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Fit for Growth

A Practical Model for Strategic Transformation that Enables Sustainable Growth

March 24

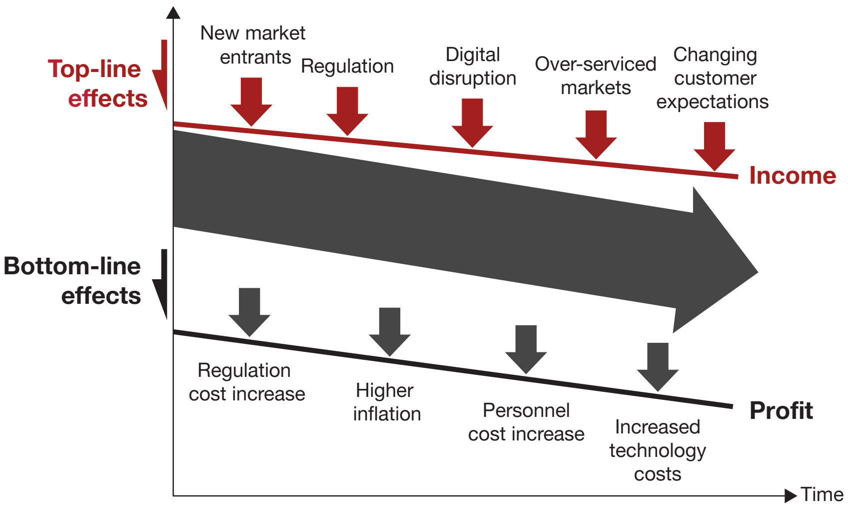
Welcome to the new normal

Organisations today are facing a multitude of factors affecting business and financial performance. And leaders are concerned about this: 45% of respondents to PwC's 27th Annual Global CEO Survey believe their company will not be viable in ten years if it stays on its current path.

The disruptive factors that business leaders need to contend with are diverse. Top line factors include new market entrants, digital disruption, regulation, and changing customer preferences and dynamics. From a bottom line perspective, factors such as inflation, technology cost escalation, and increased personnel cost may decrease income and increase operational cost.

Amidst this backdrop of increasing costs and uncertainty, the quest for sustainable growth has never been more critical. However, achieving this elusive goal requires more than just superficial changes; it demands a comprehensive and strategic overhaul of the organisation's core. This is where the Fit for Growth (FFG) model comes into play, offering a practical and structured approach to organisational transformation that is not merely about cost-cutting – but about strategically aligning resources to fuel sustainable growth.

Figure 1: Top and bottom line effects putting margins at risk.



Source: Strategy&

Fixing this situation requires change management and organisational transformation. There are certainly a multitude of different approaches to address this business performance problem, However, we have found there are several key factors that separate top-performing organisations from their peers when it comes to organisational transformation. These are:

- Deep strategic foresight that enables leaders to recognise and respond to threats and opportunities across the business landscape.
- Remaining focused on activities that drive value through leveraging data and technology for insights.
- Embracing end-to-end business transformation and investing top-to-bottom.

By taking an end-to-end view of the business' value chain, leaders are able to identify and assess organisational strategy, determine the differentiating capabilities to drive competitive advantage, and enable the business to be fit and ready to grow.

