KPMG
Private Enterprise

Cost-optimisation opportunities for the year ahead

A practical guide for business leaders looking for **quick wins**

Businesses in every sector are under immense pressure from rising costs – some to the point of bankruptcy.

Data from The Insolvency Service shows that, in May 2023, the total number of insolvent companies in England and Wales reached its highest quarterly level since Q3 2009[1].

Until now, passing on cost increases has been a key strategy for staying solvent and maintaining margins, with more than a third of companies adopting this approach. But with customers increasingly resisting higher prices, businesses must start looking inward to find new ways to protect value.

The positive news is that there are plenty of opportunities to optimise costs. By looking in the right places, businesses can realise significant savings within months. This guide highlights areas to explore now, to achieve rapid cost reductions for the year ahead.

What are your cost optimisation priorities?

- Reduce costs within next three months?
- Lay the ground for bigger gains within the next six months?
- Prepare a strategy to transform value within the next year?

1. Insolvency Statistics gov.uk

Plug the leaks from your supplier contracts

The opportunity

Supplier contracts are often business critical, complex and hard to control. As a result, they are a significant source of potential commercial leakage, with businesses typically overpaying by up to 5% because of overcharging or under-delivery. Over time, on large contracts, even relatively small amounts overbilled can mount up to become significant costs.

Where to get started

Three areas are fertile hunting ground when it comes to finding and plugging the leaks: hourly rate based variable charges, spend-volume clauses and third party spend incurred by suppliers.

Interrogate variable charges

Review contracts that allow for variable charges. Are you being charged at the right rate? Is the number of days you are being charged for the number of days that has been worked? Services such as facilities management, outsourced IT spend and temporary labour costs all typically benefit from this type of inspection.

Scrutinise spend-volume clauses

Look closely at clauses that allow for an adjustment to price after a certain volume is reached. Has your supplier applied the discount appropriately? How long ago did you reach the volume thresh-hold and can you claim the discount retrospectively?

Check up on extras

Scrutinise any areas where a supplier is contractually permitted to incur costs on your behalf. Are they getting best value for money for you? Or are they using this as an opportunity to add a premium to onward costs? Spend on IT hardware and plant hire are all worth looking at.

Hunt down more value

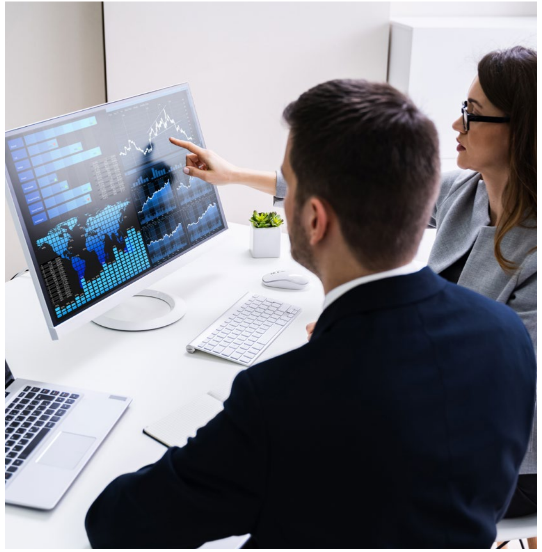
Many more opportunities beyond those outlined above are hidden in the array of contracts businesses use to enable operations. Human spot-checks can never identify all the opportunities, but technology can.

Our Data Science and Intelligence platform that underpins our Cognitive Contract Management (CCM) solution incorporates best-in-class technologies that can scan and intelligently analyse thousands of lines of information in contracts, invoices and documents such as timesheets or materials inventories. This is a fast, accurate way to identify all the instances where suppliers may be overcharging. An technology enabled interrogation typically identifies commercial leakage of between 2–5% of operating expenditure.

Next steps

Talk to us now about how to stop commercial leakage from your contracts.

Register your interest for a free initial review.



Cognitive Contract Management in action

Our CCM experts used AI technology to uncover significant savings at a global oil and gas business. From 240 invoices, we identified 4.5% commercial leakage, with a value of USD $5m. Applied globally, this represents USD $500m in potential savings.

Mark Harding
Partner, Contract Compliance Services at KPMG in the UK

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Recalculate your supply chain cost equation

The opportunity

The rising cost of materials, energy, labour and transport is throwing the supply chain cost equation out of kilter. Bringing the equation back into balance is key to protecting profits and maximising value. Tactical improvements can yield savings of up to 2% of supply chain costs within weeks. Longer-term, strategic supply chain transformation has the potential to reduce overall operational costs by a further 10%.

Where to get started

Every business is different, but opportunities to optimise supply chain costs exist for all. Here are three areas worth looking at:

Time to near-shore?

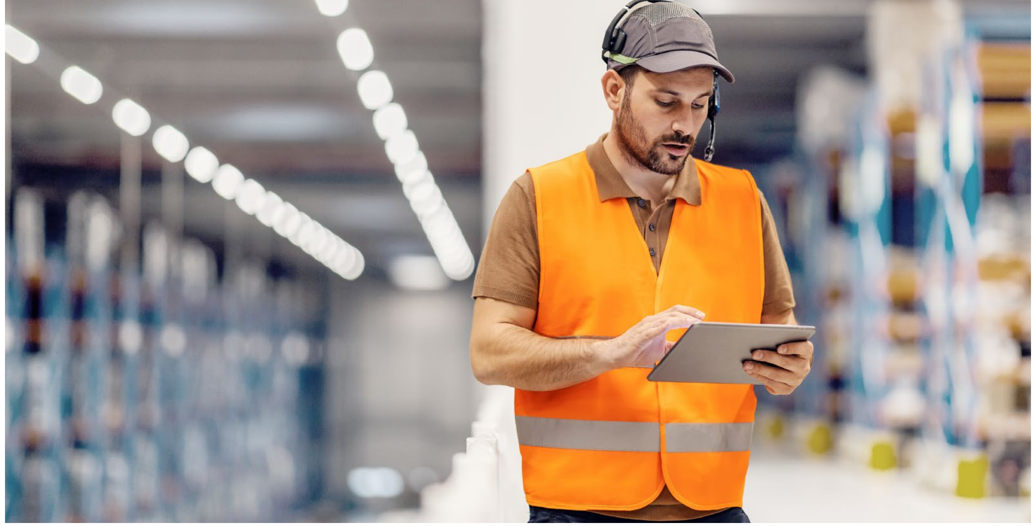
Higher transport and logistics costs mean that offshoring is no longer necessarily the right solution for businesses with international operations. Take time to understand the fully landed cost of products (especially if you are a UK business trading with the EU) and consider whether nearshoring could now be a more cost-efficient solution.

