savings, companies have turned primarily to shared services and outsourcing: Almost 80 percent of companies reported that they have one or both in place. A detailed analysis on the process level provides valuable insights into future opportunities, and what companies will need to prioritize to capture the full potential of their optimization efforts (see Exhibit 2). In particular, the 2011 survey reconfirms the importance of shared services as the preferred operating model for IT, payroll, and transactional finance processes—the cost-saving “gold mines” from the 2008 survey. Around 70 percent of respondents already have shared services in place for these processes. Many of the remaining companies are considering implementing shared services in these functions in the near future. Our survey also highlights other potential areas in which shared services could be used to achieve savings, including education and training and recruiting.

3. *During the crisis, programs were oriented to the short term.* In part due to the financial crisis, cost reduction programs over the past three years have been driven primarily by short-term actions to deliver fast results. Staff reduction and

**Exhibit 2**  
**Current Penetration (2011) and Further Potential by Process**



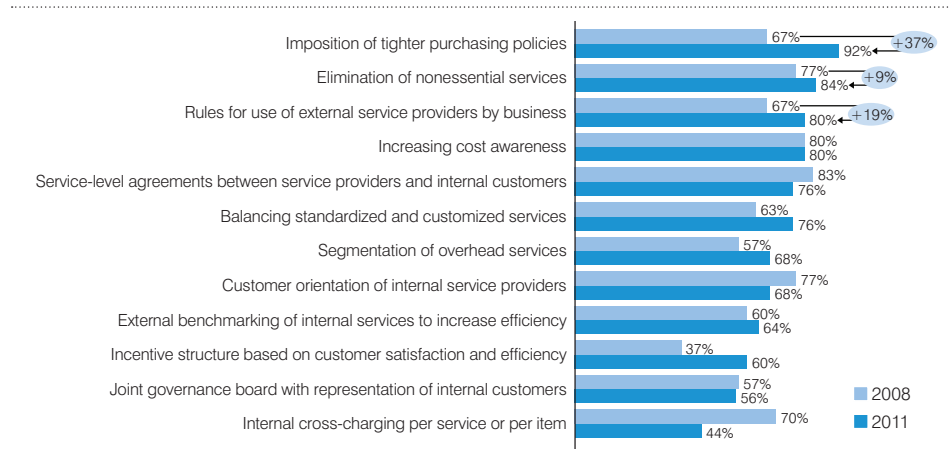
Source: Booz & Company analysis

centralization played a larger role than organizational streamlining and structural optimization.

Demand management levers that can be implemented in the shorter term, such as the imposition of tighter purchasing policies, the elimination of nonessential services, and rules for use of external service providers, became priorities (see Exhibit 3), elevating the importance of procurement in cost optimization efforts. In fact, procurement was the main focus of G&A optimization programs over the last three years in more than 60 percent of the cases (compared with 48 percent in 2008).

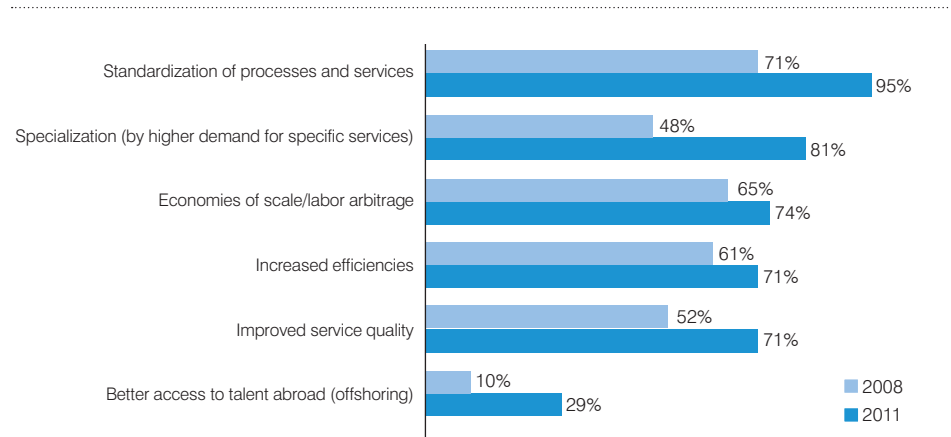
4. *Companies recognize the importance of transformation and change management.* Reaping the benefits of cost optimization requires structural and process change. In fact, 80 percent of companies see process optimization and automation as important elements demanding increased attention, along with pooling of services and organization streamlining (mentioned by 70 percent of companies). For companies introducing shared services, process standardization has grown in importance since 2008; 95 percent of companies reported achieving this objective (see Exhibit 4).

