

# FOUR FINANCIAL LEVERS

of

# BUSINESS TRANSFORMATION

# Four Financial Levers of Business Transformation



## Contents

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- **Overview**

- **Transformation Financial Levers**

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- **Templates**

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# In the wake of ever-increasing volatility and complexity, businesses need to transform—there are 4 Financial Levers of Business Transformation

## *Presentation Overview*

Unprecedented disruption across all industries has forced the organizations to undergo transformation, to maintain their market position and to stay ahead. But most transformations fall short of their targets in terms of value generation. This presentation provides the transformation leaders the tools to lead a successful transformation.

The following are the 4 financial levers to Business Transformation that can flip the odds of success in an organization's favor:

- ① Revenue Levers
- ② Organization Simplification Levers
- ③ Capital Efficiency Levers
- ④ Cost Reduction Levers

*By employing these short-term levers, organizations can establish momentum and fuel new growth engines.*

## Transformations take years to complete; throughout the journey senior management faces pressure to show momentum and deliver results

### *The Financial Levers of Business Transformation*

Early wins in the short term invigorate the organization and breed acceptance and commitment from the team. These short-term wins achieve cost reduction, improve top and bottom lines, and free up cash—all of which drive operational improvements needed to put performance ahead of the competition.

The 4 financial levers critical to fund the business transformation journey are:



***Most organizations target the cost reduction and organizational optimization levers—the other levers are equally important and can leverage a critical impact on transformation.***

## Contents

---

- **Overview**

- **Transformation Financial Levers**

## Early tangible wins—that improve top and bottom lines—drive operational gains that put our performance among the top quartile of our peer group

### *Transformation Financial Levers – The Revenue Levers (1 of 2)*

Evidence suggests that revenue levers can generate about 10% increase in top-line growth and a 5% Earnings Before Interest and Tax (EBIT) improvement. Go-to-market Optimization endeavors should focus on the following key elements of the Revenue Levers: Pricing, Deploying and Incentivizing the Sales Force, and Optimizing Marketing & Advertising Expenditure.



#### Pricing

- Effective Pricing regimes steer brand perception, form customer behavior, and drive earnings.
- Pricing strategies boost revenue increases of around 1-2%, gross margin increases of 5-10% in short term, and gross profit increases of 50% or more over long term (2 years or more).
- Some valuable quick-win initiatives could be improving Customer Profiling, Accounts Renegotiations, Discounts Management, and Promotions Optimization.

*Owing to its significance, organizations need to develop pricing as a strategic capability, based on customer insights and data analytics.*

## Better deployment of sales force and management of marketing spending are the engines of a broader transformation effort

### *Transformation Financial Levers – The Revenue Levers (2 of 2)*



#### Deploying & Incentivizing the Sales Force

- Sales force effectiveness enhances revenues and earnings.
- Evidence has suggested that improved customer targeting, better aligned with business objectives can assist a company achieve improvements of 10-15% in top line and bottom line.
- Motivating sales team is a focused approach towards driving rapid, short-term outcomes. Likewise, implementation of a robust incentive structure and distribution channel drives near-term increase in EBIT.

#### Optimizing Marketing & Advertising Expenditure

- Marketing and advertising are critical revenue tools.
- Organizations typically allocate similar budgets on marketing and advertising as they do for their Capital Expenditure, but with less logical rigor. Research suggests that these rules of thumb destroy value and do not yield the desired outcomes.
- In general, up to one-fourth of marketing spending is ineffective, and planned reallocation of these resources can result in consistent or higher level of sales with same or fewer expenditure levels.
- Achieving significant results requires pulling levers across the strategic and operational levels.
- Organizations need to attain the ability to measure marketing performance across brands, products, and locations over time, and strategically optimize financial resources across top brands.

***A key tool to help marketers improve performance includes the ability to measure marketing ROI.***

# Streamlining the organization can intensify the implementation power and performance of the organization drastically

## *Transformation Financial Levers – Organization Simplification Levers (1 of 2)*



Optimizing the organization significantly reduces layers and costs.

