

Driving Enterprise Value Through Cost Management



Expense Reduction
Analysts

CFO

About This Report

In late Q2 of 2021, CFO Research of Industry Dive, conducted an online, invitation-only survey of senior finance executives at companies in the United States to examine their perspectives on cost management and their priorities to achieve their business goals.

We gathered a total of 166 complete survey responses from CFOs and other finance executives across 18 industries in the United States.

Titles:

- Chief Financial Officer — 33%
- EVP or SVP of Finance — 21%
- VP of Finance — 19%
- Director of Finance — 15%
- CEO, President, or Managing Director — 6%
- Controller — 3%
- Treasurer — 3%

Annual Revenue

- \$250 to \$500 Million — 7%
- \$100 Million to \$250 Million — 48%
- \$50 to \$100 Million — 38%
- Less than \$50 Million — 7%



Executive Summary

Our survey of 166 CFOs, CEOs and other senior finance executives at companies with up to \$500 million in annual revenues shows that identifying, reducing, and optimizing costs is a critical function for businesses. The survey, conducted by CFO Research of Industry Dive in partnership with Expense Reduction Analysts, also indicates a direct correlation between how well a company performs and whether it values external advice on identifying and assessing cost savings.

The survey revealed some interesting insights into executive thinking, specifically about their financial priorities for the future, outsourcing, and cost reduction efforts. For CFOs, the incentives for engaging outside expertise on cost issues may relate to taking on more strategic roles, higher expectations from company stakeholders, improving enterprise valuation, or the financial flexibility and related benefits that flow directly from cost savings.

Key Findings



For the large majority of the surveyed executives, maintaining a high degree of cost discipline over the next 24 months will be critical for growth.

Cost analysis is their top priority for the finance function over the next 12 months.



Most of the executives wished they had evaluated areas of potential cost reduction prior to the economic downturn.

Company success is correlated with the desire to identify areas for cost reduction and optimization.



Well-performing companies value external advice on cost savings more than underperforming companies.

Outsourcing finance function processes corresponds with achieving business goals.



At the vast majority of companies, the CFO and finance function are increasingly expected to deliver real-time, accurate updates to company stakeholders.

At nearly every company, the CFO and the finance function must be strategic partners and drive enterprise value.

Costs Are Key

Cost issues will continue to play a critical role for companies as they wrestle with ongoing business disruptions triggered by the pandemic, the survey shows. Throughout the survey, the executives prioritize cost concerns, both in planning and looking back.

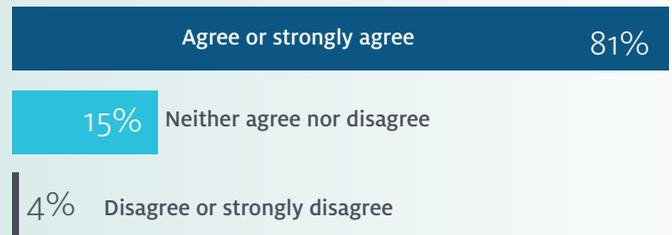
Eight out of 10 of the surveyed executives—**81%**—say **that maintaining a high degree of cost discipline over the next 24 months will be critical for growth.**

In comparing executives’ responses at companies exceeding financial goals and expectations to their

