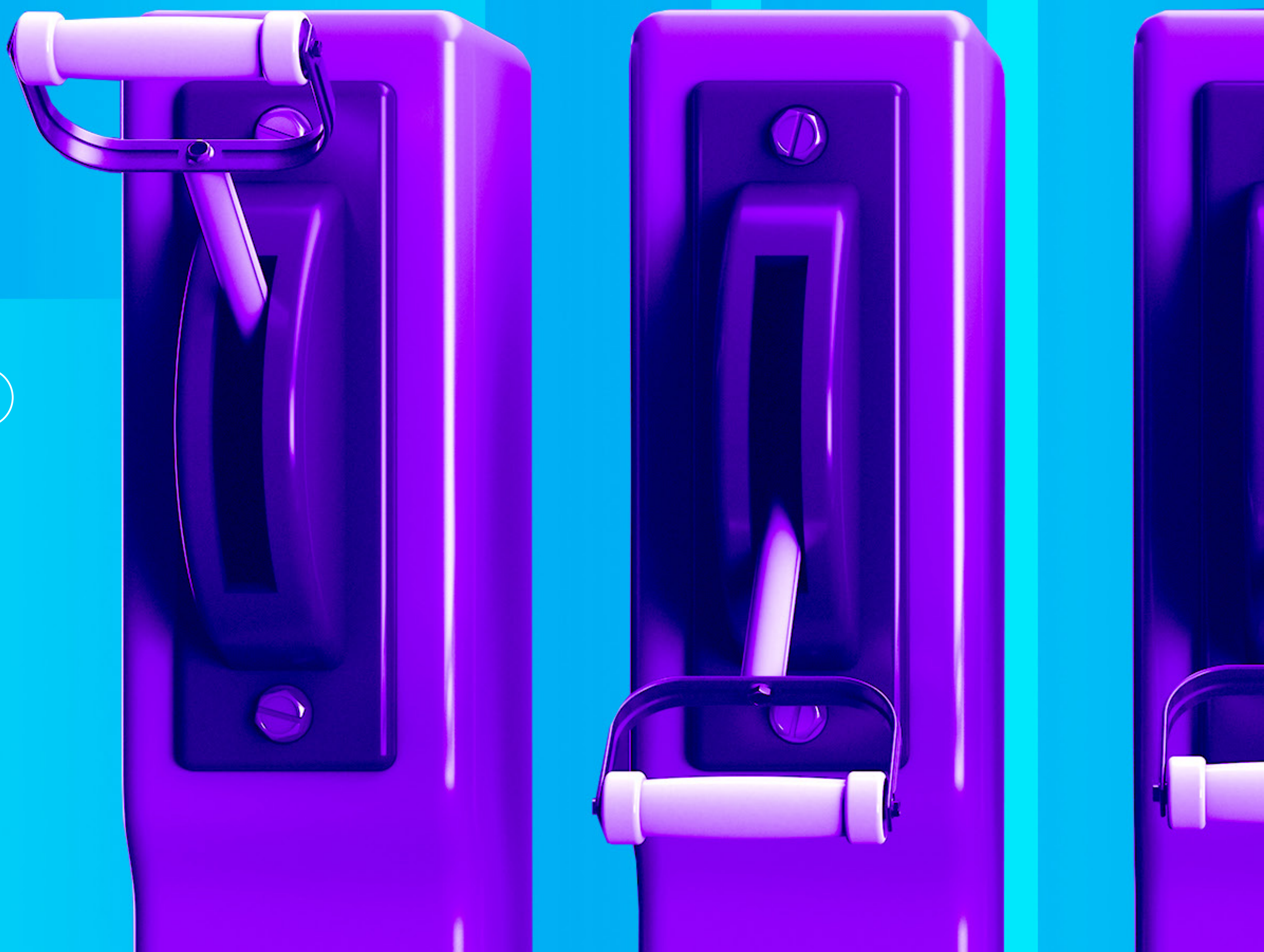
Seven levers to business value creation

Considerations for creating and preserving value



Foreword

We're dealing with several headwinds in the current environment, from soaring inflation and interest rates to ongoing supply chain issues that are creating the conditions for a potential economic slowdown. Combined with global unrest, a tight labour market, and significant tax reforms happening in Canada and globally, organizations that survived the worst of the pandemic are braced for yet more change.

Many organizations have been focused on sales and growth, modifying their approach to business to cope with the pandemic. But in this uncertain economic environment—and in response to a potential slowdown—organizations may find their debt more expensive to roll over. As a result, they'll need to rebalance their focus from mostly sales and growth to also margin improvement and cash preservation strategies.

It's often during challenging economic times that leaders are under pressure to reduce costs and improve their cash position. But this can come at a significant cost to the business if not done well. A carefully considered, strategic approach is required. Proactive organizations are building resilience and looking for internal levers to effect that resilience.

