



# Headquarter efficiency

How rightsizing support functions help companies improve their business processes and cut costs



Deal Advisory

The current business environment is fraught with skills shortages, rising labour costs, fragile supply chains, limited availability of raw materials and political risks, so it is essential for companies to have powerful yet lean support functions to remain competitive. For these reasons, improving organisational structures and reducing a company's administration and management costs, especially at the corporate headquarters (HQ), play a central role and is referred to as G&A (General and Administrative) rightsizing. Processes can be harmonised and standardised, costs can be reduced, and efficiency can be increased by optimising the size and structure of support teams. The company can then increase profitability and focus on strategic goals.

The KPMG Elevate approach helps to holistically and quickly identify, quantify and implement actions with the greatest potential.

**The Elevate approach with respect to G&A rightsizing comprises four steps:**

- 1. Define the baseline**
- 2. Compare to benchmarks**
- 3. Analyse spans and layers**
- 4. Prepare zero-based budgeting**

## 1. Define the baseline

A valid baseline is essential for the development of a meaningful business case and for targeted quantification of optimisation potential. Analysing current G&A spend per function and identifying redundancies or inefficiencies give companies the opportunity to set targets for reducing G&A spend on the one hand and to identify optimisation potential on the other. Such a baseline analysis can be conducted at both the organisational level and the financial level.

Analysing the headcount within the company (organisational baseline) creates transparency regarding the number of employees - also known as organisational headcount analysis (OHA). The analysis is usually performed at the individual employee level. This granularity makes it possible to perform various analyses regarding the headcount going forward. The basis of the analysis is the current organisation chart of the company as well as the list of employees. Based on these documents, the organisational baseline analysis can be performed. Here we assign all full-time employees to their corresponding areas of activity, hierarchical level (e.g., employee or manager),

and locations or offices (mapping). The scope of the mapping depends on the cleanliness of the data and the scope of the engagement. We can analyse the personnel costs in different ways depending on the hypothesis under evaluation. One example is the OHA summary table. It summarises the full headcount and costs for the period under consideration.

## 2 Headquarter efficiency



Figure 1: Example of an organisational baseline analysis conducted by KPMG – summary table based on fulltime equivalents (FTE) and associated costs

Illustrative

## Organizational baselining enables access to data-driven insights on your FTEs, pseudo FTEs and their respective costs

Cost and FTE base by function (2022) FTE / EURm	Payroll Costs		Non-Payroll Costs				Total		
	Internal FTE	Cost	External service & net SLA cost	Pseudo FTE	Cost	Other costs	Total Cost	FTE incl. pseudo	Cost
Production	20,516	590	1,463	166	2,173	2,338	21,979	2,928	
Sales incl. customer service	7,937	418	596	71	208	279	8,533	697	
Supply chain (excl. customs)	2,469	104	286	47	249	296	2,754	400	
Other	932	96	75	52	247	299	1,007	395	
I&D / R&D	1,562	154	166	101	129	230	1,728	384	
Quality management	3,035	165	147	28	44	72	3,183	237	
Marketing	793	81	71	42	67	109	864	190	
IT	521	46	220	61	18	79	741	125	
Finance	1,073	64	91	22	24	46	1,163	110	
Reg. affairs	819	74	-	(2)	21	19	819	93	
Technical service	622	35	100	10	22	32	723	67	
HR	519	39	50	14	11	26	569	64	
Procurement	374	26	-	-	7	7	374	32	
Compliance & legal	136	5	52	19	8	27	188	32	
<b>Total</b>	<b>41,310</b>	<b>1,896</b>	<b>3,316</b>	<b>630</b>	<b>3,228</b>	<b>3,859</b>	<b>44,626</b>	<b>5,754</b>	

Source: KPMG in Germany, 2023

Creating a financial baseline provides an aligned view of the revenues and costs within the company. It is usually created using trial balances generated from the financial system. Ideally, the raw data and balances are available with detailed sub-account information for both the income statement and the balance sheet. All costs are allocated to the appropriate areas.