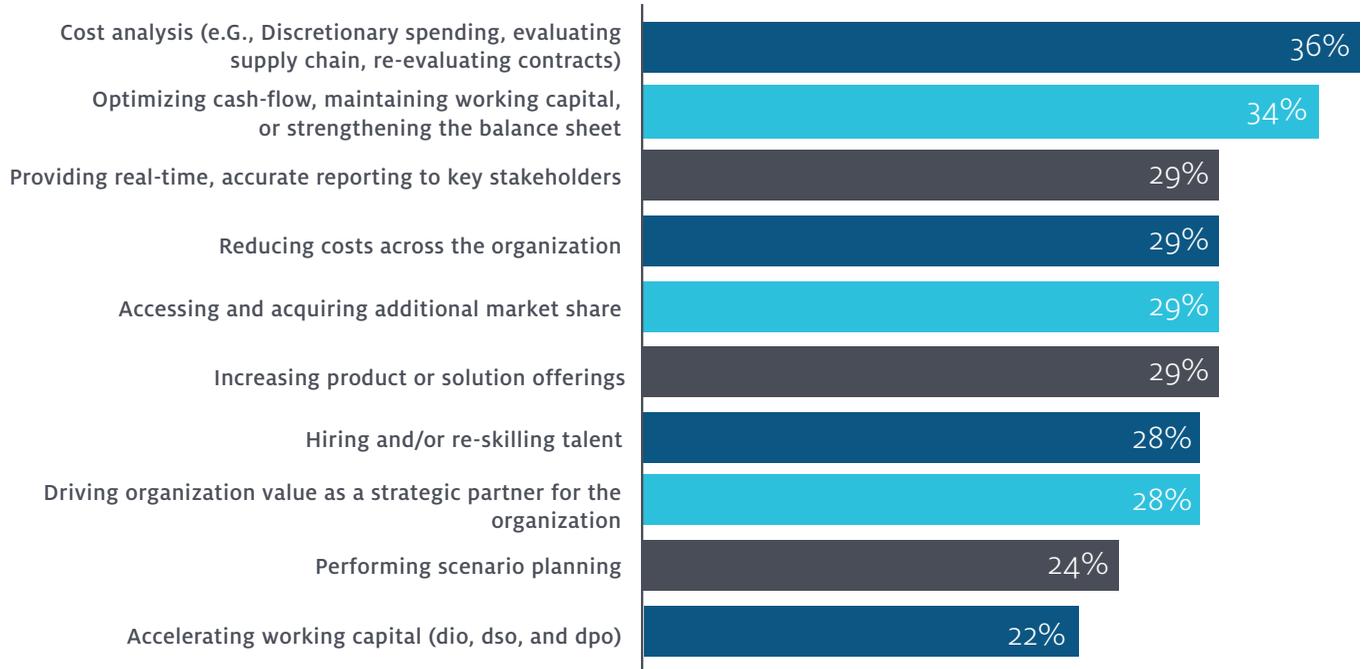
peers’ responses at underperforming companies, the executives from successful companies are three times more likely to strongly believe that cost discipline is critical for growth.

Asked to name their top priorities for the finance function over the next 12 months, the survey respondents put **cost analysis at the top of their list. Their second-highest priority is optimizing cash flow, maintaining working capital, or strengthening the balance sheet.**

For the next 24 months, maintaining a high degree of cost discipline at my organization will be critical to pursuing growth.



Priorities for the finance function over the next 6-12 months





70% say their organizations were forced to identify key areas of cost reduction within the previous 18 months.

Recent business stresses have undoubtedly affected the executives' attitudes toward cost issues. Nearly three-quarters of the surveyed executives—73%—say supply chain disruptions in the previous 12 months impacted their organizations and customer service. And 70% say their organizations were forced to identify key areas of cost reduction within the previous 18 months.

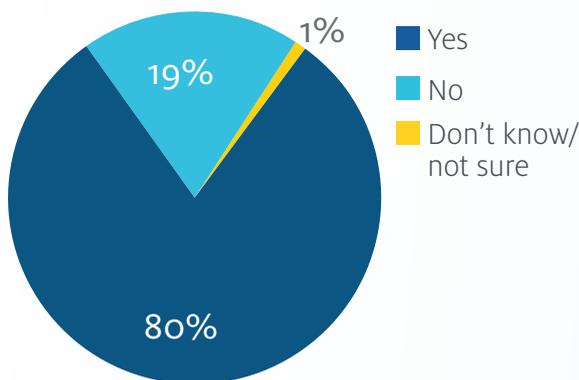
Looking back, four out of five of the surveyed executives wanted a do-over: They wished they had evaluated areas of potential cost reduction prior to the economic downturn.

The survey also reveals a correlation between success at the company level and a desire to identify cost reduction and optimization areas.



Compared to executives at underperforming companies, the executives at companies exceeding expectations are 1.5 times more likely to strongly agree that their finance function regularly identifies areas to reduce or optimize costs. Furthermore, executives from companies with accelerated growth, or those currently building business resiliency, are nearly five times likely to strongly agree that their finance teams identify cost reduction or optimization opportunities when compared to executives from companies that are still stabilizing/in recovery.