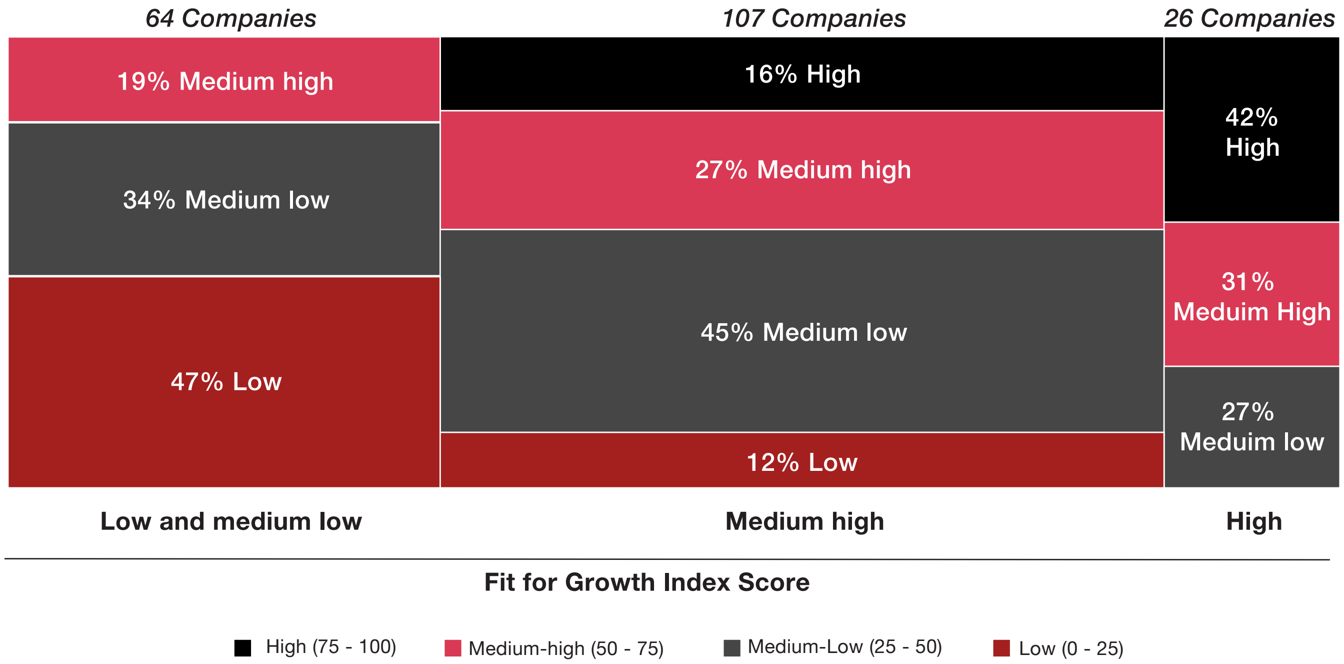
Few organisations are, however, truly prepared to enable and drive growth. Our research indicates that less than one-fifth of companies we've assessed seem well prepared for growth.

High performing organisations are highly focused on linking growth with their cost strategy. Through integrating differentiating capabilities, cost structure, and organisational structure, financial returns can be amplified. In our experience, organisations typically stumble when it comes to identifying the right differentiating capabilities. Often, they do not have the heart or discipline to redirect resources to them from everyday activities.

We looked at the total shareholder return (TSR)[1] of 200 global companies compared to our own Fit for Growth (FFG) Index Score[2] to determine the correlation between shareholder return and levels of organisational development related to strategic clarity and resource alignment. A clear positive correlation is evident between how fit a company is for growth and its total shareholder returns.

1. Adjusted for industry-specific factors
2. The Fit for Growth Index assesses companies in three key areas: strategic clarity reinforced by an aligned group of capabilities; an aligned resource base and cost structure; and a supportive organisation. Each company received a composite score from 1 to 5 based on its "fitness" in each of these areas (5 being the most fit). In calculating the scores, we weighted the three factors as follows: strategic clarity and coherence at 50 percent, resource alignment at 30 percent, and supportive organisation at 20 percent. The second and third factors together constitute a company's execution capability. Thus, a company's index score is derived in equal parts from its strategy and its executional fitness. These weightings reflect our belief that strategy and execution are equally important in determining performance.

Figure 2: Distribution of normalised TSR scores by Fit for Growth Index Score.