There may be several levels of allocation for one type of cost. The main benefit of the established financial baseline is to obtain transparency about the current situation and the distribution of company expenses. Furthermore, it allows the implemented improvements and changes over time to be measured and compared internally.



Figure 2: Example of a financial baseline analysis conducted by KPMG – left: split of costs by department, right: split of total costs by function

Illustrative

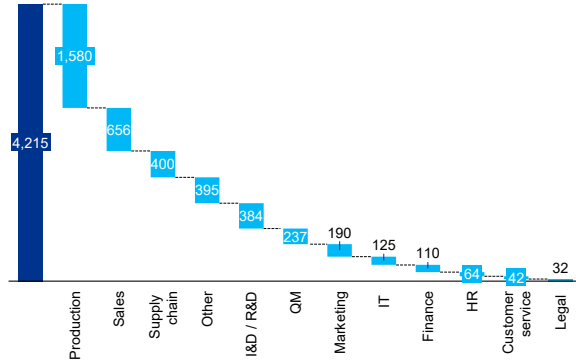
## Financial baselining creates a data-driven and solid understanding of your cost performance

Total costs per department (2022, EURm)

Financial baselining

	Div A	Div B	Div C	Div D	Total
<b>Cost of Sales</b>					
Raw Materials	-14.9	-2.3	-260.9	-157.7	-435.8
Mining Costs	-31.0	-	-	-	-31.0
Royalties	-	-	-3.5	-2.4	-5.9
Utilities	-15.1	-0.4	-4.2	-14.6	-34.3
Logistics	-0.1	-1.7	-8.5	-43.3	-53.6
<b>Direct Fixed Costs</b>	<b>-23.4</b>	<b>-5.5</b>	<b>-34.2</b>	<b>-33.9</b>	<b>-97.0</b>
Labour	-11.7	-2.8	-17.1	-16.1	-47.7
Maintenance expenses	-7.6	-1.8	-11.1	-10.4	-30.9
Third party services	-1.3	-0.3	-1.9	-1.8	-5.3
Other costs	-2.7	-0.6	-4.0	-5.6	-12.9
<b>Indirect Fixed Costs</b>	<b>-12.2</b>	<b>-3.5</b>	<b>-25.5</b>	<b>-42.2</b>	<b>-83.4</b>
Labour	-6.9	-2.0	-14.4	-21.4	-44.7
Maintenance expenses	-0.7	-0.2	-1.5	-4.9	-7.3
Third party services	-1.2	-0.3	-2.5	-4.9	-8.9
Other costs	-3.4	-1.0	-7.1	-11.0	-22.5
<b>Sub-total Production Costs</b>	<b>-96.7</b>	<b>-13.4</b>	<b>-336.9</b>	<b>-294.0</b>	<b>-741.0</b>

Total costs per function (2022, EURm)