We're here to help you unlock value through our performance transformation offerings so you can confidently achieve measurable improvements to your revenue, operating margins, cost structures, and working capital positions. Along with helping you rapidly analyze your current situation, identify opportunities, and build a roadmap, we're with you every step of the way to support your success.

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Setting the stage

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Levers and actions for creating value across your organization

Although cost efficiencies are always top of mind, the potential for an economic slowdown has brought value creation into the forefront. That means bringing together data, insights, and execution capabilities to prioritize and deliver value efficiently and confidently.

Value creation isn't about cost-cutting. Rather, it's about uncovering sustainable efficiencies in how you operate and how work gets done to weather external forces beyond your control. It's about becoming responsive and agile, with business, technology, finance, and operations working together in harmony.

Many Canadian organizations are taking on value creation initiatives as a way to protect the business, boost margins, and improve their cash position, so that, when the economy picks up again, they'll be in a better position to fund future investments in areas such as digital transformation and customer experience.

This guide outlines seven value creation levers and actions to help your organization start thinking proactively about its approach.

Weathering tough times through value creation

Compared to 2019 and 2020, CEOs are better prepared to weather short-term challenges by **boosting productivity** (50%), **managing costs** (43%) and **reconsidering digital transformation strategies** (40%). In addition:

86%

of CEOs believe a recession will happen over the next 12 months.[1]

73%

of CEOs believe a recession will upend anticipated growth over the next three years.[1]

75%

of CEOs believe a recession will make post-pandemic recovery harder.[1]

71%

of CEOs predict a recession will impact company earnings by up to 10% over the next 12 months.[1]

61%

of SMB leaders say they've taken pre-emptive action to recession-proof their business.[2]

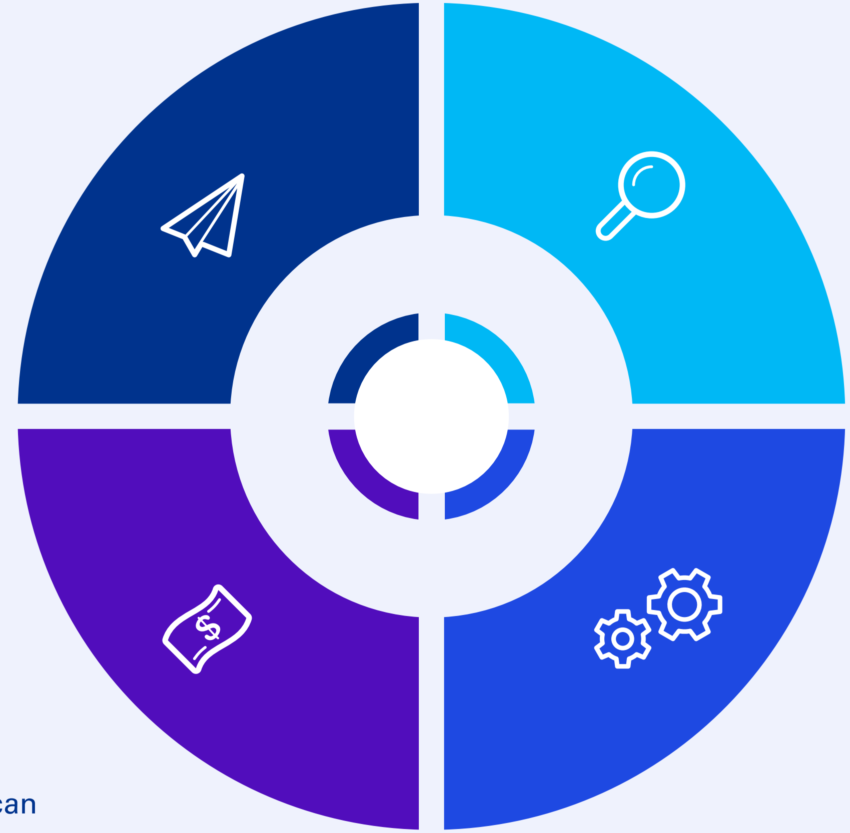
[1] CEO Outlook 2022 Survey

[2] KPMG's 2022 SMB Business Outlook Survey

The factors driving value creation

Strategic objectives

- How can we drive value after an M&A integration and deliver on potential synergies?
- How can we fund our longer-term sustainability needs?
- How can we reduce our costs in tandem with driving our business imperatives?



Market dynamics

- How is our market being disrupted by innovation or technology?
- What changes are there to our industry's competitive dynamics?
- What are the short-term and enduring changes to customer preferences?

Financial weakness

- How are we performing financially compared to competitors?
- How can we deliver more value to shareholders?
- How can we self-finance our business goals? Can we shift capital to growth areas?
- How can we decrease our operating margin?
- Do we have a competitive effective tax rate and can we optimize our cash tax position?