Knowing what you know today, do you wish you had evaluated areas of potential cost reduction at your organization prior to the most recent downturn?

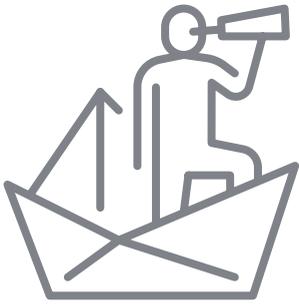


My organization and customer service were impacted by supply chain disruptions in the past 12 months.



Seek Advice, Boost Performance

One of the most eye-opening findings from the survey is the direct correlation between company performance and company use of cost-savings consultants. The survey shows that well-performing companies value external advice on cost savings more than underperforming companies.

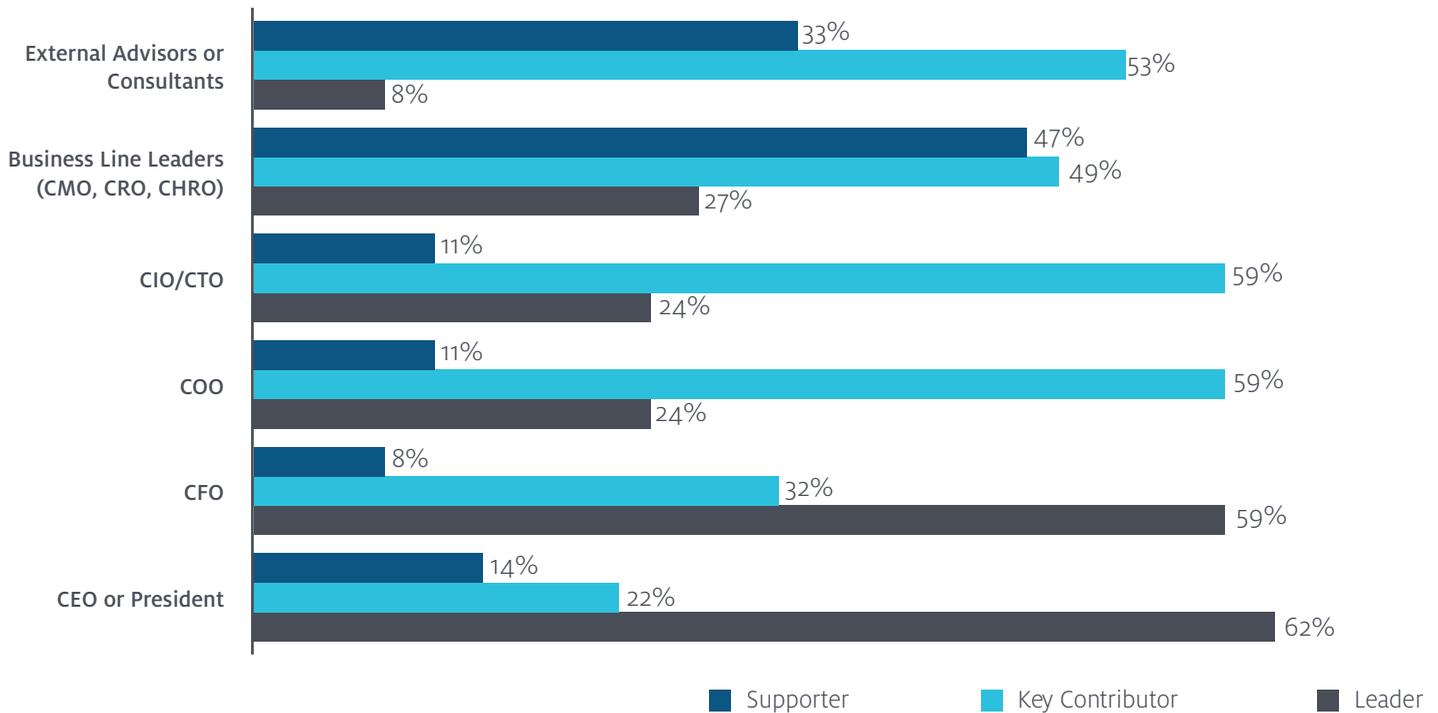


Most surveyed executives from companies that expect to meet or exceed expectations in 2021 say consultants play a key or leading role in identifying and assessing cost-saving opportunities at their organizations.