Source: KPMG in Germany, 2023

## 2. Compare to benchmarks

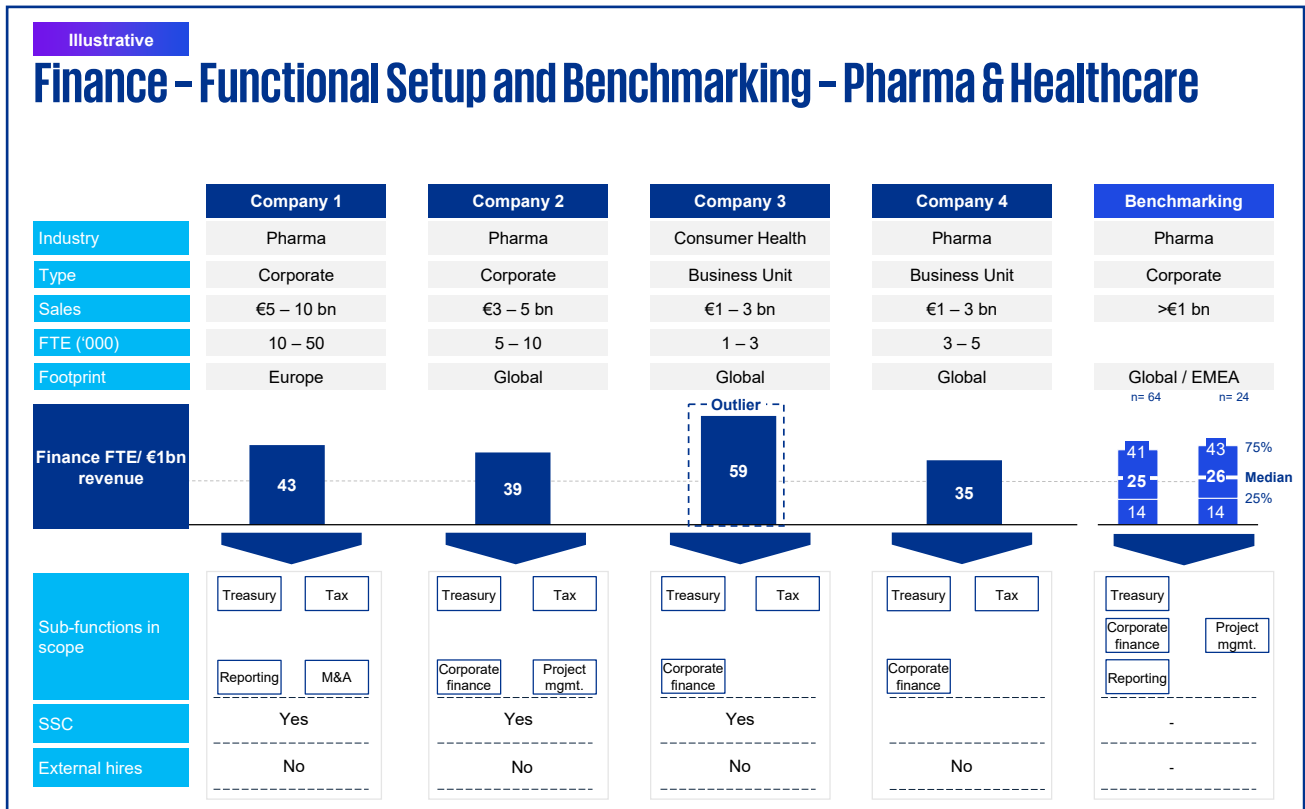
Company data can be compared to benchmarks in two ways. Competitor benchmarking compares the company's G&A costs with competitors or companies of similar size and complexity. Functional benchmarking compares individual target metrics (e.g., expenses in the Finance Function or number of full-time equivalents in Treasury) to industry benchmarks. The comparison can help identify areas where the company has excessively high G&A spend, large backlogs, poor process quality, or even low customer and employee satisfaction and open staffing needs.

Improvement opportunities either to reduce costs or increase quality can be derived from the results. There are a variety of sources for benchmarking, such as industry reports, surveys or specialised consulting firms. The first step in such an analysis is to properly define the areas to be benchmarked and target indicators which will be used. These can then be compared with the results from our databases.



Figure 3:

**Example of a benchmark analysis conducted by KPMG (at functional level)**



Source: KPMG in Germany, 2023

The quality of the previously identified G&A services can then be validated in a further deep dive. This allows productivity rates, error rates, processing times and unit costs to be analysed. However, this depends very much on the available data and the scope of the analysis. By analysing the drivers of complexity, bottlenecks can be eliminated, and processes further improved. Among other things, a lack of

standardisation, automation (or insufficient use of technology), weak governance, high process fragmentation or low process adherence can be triggers for high costs, excessive employee numbers and weak performance in individual processes.