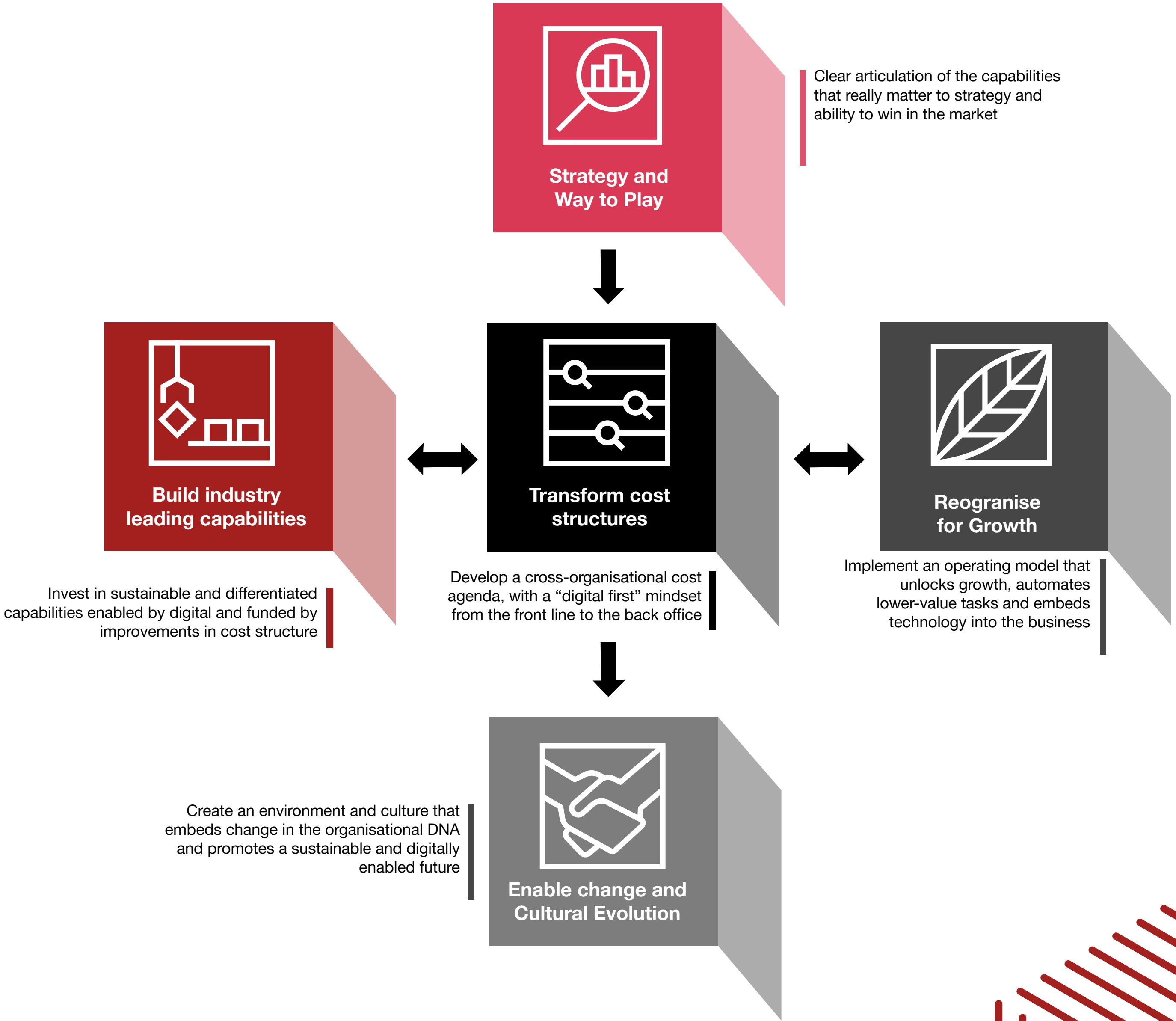
Source: Strategy&

Fit for Growth (FFG) is about enabling sustainable future growth – not just cutting cost

Fit for Growth's approach does not focus solely on reducing cost: simply cutting costs across the board will not solve the profitability problem faced by organisations. Instead, organisations must cut costs strategically. This can be achieved through aligning cost reductions with a clear plan for future growth. Fit for Growth enables sustainable growth through a structured, data-led methodology

focused on five key areas.

Figure 3: Fit for Growth (FFG) key focus areas.



Source: Strategy&

The five key areas Fit for Growth focuses on to enable sustainable growth includes:

Strategy and Way to Play:
Companies with a Capabilities-Driven Strategy don't chase growth – they build a strategy around the few things they can do better than anyone else and ensure a right to win. It is for this reason that coherent companies are 3x as likely to grow faster and 2.5x as likely to be more profitable than the industry.

Build Industry Leading Capabilities:
Developing an objective, fact-based view of the required capabilities to win is key for achieving a competitive advantage.

Transform Cost Structures:
The priority in reorganisation for growth is targeting resources where they can earn the best return, rather than just eliminating the cost in itself, without an understanding of the short and long term implications of its absence.

Reorganise for Growth:
Brands and retailers who prioritise their operating model definition in parallel to roadmap development typically realise incremental benefits from their technology investments.