**Exhibit 3**  
**Demand Management Levers, 2008 vs. 2011 (% of respondents)**



Source: Booz & Company analysis

**Exhibit 4**  
**Objectives Achieved by Introducing Shared Services (% of total responses)**

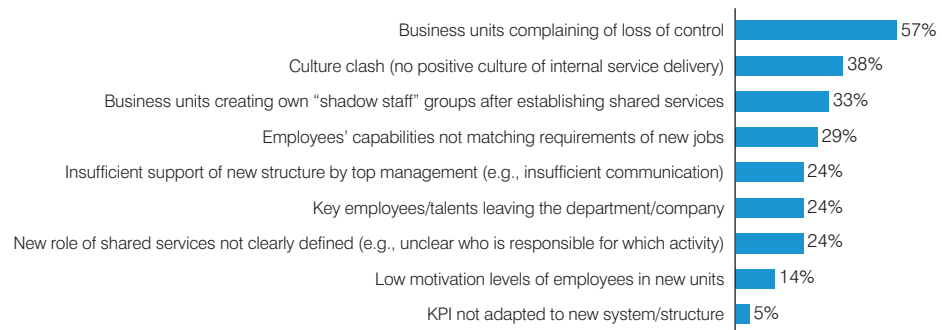


Source: Booz & Company analysis

As evidenced by the study, companies also need to focus on behavioral enablers to make cost optimization sustainable. About 40 percent of companies face culture issues while implementing shared services. A significant portion of participants (57 percent) reported loss of control by business units, whereas nearly 30 percent complained that their employees' current competencies do not match new job requirements. Furthermore, almost one out of four companies mentioned insufficient support from top management, often resulting in the loss of key talent (*see Exhibit 5*). Similar insights also arise from outsourcing and offshoring initiatives, during which companies are often confronted with culture clash issues. Respondents also reported loss of flexibility (45 percent), loss of expert knowledge (about 30 percent), and decreased employee motivation (about 20 percent).

5. *Cost optimization programs can also create value.* Companies report that in addition to pure cost reduction, optimization programs can also have a value creation component: Around 90 percent of companies see shared services and process standardization leading not only to lower cost, but also to higher service quality and even improved compliance (*see Exhibit 6, page 8*). In fact, 94 percent of companies surveyed improved compliance by implementing shared services. Traditionally, compliance and cost reduction were often considered to be mutually exclusive objectives. But ensuring compliance does not necessarily come with higher costs, and vice versa, if cost optimization leads to higher process standardization and gains in transparency.

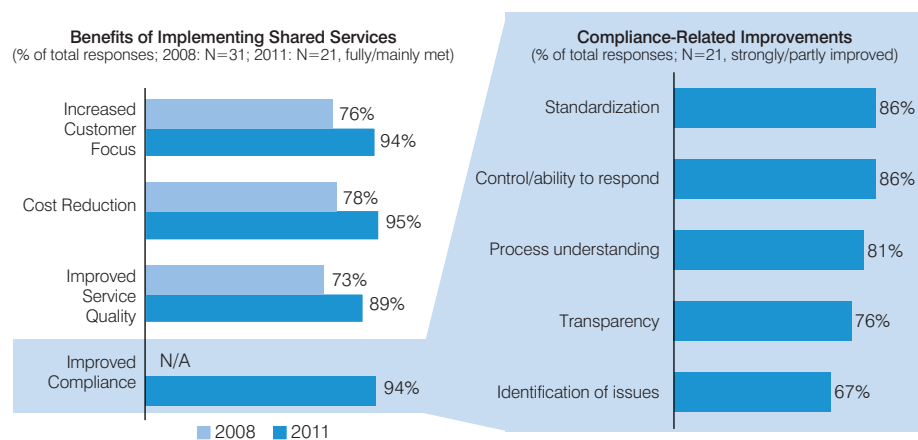
**Exhibit 5**  
**Challenges Faced in Implementing Shared Services (% of respondents)**



Source: Booz & Company analysis

***About 90 percent of companies see shared services and process standardization leading not only to lower cost, but also to higher service quality and even improved compliance.***

**Exhibit 6**  
**Cost Optimization and Value Creation**



Source: Booz & Company analysis

**CONCLUSION**

Overhead optimization programs are working, from the perspective of those running them. As reported by our survey respondents, cost-saving targets are largely being met. But there is room for improvement, and additional savings can be captured. Our respondents also acknowledge that implementing these cost optimization programs requires new structures, ways of working, and processes. Changing behaviors is an integral part of these programs, to ensure buy-in from stakeholders and to mitigate risk. The survey also revealed that the value of overhead optimization goes beyond pure cost reduction. As reported by our participants, process standardization and adopting shared services enable improvements in compliance and service quality.

All of these conclusions are critical for executives in our current, challenging business environment. They need to transform how their companies operate, but still invest in growth. To do so, they must have a clear vision of their cost agenda, and adopt the processes that will enable them to cut inefficiencies while also identifying the places where optimization efforts can create value. As our five key trends show, some leading companies are moving in this direction, and others would do right to follow suit.

***Implementing cost optimization programs requires new structures, ways of working, and processes. Changing behaviors ensures buy-in from stakeholders and mitigates risk.***



## METHODOLOGY

### Description of the Study

The Overhead Study 2011 examined the status of G&A cost optimization programs and their results in 30 leading companies in Germany, Italy, Austria, and Switzerland. A standardized questionnaire was sent to executives, primarily CFOs, at these companies for data collection. This survey is a follow-up to our 2008 overhead optimization study but is broader in scope (Italy was not included in the original study). In addition to the roles that demand management, shared services, and outsourcing/offshoring play as options in cost optimization, we explicitly asked companies about the roles of compliance and change management in the context of their cost optimization programs. Key findings from 2011 were compared to results and trends of the previous study, and relevant conclusions have been derived.

### About the Authors

**Christian Burger** is a senior partner with Booz & Company based in Munich. He is the leader of the organization, change, and leadership practice in Europe, and focuses on strategic and organizational transformation and governance topics in the industrials, aerospace, pharmaceutical, and telecommunications industries, with client experience in all major European markets.

**Stefan Frey** is a principal with Booz & Company based in Munich. He specializes in organizational efficiency and effectiveness across all industries, and has designed and implemented many cross-functional shared service centers across the globe.

**Thomas Ketterle** is a senior associate with Booz & Company based in Munich. He is a member of the organization, change, and leadership practice and specializes in organizational efficiency, shared services, and finance function optimization.

**Paolo Morley-Fletcher** is an associate with Booz & Company based in Rome. Part of the firm's organization, change, and leadership practice, he specializes in change management and culture change, leadership alignment, and organizational development within large-scale transformations.

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