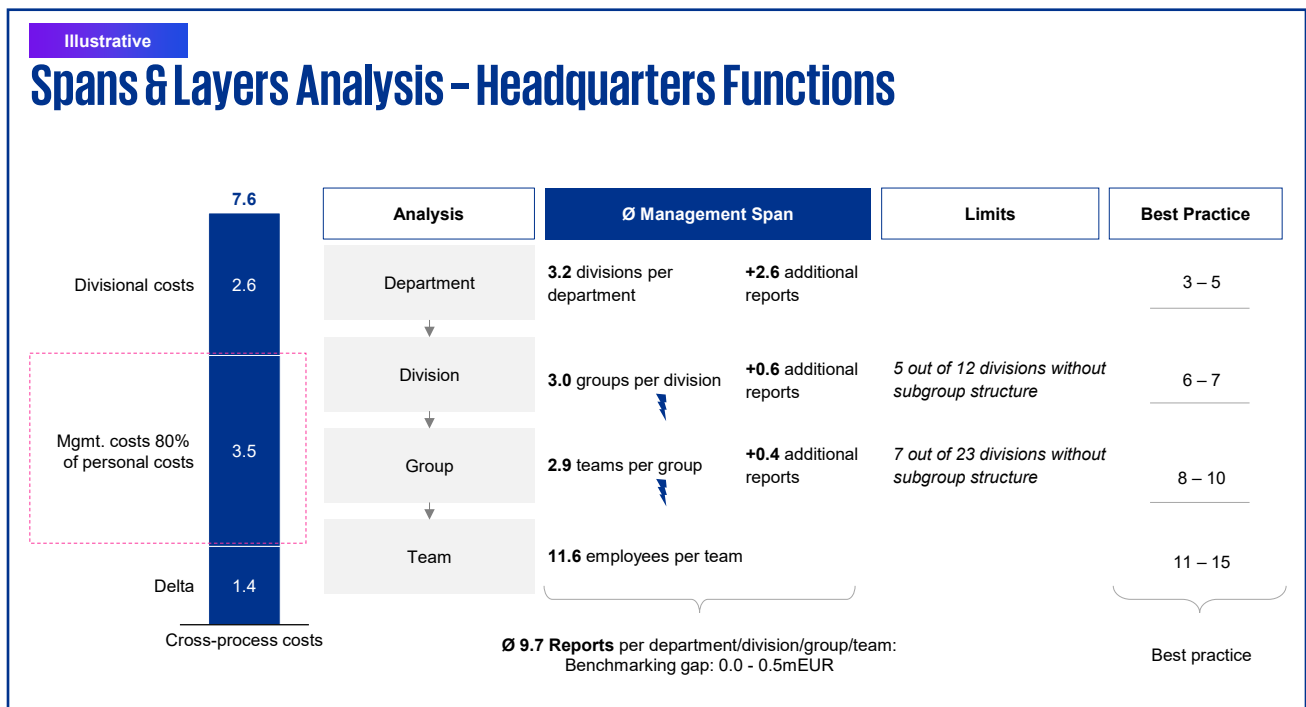
### 3. Analyse spans and layers

The spans and layers analysis allows an appropriate organisational structure to be designed. This includes spans of control and the number of management layers. The span of control per manager in an ideal company structure and depending on the role is around nine to fourteen employees. At the same time, the number of management layers should not be higher than necessary. However, in practice this is seldom the case. While the number of management levels is usually too high, the span of control per manager is often too low. The difference between best practice and reality often arises from historically developed organisational structures, weak governance structures and „feel-good career levels“ for employees. Inefficient and bloated structures can not

only lead to complications, but also to communication problems, duplication of effort, loss of quality and, as a result, increased costs. We can identify inefficient structures by using the list of employees provided. The data obtained is fed into a tool developed by KPMG and automatically evaluated. The result shows areas in the company with reduced spans of control and elevated management levels. This allows us to identify potential areas of optimisation.