None of the executives from companies that expect to underperform in 2021 say consultants play a key or leading role on cost issues, and 29% from those companies say consultants play no role at all on cost issues.

The gap is similar for companies measured by their current state of performance. At companies experiencing accelerated growth, 69% of the executives say consultants play a key or leading role on cost issues. That percentage steadily declines for companies in lower and lower states of current performance. Only 24% of the companies on the bottom rungs of current performance—in recovery or in decline—put consultants in key or leading roles on cost issues.

The role of various stakeholders in identifying cost-saving opportunities



Data from respondents indicating they expect to meet or exceed expectations in 2021

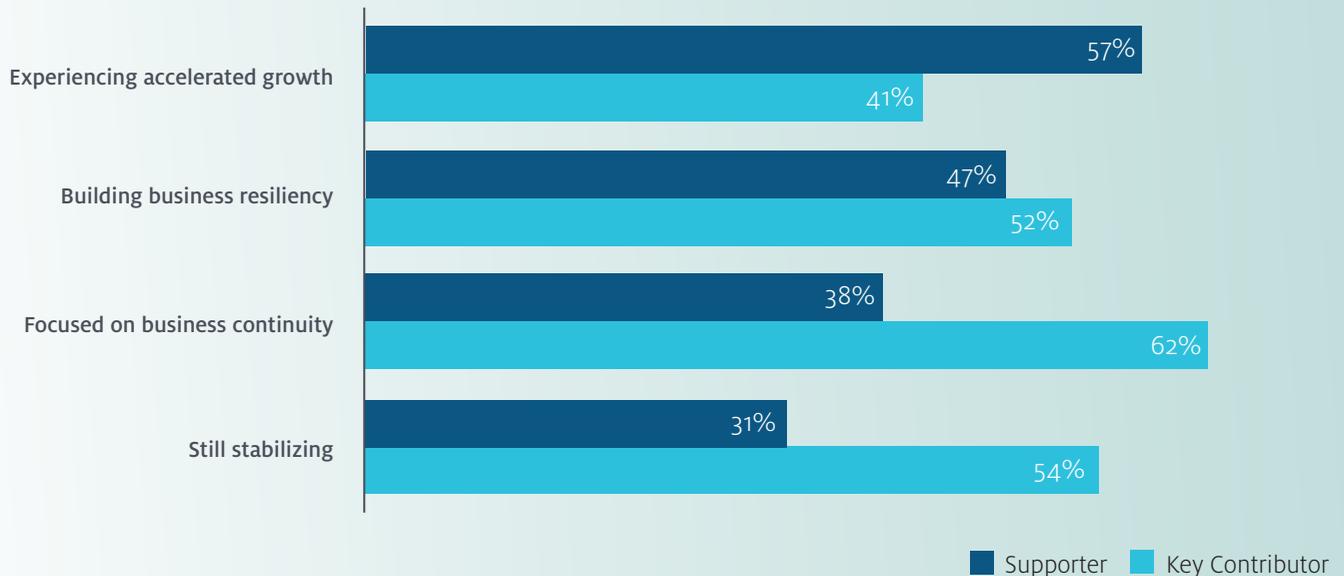


A large majority of the executives—81%—acknowledge that having outside input on reducing costs would be valuable.

By a wide margin, executives from successful companies are more likely to believe in the value of external input on reducing costs. The ratio is nearly 3 to 1 when comparing executives from companies exceeding expectations to their peers at underperforming companies. Additionally, the ratio is more than 3 to 1 when comparing respondents from organizations with accelerated growth who strongly agree with the value of outside input versus respondents from businesses that are still stabilizing/in recovery.

There is also a clear correlation between outsourcing finance function processes and achieving business goals. The survey shows only 31% of organizations still stabilizing/in recovery outsource finance function processes, compared to 57% of the organizations experiencing accelerated growth. Similarly, only 14% of respondents from underperforming companies outsource finance processes, compared to 57% of respondents from companies exceeding expectations.

Outsourcing finance function processes correlates with achieving business goals



Respondents' business outlook for 2021 vs. their sentiment of using external advisors to outsource finance function processes.