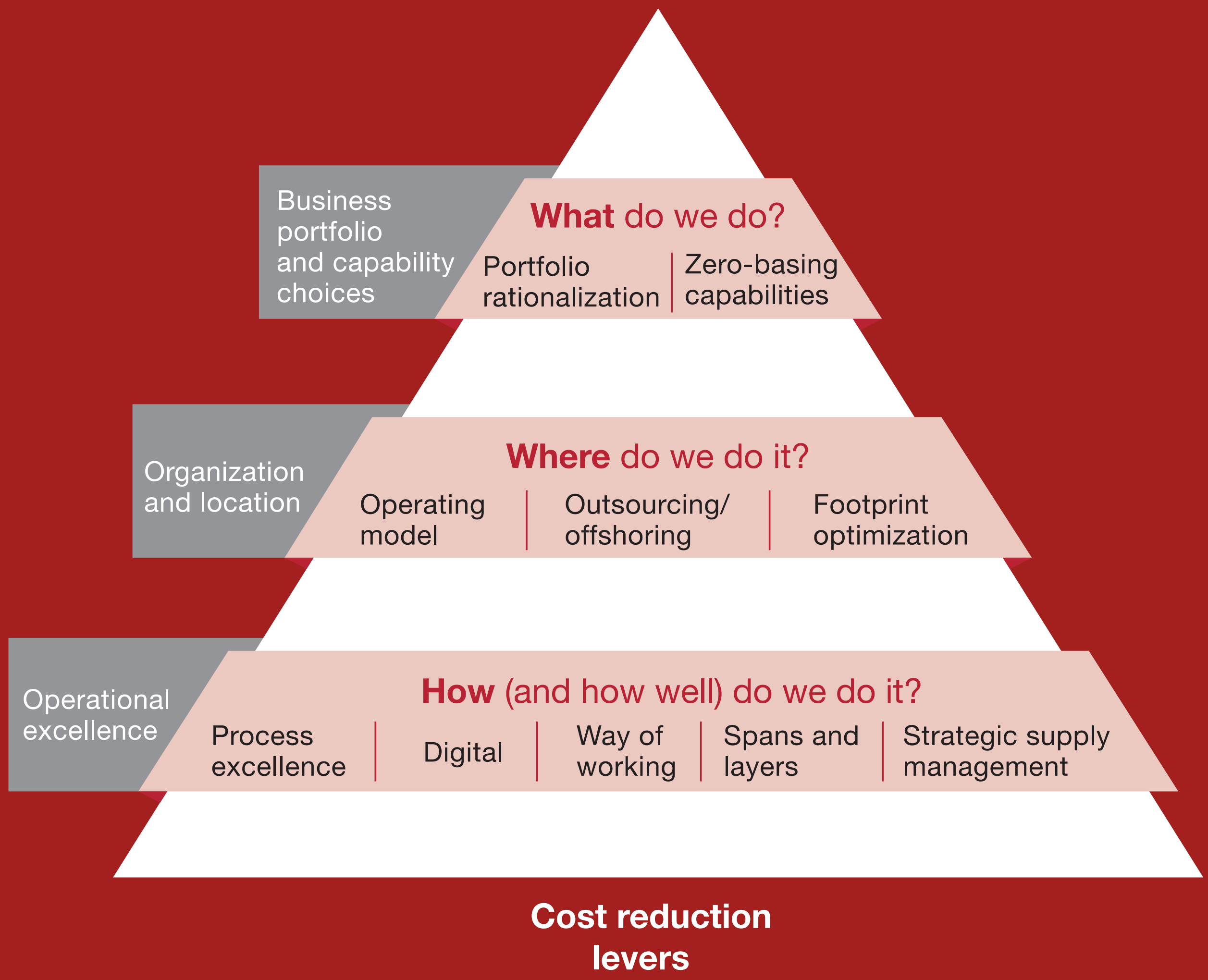
Enable Change and Cultural Evolution:
Fit for Growth leverages organisation cultural traits, behaviours, and informal leadership elements to accelerate change that is in line with the organisation's culture to maximise success.

By applying the Fit for Growth methodology to strategic cost and revenue challenges, actionable insights and recommendations are generated. Through the identification of such recommendations, Fit for Growth provides a view of the strategic levers available to realise value and set direction for the long term sustainability for organisations. A summary of cost reduction and other strategic levers is presented in the section below.

The cost reduction levers

Opportunities for value realisation can be identified through Fit for Growth cost reduction levers. These levers can be applied across a broad spectrum of strategic and operational levels within the organisation. There are key areas that each cost lever focuses on addressing, and cost levers can be used in combination and with other strategic levers to solve for more complex challenges. Figure x provides an overview of the cost reduction levers Fit for Growth applies to strategy and cost management.