Operational weakness

- How can we make our processes more efficient?
- How can we raise the quality of our products or services to meet customer needs?
- How can we break down the silos between functional teams?

Seven value creation levers and potential actions

Key value creation levers and potential actions

1 Operating model

2 IT and systems

3 Process improvement (redesign and automation)

4 Third-party spend

5 Product, service & customer profitability

6 Balance sheet

7 Effective tax management

These seven value creation levers are examples that organizations may wish to consider. To start, we recommend gathering and analyzing the right operational and financial data, and building an accurate picture of the operation, financial and tax positions, and cashflow.

The following sections explain each area, outline potential considerations, and conclude with a sample high-level action plan. Contact our KPMG team to create a plan that considers the full range of potential actions that address the unique situation and objectives of your business.

Visit home.kpmg/ca/advisory for additional resources.

Key value creation levers and potential actions

1 **Operating model**

2 **IT and systems**

3 **Process improvement** (redesign and automation)

4 **Third-party spend**

5 **Product, service & customer profitability**

6 **Balance sheet**

7 **Effective tax management**

Develop an enhanced operating model able to adapt to changing demand. Closely assess capabilities required to fulfil strategic goals in order to preserve strengths and address organizational weaknesses.

Potential considerations – sample checklist:

Footprint rationalization

- [ ] Assess real estate required through remote work or relocation

Workplace design

- [ ] Optimize workplace design, location, and availability, particularly in the post-COVID-19 era

Service delivery model

- [ ] Evaluate the efficacy of outsourcing vs. onshoring functions, such as IT or Payroll

Adopt shared services models to lower client acquisition and servicing costs

- [ ] Increase focus on value activities to stimulate growth considering labour shortages and market pressures

Tax impacts

- [ ] Review opportunities surrounding international tax, indirect tax, and/or transfer pricing planning
- [ ] Assess legal entity rationalization as well as trade and customs optimization
- [ ] Explore potential grants and incentives

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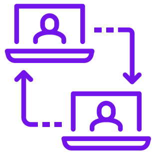

Leverage technology and advanced analytics to identify opportunities to reduce the overall cost to serve. Optimize the value in technology investments through proper integration of interdependent systems.

Potential considerations – sample checklist:

IT

- ☐ Upgrade IT systems to remove process inefficiency and technical constraints
- ☐ Use self-serve platforms to allow employees and clients to act on requests remotely (e.g. balances, trading requests)
- ☐ Maximize tax incentives, value creation and transfer pricing through assessment of tax impacts of technology investment

Systems integration

- ☐ Build connections between software, such as between different reporting systems, for greater data visibility and minimization of manual work
- ☐ Codify standard processes and automate to reduce transaction costs across the value chain

Analytics & insights

- ☐ Provide data capture and analytical capabilities to improve decision-making
- ☐ Enable self-service reporting and analytics

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Evaluate processes across the organizational value chain that can become inflated over time, thus increasing the operational cost to serve customers.

Potential considerations – sample checklist:

Lean/process improvement and redesign

- [ ] Identify and reduce non-value add activities across all processes
- [ ] Redesign the order of activities to optimize flow of information and utilization of resources
- [ ] Evaluate and organize talent around value creation activities

Intelligent automation

- [ ] Apply tools, such as bots, to ensure greater accuracy and speed in certain manual or repetitive processes (e.g. data entry, Know-Your-Customer procedures, regulations)

Tax impacts

- [ ] Assess opportunities to automate certain tax processes to gain efficiencies and reduce risks of errors

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Assess vendors and how the organization engages with them to extract maximum value for organizational spend.

Potential considerations – sample checklist:

Third-party spend (direct and indirect)

- [ ] Assess third-party vendor spend
- [ ] Negotiate lower pricing through consolidated buying power

Discretionary spend

- [ ] Review training, entertainment, employee, client acquisition, and travel policies
- [ ] Streamline review and reimbursement process to decrease time spent on discretionary expenses

Tax impacts

- [ ] Assess indirect tax recovery opportunities, trade and customs optimization, and transfer pricing considerations

Key value creation levers and potential actions

Reassess your products and services portfolio to find opportunities to improve profitability across customer segments.

Potential considerations – sample checklist:

Product optimization

- [ ] Consolidate product or service offerings
- [ ] Limit potential investment or account types
- [ ] Review pricing strategy across and between customer types

Customer profitability

- [ ] Delineate service levels based on assets
- [ ] Evaluate client portfolio to exit unprofitable clients
- [ ] Consider opportunities to extend the customer value journey

Tax impacts

- [ ] Assess impacts on transfer pricing, indirect tax/customs optimization, and the tax treatment of restructuring costs

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Develop an accurate picture of the strength of the balance sheet to support better decision-making.