Self-Reflection

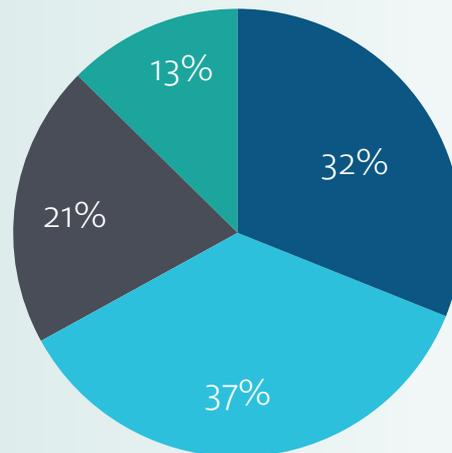
Why do CEOs, CFOs, and other senior finance executives seek external expertise on identifying and assessing cost-savings opportunities? The survey reveals several insights.

One survey question addresses the specific areas of cost management where companies may seek help. Executives evaluated their finance function performance on cost management activities, and the four areas most flagged for needing improvement were:

- **Monitoring expenditures and analyzing expenditure variance**
- **Automating, outsourcing, or streamlining administrative processes**
- **Negotiating better deals with vendors for reduced prices, better service, and better quality**
- **Monitoring margin erosion by vendors and suppliers**

The most common reason given for outsourcing is to access skills that finance doesn't have; the second-most common reason: To access advanced technologies.

Drivers of Respondents' Decisions to Outsource Finance Function Processes

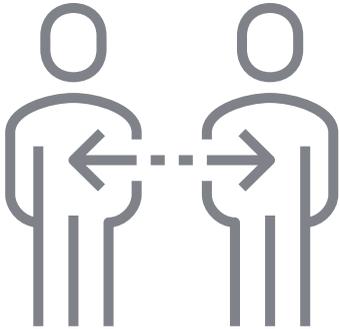


- Access to advanced technologies
- Accessing skills not currently in the finance function
- Bandwidth constraints in the finance function
- Cost reduction

Where CFOs believe they have room for improvement



Priorities for the finance function over the next 6-12 months



A large majority of the executives—91%—agreed that the CFO and the Finance function are to be strategic partners at the organization.

In another question, we asked the executives what is getting in the way of making finance-function improvements that would boost growth.

The top five issues they cited:

- An absence of a broad organizational mandate supporting finance
- Business and organizational complexity
- A lack of time, attention, and resources
- Resistance from other functions or business lines
- Scarcity of talent or skills in the finance function

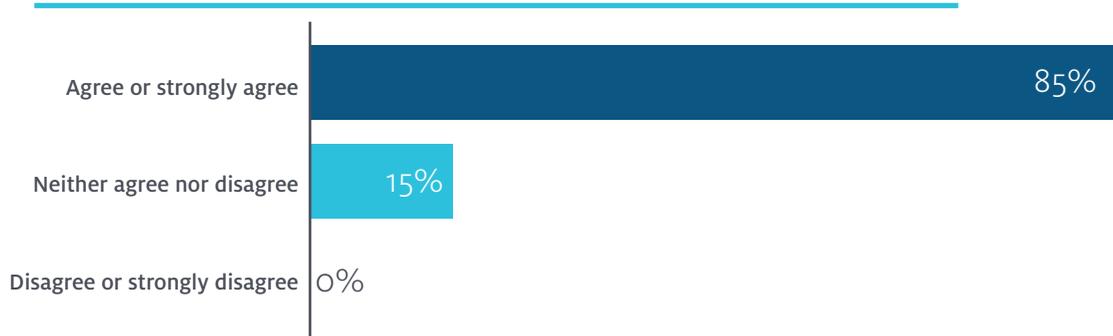
Two of the problems listed—lack of time, attention, resources, and scarcity of finance talent or skills—can be directly addressed with consultants on cost issues.

Once again, the survey showed a divergence of views between executives at successful and less-successful companies. Of the respondents from organizations experiencing accelerated growth, 58% view external advisors, or consultants, as crucial contributors to identifying cost-saving opportunities. That compares to only 23% of the respondents from organizations that are still stabilizing/in recovery.