Figure 4: Fit for Growth cost reduction levers.



Source: Strategy&

Additional detail on each cost reduction lever is provided in the Fit for Growth Minibook. Each lever is associated with a typical savings potential and time horizon, however these are highly subjective and specific to the particular context and scenario. Contrasting Fit for Growth's cost reduction lever structure to traditional cost management approaches, Table x highlights that our future-oriented approach enables solving for a forward-looking perspective and provides preventative capabilities to cost management and profitability risk.

Table 1: Comparing traditional cost reduction approaches with Fit for Growth approaches.

	Past cost reduction approach	Future Fit for Growth approach
Philosophy	Benchmark-driven, focusing on matching the competition	Strategy-back, benchmark-informed approach that invests in good costs
Methodology	Applies cost levers across all group of cost	Prioritise capabilities, segment costs, and apply reduction levers at tailored intensities
Organisational	Focuses on structure	Focuses on holistics design to transform and sustain new cost structure
Change Management	Cascades top-down alignment and communication	Culture-led, focuses on key behaviors to drive shift
Sustainablility	Addresses sustainability during implementation	Includes org, process, talent and cultural enablers of enduring cost management from Day 1

Past **Present** **Future**

Source: Strategy&

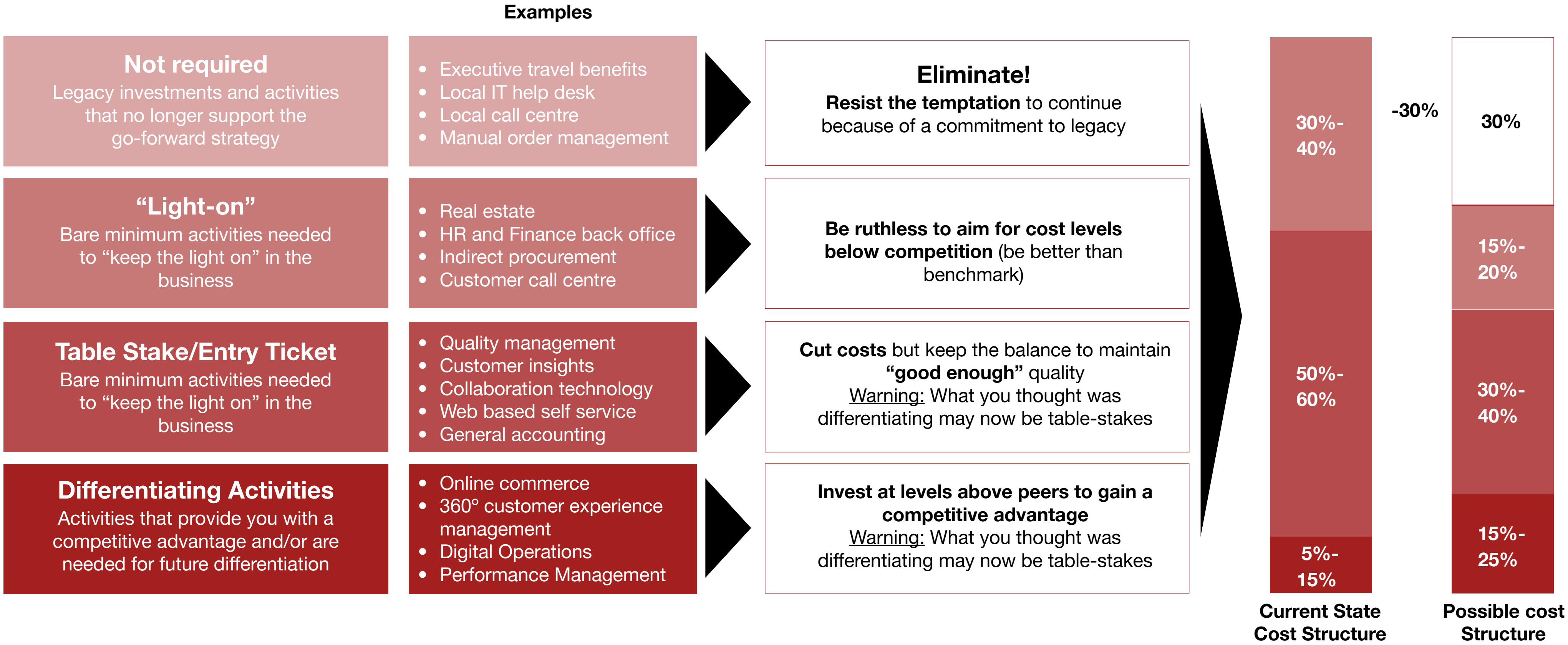
Unlocking growth through investing in differentiating capabilities

The Fit for Growth methodology enables businesses to better align the cost base with the appropriate drivers of competitive advantage to deliver sustained top-line growth.