Figure 4: **Example of a spans & layers analysis. The analysis utilises a bottom-up approach to determine the ideal composition of teams, subgroups, divisions and departments compared to best practice.**



Source: KPMG in Germany, 2023

## 4. Prepare zero-based budgeting

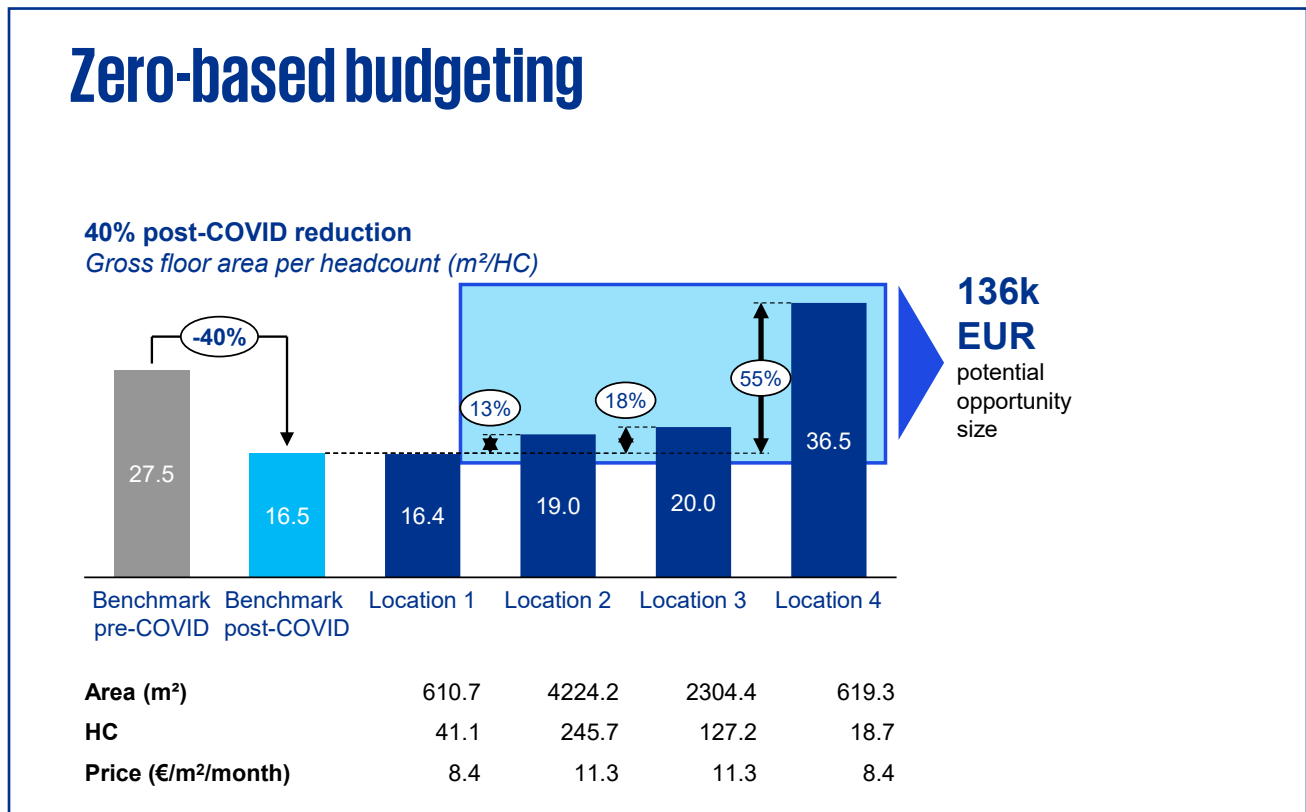
Zero-based budgeting is another important step in the process. The approach enables long-term cost savings and strategic reallocation of existing resources by eliminating inefficient organisational structures and workflows.