New Strategic Responsibilities

For CFOs, engaging outside expertise on cost issues may be tied to taking on more strategic responsibilities and facing greater expectations from company stakeholders.

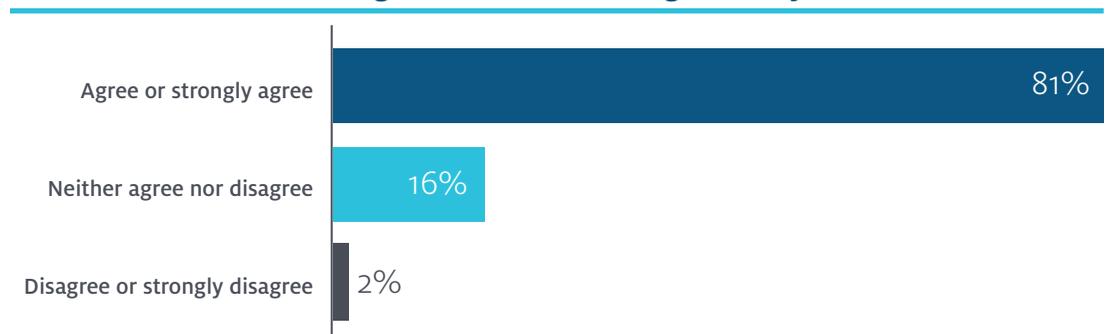
“The CFO and the finance function have been increasingly expected to deliver real-time, accurate updates to stakeholders at our organization”

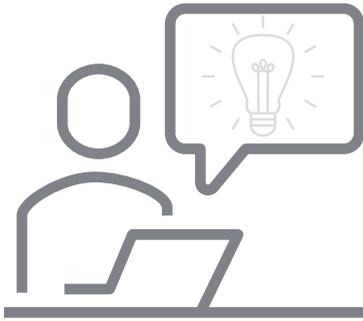


The surveyed executives are nearly unanimous—91% agree—affirming that the CFO and the finance function at their companies must be strategic partners and drive enterprise value. **85% say the CFO and the finance function are increasingly expected to deliver real-time, accurate updates to company stakeholders to inform business decisions.**

There’s also pressure to move quickly, with 81% of the surveyed executives saying that cost optimization will directly impact their ability to meet business goals this year. Given the supply chain issues and other business disruptions experienced by the companies represented in the survey, the ability to analyze new data and pivot quickly is critical for their success.

“Optimizing our costs will have a direct impact on our ability to meet business goals and achieve targets this year”



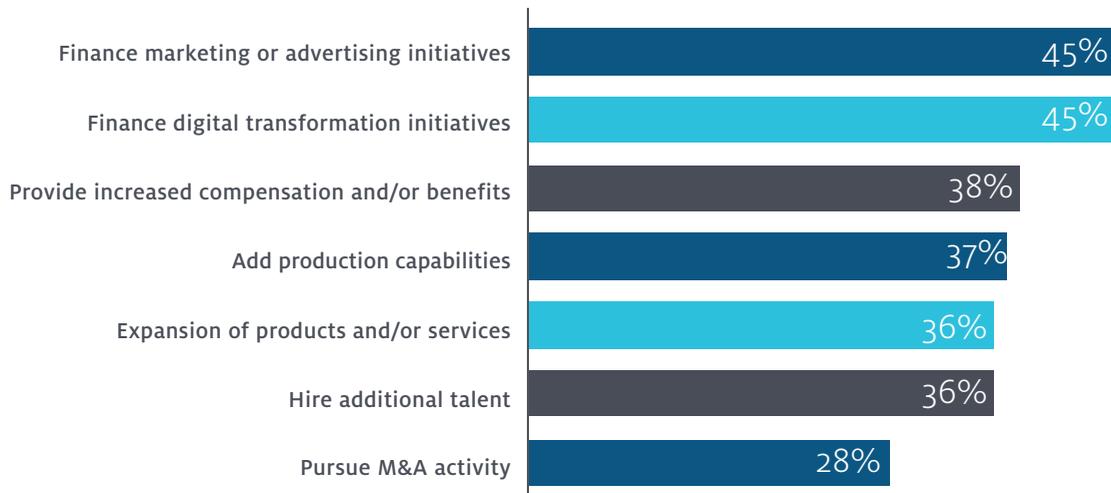


Benchmarking also plays a key role in decision-making, with 79% of the surveyed executives saying that having the ability to compare company costs against peers and competitors is valuable.