This is achieved through rebasing the cost base through the appropriately identified cost reduction levers. The net savings achieved can then be used for reinvestment in differentiating capabilities to support competitive advantage and growth.

Figure 5 provides an overview of how the Fit for Growth methodology allocates all cost and investment into one of four (non-mutually exclusive) activity buckets, namely Not Required, Lights-On, Table Stakes, and Differentiating Activities.

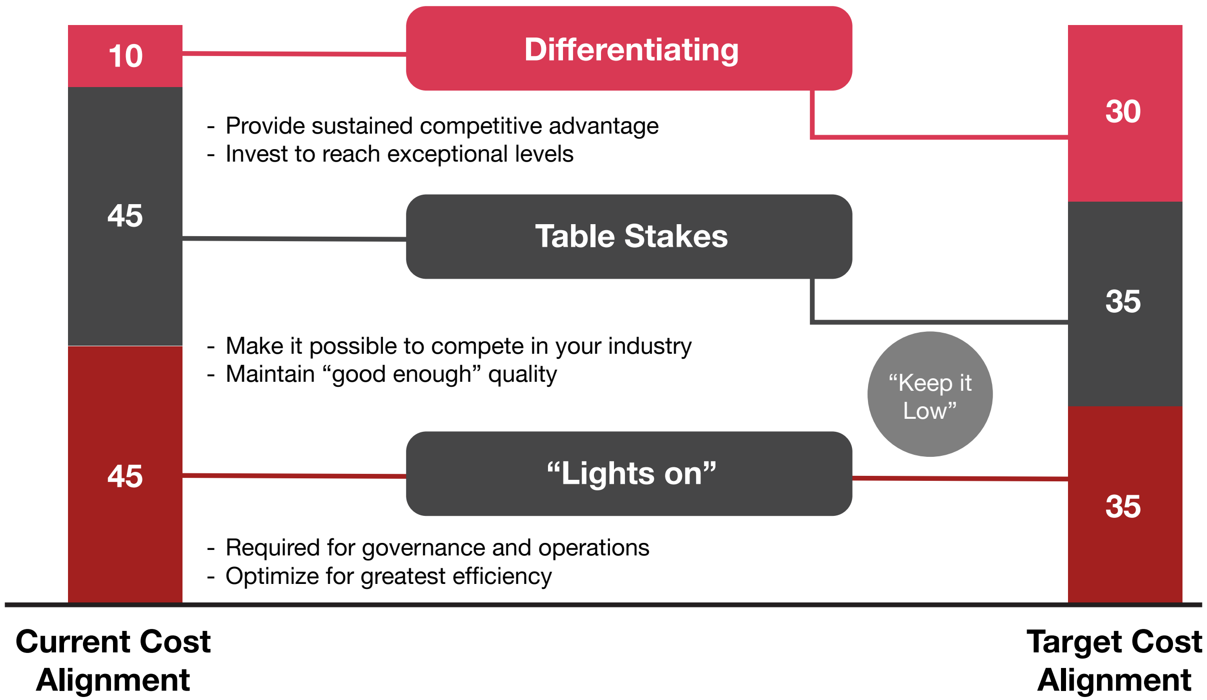
Figure 5: Fit for Growth cost reallocation methodology.



Source: Strategy&

Through eliminating legacy investment and activities, and reducing cost to competitive levels in the Lights-On and Table Stakes buckets, net savings can be redeployed to Differentiating Activities. A transformed cost structure would typically achieve the lowest cost in Lights-On, and a substantial investment in Differentiating Activities.

Figure 6: Fit for Growth cost reinvestment to enable sustainable growth.