The fundamental question in implementing zero-based budgeting is: How would a function be set up if it did not yet exist? One approach to solving this question is the so-called green field approach. This involves a comprehensive redesign of the corporate structure. Once the ideal function has been fully developed, it is compared with the current structure to illustrate the differences. Differences can represent, for example,

personnel costs, which can be reduced going forward. By outlining the ideal functions and comparing them with the current situation, it is possible to redesign the budget and thus to reallocate existing resources to strategically relevant processes. Overhead costs are critically scrutinised and can usually be reduced. In addition, the performance of the company increases while overhead costs generally decrease.



Figure 5:  
Example of a zero-based budgeting analysis at the organisational level



Source: KPMG in Germany, 2023

## Success factors of the G&A target operating model

Elevate is a comprehensive and holistic approach which combines multiple techniques. The G&A rightsizing approaches presented here serve to make the support functions more efficient and leaner whilst leveraging potential savings.

Setting up an ideal corporate structure (target operating model) also involves strategic considerations regarding the degree of centralisation. Strategic tasks are typically performed at headquarters, while the business units take on core business tasks. Administrative and standardised tasks can be either transferred to a location-optimised shared service unit or outsourced to specialised third-party providers. The target operating model of the company depends, among other things, on individual factors and specific requirements of the respective business model.

Multifunctional teams are a critical success factor during implementation. In addition to management consulting, IT consultants are largely responsible for introducing new processes and mapping them on the system side. When implementing the target organisation, experts for shared services and outsourcing, among others, are required. HR consultants provide support not only for the personnel-related changeover, but also for the associated communication with employees, contractual partners and the public. Tax and legal specialists must also be closely involved in the decision-making process and implementation.

A structural change in the company can be a major challenge. Therefore, it is important to consider key success factors, such as clear goals, a validated data basis and consistent stakeholder management. Defining goals and objectives ensures that all stakeholders are heading in the same direction.

A data-driven approach is essential to identify areas where G&A costs can be reduced, and processes optimised or automated. Another success factor is the involvement of all stakeholders across the business. This is critical to getting input and feedback from

employees and ensuring the necessary commitment to rightsizing goals. Results of the analysis and implementation of optimisation initiatives can have a significant impact on the company and its structure. This includes, for example, changes to roles and responsibilities, processes, and the IT and other systems being used. It is therefore imperative to implement effective change management and a clear communication plan to ensure that the organisation successfully adapts to the changes and continues to operate effectively. To achieve long-term effectiveness in cost reduction and optimisation initiatives, progress should be measured regularly and compared with the target operating model.

In this way, the KPMG Elevate approach helps an organisation achieve its ideal size and efficiently deploy resources and people. Reducing unnecessary overhead, duplication and inefficient processes allows the company to focus on long-term strategic goals. At a time when companies need to adapt more quickly, uncertainties are growing, and shortages of raw materials and skilled labour are becoming more acute, the KPMG Elevate approach can make the difference in reducing costs and strengthening process performance in support functions.

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# Contact

KPMG AG  
Wirtschaftsprüfungsgesellschaft



**Dr. Tim Berger**  
Partner, Deal Advisory Strategy  
T +49 221 2073-1716  
timberger@kpmg.com



**Jan Rüter**  
Partner, Deal Advisory Strategy  
T +49 211 475-6546  
jruether@kpmg.com



**Nina Simonsen**  
Managerin, Deal Advisory Strategy  
T +49 30 2068-2038  
ninasimonsen@kpmg.com



**Tobias Ahnfeld**  
Senior Manager, Deal Advisory Strategy  
T +49 40 32-0150  
tahnfeld@kpmg.com



**Darren Raymond Crome**  
Manager, Deal Advisory Strategy  
T +49 711 9060-41219  
dcrome1@kpmg.com



**Jan Richter**  
Partner, Consulting  
T +49 89 9282-4537  
janrichter@kpmg.com

[www.kpmg.com](http://www.kpmg.com)

[home.kpmg/socialmedia](https://home.kpmg/socialmedia)



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