Studies have shown that 50% of performance obligations are conflicting and overall Organizational Complexity has soared 35 times since 1955. Employee detachment and unproductivity is directly proportional to increasing organizational complexity.



### **DELAYERING**

A time tested approach to reducing organizational complexity is Delayering. It is a simpler operating agenda that catalyzes execution and enhances performance. The benefits of Delayering are manifold, including:

- Removal of organizational clutter and increased teams' focus and productivity.
- Cost savings (typically around 15-30% in indirect labor).
- Removal of bureaucratic hurdles, faster decision making.
- Effective utilization of human resources.
- Less micromanagement and better performance at the managerial layer.
- Clearer communication across the organization with a linkage between performance and recognition.

***Added layers of complexity divert employees' focus on nonissues and lead to losing objectives.***

## Delaying approach has more to offer than cost reductions

### *Transformation Financial Levers – Organization Simplification Levers (2 of 2)*

The Delaying approach to Organizational Simplification leverages the following advantages to organizations. Delaying generates benefits that go beyond cost reductions.



#### Better decision making

- Senior managers closer to the action.
- Decisions implemented more rapidly.
- Decisions made by those with detailed understanding.

#### Enhanced accountability

- Reduce redundant work.
- “Shadow organizations” eliminated.
- Fewer turf battles.

#### Faster, more reliable communication

- Communication mediated through fewer layers.
- Ideas less distorted as they move up the organization.

#### Better morale

- Supervisors no longer micromanaging.
- Employees empowered with broader responsibilities.
- Decision makers versus analysts.

#### More competitive cost structure

- Fewer managers required as spans increase.
- Duplicative departments and low-value work eliminated.
- Opportunity for significant annual savings.

***In a nutshell, Delaying streamlines the workforce, increases the focus and speed of decision making, and boosts execution abilities of organizations.***

## Utilizing capital efficiently is vital for transformation and can position the organizations towards growth

### *Transformation Financial Levers – Capital Efficiency Levers*

Transformation is significantly aided by efficient utilization of capital, which supports the short-term cash needs, improves return on investment, and optimizes the growth potential of a firm.



A strategic method to capital allocation assists the organization in prioritizing investment projects, improving financial discipline, and creating a robust governance mechanism to steer capital expenditure and growth projects.



There are several avenues available to optimize capital, including:

- **Regulating Net Working Capital, managing fixed assets and cost efficiency.**
- **Reducing inventory, optimizing raw material stocks resulting in releasing cash.**
- **Unlocking cash availability by streamlining payment terms with suppliers.**
- **Analyzing fixed assets and asset needs optimization.**
- **Reducing product and customer complexity through streamlining product portfolio.**

*A thorough analysis into Return on Capital Employed (ROCE) can improve decision making on divesting operations either through outsourcing or optimizing remaining assets.*

# Companies can achieve cost reductions in the short term by creating Cost Transparency and identifying Cost Categories

## *The Financial Levers of Business Transformation – Cost Reduction Levers*



Cost reduction is an essential element of organizational transformation.

There are certain initiatives—such as Optimizing Procurement, Facilities Management, reducing HR and Non-personnel Expenditures—that are mission critical and can reduce costs by around 10-25%.



Some of the strategic levers that reduce costs and create significant value include:

- 1 Efficient Management of Procurement and Cost of Goods Sold (COGS)**  
Measures such as creation of Procurement Center of Excellence and analysis based Supplier Negotiations can lead to substantial margin improvement.
- 2 Personnel Cost Reductions**  
Workforce Planning and streamlining overlapping roles and management layers can drive a 20-40% labor cost reductions.
- 3 Non-personnel Cost (NPC) Reductions**  
By addressing non-labor expense levers—such as buildings and equipment, utilizes, travel, fleet, IT and business services—organizations can realize NPC reductions of around 10-30%.

*Quick wins can be achieved by cost cutting levers including supply chain efficiency, lean manufacturing, and process improvements.*

