Infosys®
Navigate your next

VIEW POINT

A PATH TO COST TAKEOUT THAT EQUALS GROWTH

A path to cost takeout that equals growth

Uncertainty is the only certainty – this is especially true for companies in CPG, retail, and logistics businesses, sandwiched as they are between a challenging growth environment, supply side pressures and demanding customers. Enterprises today are operating in an economic scenario buffeted by high inflation, low demand and low growth. These economic conditions are impacting consumers and their buying behaviors. With consumers left with slimmer wallets, and less discretionary spend in a fast digitizing economy, businesses are finding themselves in a survival of the fittest game to capture consumer spend that is heavily and quickly influenced by social media

Companies playing a juggling act with customers must also simultaneously walk the tightrope of supply side-management. High labor costs and intense competition for talent are increasing the pressure on a cost line already buffeted by high input costs, inflation, and supply side bottlenecks.

In short, there is stress on both the top line and bottom line. In such a scenario, businesses are looking for opportunities to not only cut costs but also capture market share in the fast-moving economy. So, they are seeking ways to simplify, standardize, and continuously modernize their current capabilities to take out cost, reduce capital outlay, and drive revenue growth.

Reducing costs opens up capital to invest in growth opportunities, even as it adds to competitiveness and profitability. In markets where consumer preferences constantly evolve, cost reduction finances reinvestment in research and development to create new products and services. A 2021 McKinsey study found that organic growth and margin expansion can co-exist—28 percent of CPG companies did so, and they achieved nine times the total returns to shareholders (TRS) of others[1]. But can we look beyond the bean counter to real business transformation? Achieving that requires top notch execution supported by technology. Research released by Gartner in 2023 shows that "four out of five CEOs are increasing digital technology investments to counter current economic pressures, including inflation, scarce talent and supply constraints."[2]

The new goalposts

- Management of escalating IT costs
- Realignment of sourcing strategy to address talent gaps
- Op-ex led spend
- AI-led business process optimization and transformation
- Higher resilience, reliability and infrastructure security
- Digitization of supply chain platform to provide agility and accelerate innovation

When cost takeout = growth

Pillars of an execution plan to achieve growth while cutting costs must include rationalizing technology and vendor spend, shifting capital costs to operating expenditures and reliance on AI-led digitalization to deliver the goods.

Getting it done#1: Rationalization of technology and vendor spend

Vendor consolidation and location rationalization can deliver significant cost savings to clients that increase with scale while also helping companies move away from outdated platforms they are continuing to pay for. Consolidating with a vendor with buying power can help enterprises get the most out of pay-by-the-drink models for cloud subscription services and network-as-a-service deployments.

Getting it done#2: From capex to opex

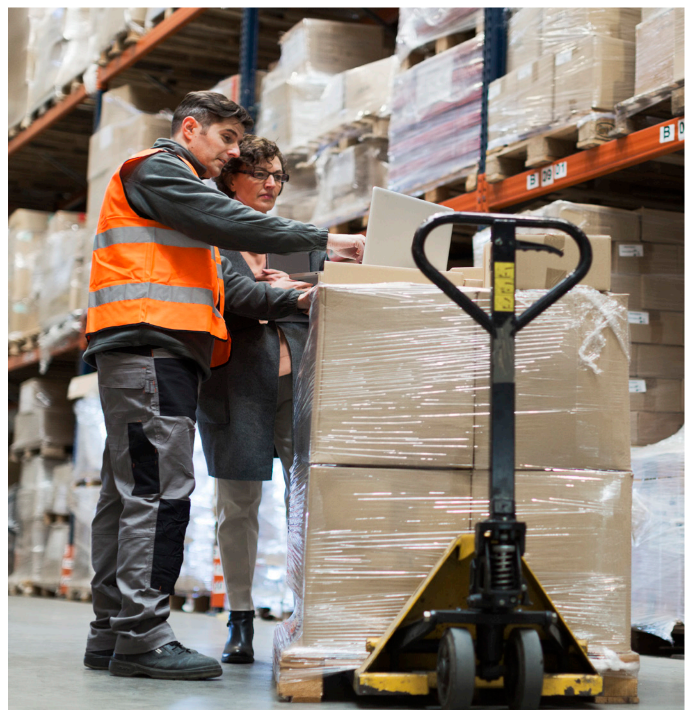
Moving away from 'owned' services to those you can pay for 'per-use' to run supply chains, channel partners, and even demand forecasting can help companies climb out of fixed cost structures into mid-sized models where costs are predictable based on technology. Some of these can also be tied to outcome-based pricing models from IT suppliers to get even more value for enterprise spend.

Enterprises can also leave behind their low-performing, legacy, unproductive IT investments by hiving these off to vendors who can replace them with capital-free, "resource-lite" managed services at a lower cost.

Getting it done#3: Automation

Automation technologies are key to unlocking lower costs in today's inflationary world. From marketing strategies to customer service, properly exploiting analytics and data from a range of data sources - IT applications to IoT devices - can help organizations glean better insights to cut operational costs and increase revenue.

As its clear, it will take more than one thread, an action or a single strategy to deliver a cost take-out that drives growth. What is however clear is that a strategy based on optimizing cost can actually drive growth by making budget room for investment in key areas. A cost minus plan can therefore be the push enterprises need to cross the growth goalpost.



References:

1. Driving CPG growth and value creation | McKinsey
2. https://emtemp.gcom.cloud/ngw/globalassets/en/information-technology/documents/insights/2023-cio-agenda-ebook.pdf

For more information, contact askus@infosys.com

Infosys
Navigate your next