Potential considerations – sample checklist:

Cash forecasting

- [ ] Get a line of sight into your cash forecasting to support strategic decisions
- [ ] Understand the pathway from EBITDA to cash and cash generation by business segment
- [ ] Build a cash cushion to buffer against economic variability
- [ ] Proactively engage your key stakeholders (lender, equity holders) if a covenant and/or liquidity accommodation is required

Working capital optimization

- [ ] Assess your cash conversion cycle to understand opportunities to lower working capital to release excess cash
- [ ] Elevate working capital metrics (i.e. customer and payment terms) into your business negotiations
- [ ] Understand the carrying cost of your working capital investments

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Develop standalone tax strategies aimed at generating tax expense reduction throughout the P&L and/or integrate them throughout the other value creation levers to help maximize returns.

Potential considerations – sample checklist:

Corporate taxes

- [ ] Develop plan for repatriating funds to serve treasury objectives and to manage tax attributes (e.g. through tax loss consolidation)
- [ ] Assess opportunities to reduce costs through legal entity rationalization
- [ ] Capture cost savings through transfer pricing planning

Indirect taxes and trade & customs

- [ ] Assess opportunities for recoveries and/or enhancing positions through business-driven cost optimization strategies

Tax transformation and technology

- [ ] Optimize tax processes, tax operations and tax technology

Grants and incentives

- [ ] Review and maximize available tax incentives

Global mobility

- [ ] Assess optimal global mobility payroll and tax policies to reduce costs and mitigate risks

Final considerations

Looking ahead to a changing reality

In times of uncertainty, leading organizations are looking at ways to preserve and create value, focusing on working capital strategies to enhance liquidity, improve performance, and reduce costs.

Value creation requires deep alignment of business challenges and technology opportunities, delivered at pace with cross-competency, market-speed operating models—allowing teams to deliver more with the same number of resources.

We can help organizations reduce complexity to enable faster decision-making and improve responsiveness to a changing—and uncertain—economic environment. We can also help to build capability that will help maintain and improve margins, and sustain improvements over time.

Considerations for organizations:

- What will our new reality look like once the economy bounces back? What is the desired future state of the business and how can we fund it?
- How is the current economic climate impacting our workforce and overall business performance?
- How can we uncover sustainable efficiencies in how we operate and how work gets done?
- How can we support top-line stability and continued bottom-line growth?
- How can we adopt automation and other technology tools to help us preserve and realize value?
- Should value creation include all functions and divisions, and to what degree?
- How can we encourage the adoption of value creation initiatives so they become sustainable?

A strategic approach to value creation

Complete a rapid performance review of your organization to help boost profitability and EBITDA. Contact us to learn more.

A rapid operational assessment, conducted in 3-5 weeks, can shine a light on the 'art of the possible' and prioritize initiatives for implementation.

Quantify the opportunity

Rapid performance improvement upside identification

3 to 5 weeks

- Rapidly establish cost/financial positions, driver and development
- Identify upside potential
- Prioritize opportunities
- Focus on a limited number of lower complexity opportunities

Implementation planning

2 to 4 weeks

- Validate and confirm the full upside impact with medium- to long-term solutions
- Set-up PMO, steering committee and assemble project teams for different initiatives
- Launch new ways of working
- Investigate technology and automation solutions that will enable advanced analysis and reduce manual tasks
- Implement low-complexity opportunities, prioritizing actions to deliver value quickly (i.e. quick wins)

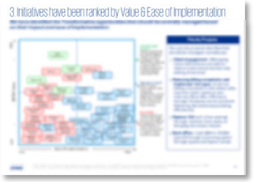
Capture the value

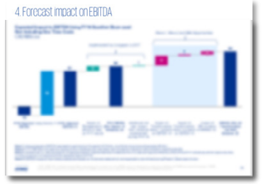
Medium and long-term transformational solutions

6+ weeks

- Establish a transformational program with a dedicated steering committee to guide the transformational changes
- Select project champions and tie their performance to the success of the initiative
- Execute quick wins
- Apply technology and digital solutions to modernize procurement, distribution channels, customer interactions, and feedback
- Secure future business outcomes

Examples of deliverables





Start building an action plan

Rapidly gather insights and learn from best practices for executing a robust value creation program.

KPMG's structured approach is fast and focused

Whether you are starting from scratch or looking for an outside perspective, our team can help you rapidly analyze and identify actions to deliver quick wins that can help ensure stability and fund longer-term initiatives. In a few weeks, we can:

- Gather the right operational and financial data
- Build a picture of the operation, financial position, and cashflow
- Prioritize where savings can be generated and cash released
- Create an action plan and help you execute

Contact a local KPMG partner or email us for more information.

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Contact us

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