

# Cut costs, not performance in manufacturing

Supporting the manufacturing sector to make cost out and margin improvement decisions today to improve the bottom line

Global macroeconomic conditions outside of manufacturers' control are heavily impacting their revenue and cost base, highlighted by increasing energy costs, elevated interest expenses, inflationary pressures, including input costs and wages, and slowing economic growth impacting consumer confidence and spending levels. With these increased and ongoing pressures on the cost base, manufacturing businesses need to find immediate opportunities to reduce costs and drive margin improvement.

The drive is for manufacturers to identify inefficiencies and create cost savings with regards to inputs, operations and manufacturing, supply chain and distribution, and resourcing to counter the ongoing effect of inflation and ensure competitiveness in the market.

Incrementally improving the bottom line through targeted initiatives to reduce key costs, optimise operations and reduce waste allows immediate uplift on revenue and margin, ultimately leading to improved long-term financial performance.

With an inability to control external economic factors at present, manufacturers need to focus their efforts on unlocking value in areas under their direct control. KPMG's specialists can work with you to identify and validate where revenue and margin can be unlocked across your business. Our specialists will work with you to identify and implement the prioritised cost out initiatives necessary to ensure you achieve the outlined benefits and return.

## Our track record in manufacturing

**60.0%**

of CPG products that are value negative can be made profitable through actions that address customer cost to serve.

**+20.6%**

increase in economic contribution for a hard goods manufacturer.

**+13.5%**

increase in economic contribution for a food and beverage manufacturer.

## Numerous factors are driving manufacturing businesses to undertake cost out and margin improvement programs

### Inflationary pressures

- Significant and sustained inflationary pressures have increased input costs and are limiting businesses' ability to pass on costs through the supply chain.

### Ageing assets

- Outdated assets are costly in terms of maintenance, output and workforce skills to operate them and limit the ability to automate and connect information across operations.

### Supply chain pressures

- Geopolitical uncertainties, fluctuating costs of commodities, freight disruptions, logistics and increasing frequency of natural disasters, put existing supply chains at considerable risk.

### Increased regulations

- Compliance requirements for manufacturers around tax, finance, payroll, modern slavery and environmental regulations are more rigorous now than ever before.

### Digital transformation

- 70 percent of digital transformation projects fail to meet stakeholder expectations, with increased Industry 4.0 focus for manufacturing businesses.

### Failed initiatives

- 66 percent of change initiatives do not achieve their desired outcome, with businesses needing expertise to effectively deliver and embed key transformations.

## How can KPMG help you?

### KPMG's expertise can help manufacturers with their cost out objectives

- **Strategic alignment:** ensure cost out objectives are clear in line with longer term organisational strategy.
- **Data driven insights:** leveraging our true profitability tool to extensively allocate cost base across P&L key areas such as raw materials procurement, manufacturing operations including by SKU/product range, supply chain network and channel and cost to serve.
- **Cost out initiatives:** identify highest value cost out areas such as

Procurement to help you immediately reduce external spend by 5-15% and install best-practice procurement methods for long-term benefit.

- **Global benchmarking:** benchmark productivity metrics against global peers facing similar challenges to identify pockets of inefficiency.
- **Functional expertise:** our functional specialists bring proven approaches to achieving manufacturing operational, revenue and margin uplift programs across customers, sales and marketing channels, manufacturing operations, supply chain and distribution, procurement, finance, HR and technology.

### Our deep manufacturing sector and functional capabilities ensure your cost out program is a success

- Cost to serve analysis including trade spend
- Procurement spend including raw materials and strategic sourcing
- Supply chain network design and route to market performance
- Asset optimisation across manufacturing operations
- Technology implementation and benefits realisation
- Operational process improvement

## KPMG'S 12 cost out levers for manufacturing

### Macro cost lens

#### Strategy

Focus on markets, products and business models that deliver value for customers and shareholders

#### Simplicity

Ensure the organisational, accountability and governance arrangements enable efficient decision-making and operational agility

#### Engineering

Manage and optimise how service is provided to customers, including use of technology, channels to market, and deploying automation and data to drive productivity

### Cost out opportunities in manufacturing

- Geographies, markets, products:** Optimising product lines to enhance profitability and efficiency
- Operating model and balance sheet:** Sales team realignment, working capital management and allocation review
- Organisational model:** Streamlining structure and roles for efficient decision-making and resource allocation
- Transformation optimisation:** Reviewing and refining existing transformation initiatives to provide for cost reduction
- Cost management focus:** Review and ensure adequate cost controls in place and appropriate monitoring
- Digitisation and operational efficiency:** Identifying processes for digitising to streamline process and uplift operational efficiency
- Channel optimisation:** Trade spend ROI and distribution channel review
- Organisation design and people:** Refine structure, capabilities and resource management for productivity and cost control
- Technology optimisation:** Maximising cost efficiency through technology asset optimisation
- Asset optimisation:** Reducing manufacturing site footprint/costs through consolidation
- Procurement and sourcing management:** Reviewing existing suppliers for cost reduction and supply chain efficiency
- Regulatory, governance & risk compliance (incl tax & legal):** Review of tax compliance and reducing liabilities while efficiently managing legal expenses

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