Financial flexibility could be another incentive, with CFOs looking to plow cost savings back into the business or to fund new projects or positions. Every dollar of expenses saved can translate directly to increased company valuations.

When asked what benefits their companies would reap from cost reductions in the next 24 months, the top two responses of the surveyed executives—each named by 45% of the respondents—are paying for marketing or advertising initiatives and digital transformation initiatives.

Which of the following benefits is your organization most likely to realize from any cost reduction activities in the next 24 months?



10 Critical Questions to Ask When Engaging a Cost Consultant

For organizations that are considering engaging a consultant for advice on identifying and assessing cost-savings opportunities, some questions to ask:

- 1 What is the level of talent and expertise offered by the consultant?
- 2 Does the consultant offer cost benchmarking to industry peers and revenue peers?
- 3 Does the consultant have the expertise to negotiate on behalf of the company with vendors and suppliers?
- 4 Do they offer a “plug-and-play” engagement with little or no disruption of the day-to-day finance function?
- 5 Does the consultant under consideration offer a contingency-based payment model, where they are paid based only on any savings found?



- 6 How engaged is the consultant in the implementation of new solutions?
- 7 Will the consultant play an active role in the implementation of the chosen cost?
- 8 Will the consultant stay on to monitor and inspect the results of the implementation?
- 9 How long will the engagement last?
- 10 Will the company benefit from a knowledge transfer during the engagement?



Key Takeaways

- Looking back, four out of five of the surveyed executives wanted a do-over: They wished they had evaluated areas of potential cost reduction prior to the economic downturn.
- 70% say their organizations were forced to identify key areas of cost reduction within the previous 18 months, and eight out of 10 of the surveyed executives—81%—say that maintaining a high degree of cost discipline over the next 24 months will be critical for growth.
- 85% say the CFO and the finance function are increasingly expected to deliver real-time, accurate updates to company stakeholders to inform business decisions.
- A large majority of the executives—81%—acknowledge that having outside input on reducing costs would be valuable.

Conclusion

The survey results leave little room for doubt: **Identifying, reducing, and optimizing costs is critical for growth.** Successful companies prioritize identifying areas for cost reduction and optimization, and they value outside expertise on cost issues. Supply chain issues, and other business disruptions, have forced companies to identify key areas for cost reductions. How companies manage to optimize their costs has a direct impact on whether they meet their business goals. CFOs are taking on more strategic roles, and they're expected to drive enterprise value. Cost savings directly affect company valuations, providing an added incentive to engage consultants for cost reduction and optimization initiatives.

About CFO Research

CFO Research, of Industry Dive, has been a trusted source of insight into the business issues that matter most to finance professionals since its founding in 2000. CFO Research is the sister firm of CFO.com and relies on senior finance executives to share their experiences, insights, and observations on critical business issues. This cutting-edge research supports critical business decisions by our sponsors, as well as their thought leadership positioning and marketing efforts.

About Expense Reduction Analysts

Established in 1992, Expense Reduction Analysts (ERA) is one of the world's leading consultancy organizations. Specializing in cost optimization and supplier relation management, ERA delivers Value through Insight™ to clients in both the private and public sectors.

With more than 700 consultants operating in over 40 countries, the award-winning business boasts international expertise while simultaneously offering a local presence to clients.

Through in-depth industry knowledge and insight across a variety of expense categories, ERA adds value to organizations by advising on industry-specific best practices, reducing costs and ultimately delivering tailored solutions to benefit business health and growth.

A few of ERA's core expense categories include Banking and Financial Services, Insurance, Corporate and Administration Support Services, Logistics and Distribution, Energy and Utilities, Medical and Pharmacy, Facility and Property Management, Maintenance, Repair and Operating Supplies (MRO), Personnel and HR Services Delivery as well as Information & Communication Technology (ICT).

For nearly 30 years, Expense Reduction Analysts has improved business performance for thousands of its clients, including many well-known names.

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