Reduce you inventory

Reset your commercial pricing strategy to encourage purchasing patterns that help reduce your costs. Find the sweet spot – pricing that encourages frequent, smaller orders (thereby reducing the need to hold large amounts of stock) without overloading your logistics network.

Double-down on digital

Go further to exploit the capacity of digital technologies to reduce costs across the supply chain. Process automation in the back office, physical automation on production lines and in warehouses, and better use of data and analytics to guide decisions with cost implications are all areas of opportunity.



Uncover more opportunities

A KPMG supply chain maturity assessment provides a comprehensive view of processes across the end-to-end supply chain, enabling you to prioritise key areas for improvement. Our experts use global best practices to quantify performance gaps and deliver actionable insights.

Next steps

Talk to us now about how to rebalance your supply chain cost equation.

Register your interest for a free initial review.

Identifying tactical inventory reduction initiatives worth £2.5 million

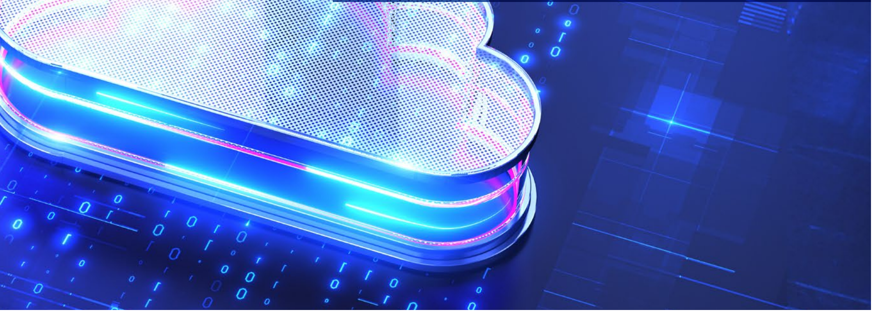
We worked with a global luxury retailer to design and implement a new S&OP process and embed a cultural shift from siloed working to collaborative inventory management. Our work helped identify immediate tactical inventory reduction initiatives worth £2.5million.

Iain Prince
Partner, Operational Transformation and Supply Chain at KPMG in the UK

Take control of your cloud costs

The opportunity

Cloud offers undeniable advantages in the form of agile, efficient IT services. But as businesses expand their cloud footprint – or simply fail to reappraise the cloud capabilities put in place at set-up – many are overspending. In fact, the latest research shows that 28% of overall cloud spend is wasted[2]. With more than half of IT spend set to be on cloud by 2025[3], the opportunities for cost savings are evident.



Where to get started

If you are looking to realise rapid savings on cloud costs, here are the questions to ask:

Are we taking advantage of available discounts?

Most cloud providers offer discounts for long-standing customers or those using above certain volumes. But many businesses are unaware of this. Ask your provider directly what discounts are available and how you can claim them.

We have recently been working with a UK retailer where we have identified target cloud savings of £5m against an annual cloud spend of circa £30m.

Where can we clean up?

In many businesses, a large proportion of cloud services are set up and used by individual development teams. The result is an inefficient patchwork of provision. Look at rationalising services to reduce cloud costs without impacting service quality.

What can we close down?

Depending on the nature of the business, the requirement for cloud services is rarely consistent across hours and days. Yet many businesses buy to ensure the same level of provision 24/7. Consider reducing service capacity overnight or on weekends to make sure you are buying the right amount and no more.

How can we right-size?

All the opportunities above have the potential to deliver savings at pace. For maximum impact, they can be incorporated as part of a wider programme to drive value. KPMG's Cloud Value Management solution maximises the use of the lowest-cost, adequately capable cloud configuration. Our experts quickly identify areas of opportunity, use innovative tools to validate benefits and create a practical implementation plan to realise savings. We typically find savings of 20–40% of cloud spend for our clients.

Next steps

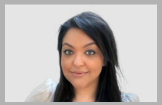
Talk to us now about how to take control of your cloud costs.

Register your interest for a free initial review.

Cloud offers businesses and developers amazing flexibility and the ability to work at pace but it is very easy for costs to get out of control if they aren't managed. We highly recommend that teams using cloud services understand the drivers of cost and regularly review to ensure that they are getting the best value for money.

Su Crighton
Technology Transformation Director at KPMG in the UK

Cloud is a step change in how organisations operate financially, and what we've come to learn is that this is really about cross-collaboration and trying to enable efficiencies that benefit the business by advancing local and global understanding of how cloud economics really work in all levels across the organisation and how best to derive the value from cloud investments.



Runita Virdee
Director, Technology Advisory at KPMG in the UK

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2. Flexera 2023 State of the Cloud
3. Gartner 2022

Next Steps

To get your cost transformation projects started, please speak to our experts:

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