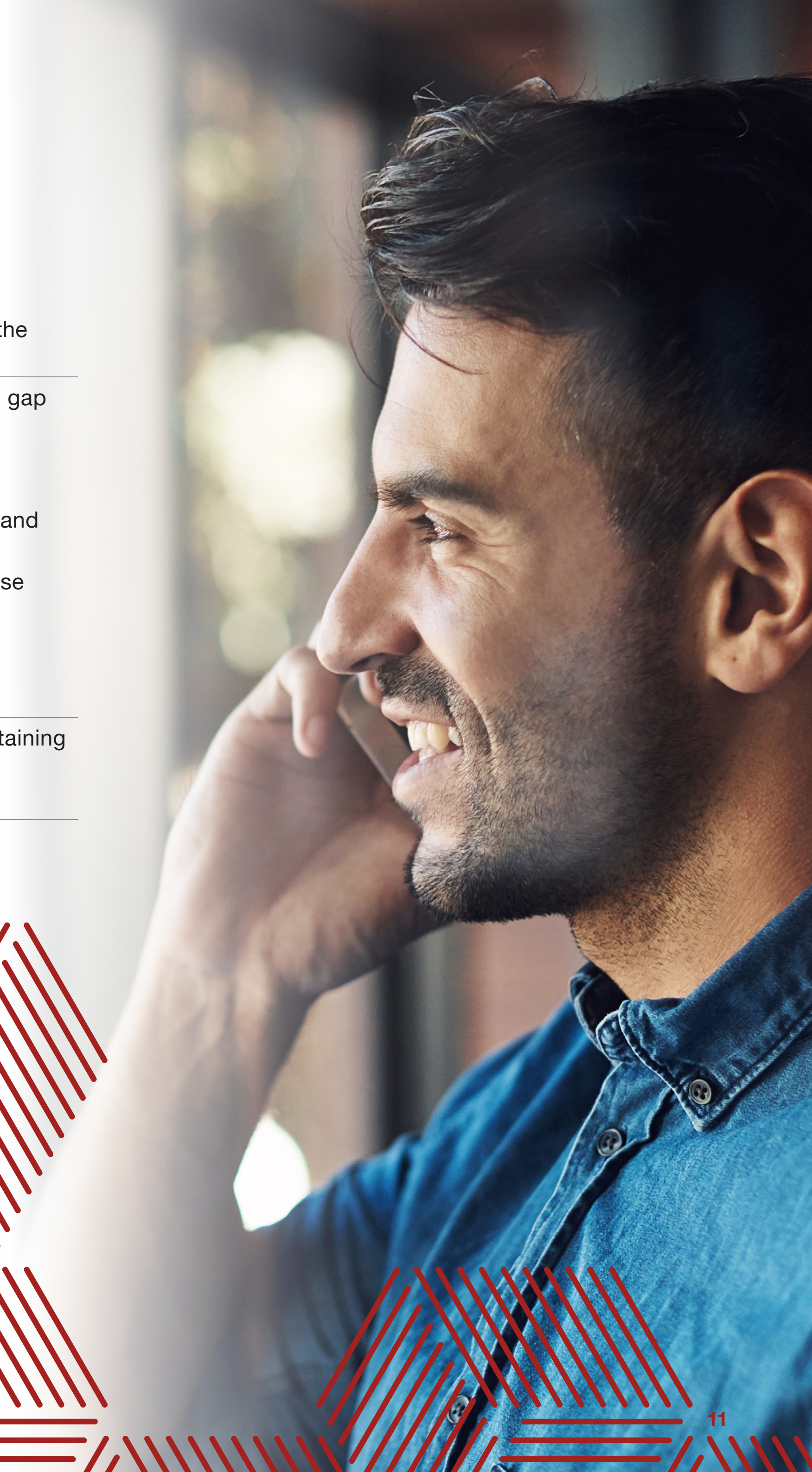


Source: Strategy&

Case study

Support a global insurance broker in accelerating growth in key segments

Situation	• Client sought to widen the cost-revenue spread through use of three optimisation levers: i. Process redesign and automation, ii. Near-offshoring to captives, and iii. Outsourcing to strategic partners. • Client used short-term levers in case a gap-to-target remained and engaged Strategy& to assist the top-five regional countries to maximise efficiencies.
Actions	• In-country gap assessment: Reviewed and structured existing initiatives, assessed the remaining gap to the target, agreed on initial business priorities. • Inspiration sessions: Conducted inspiration workshops with local country COOs and provided country-packs to enable opportunity identification. • Opportunity development: Worked with local COOs in opportunity sizing and execution planning and consolidated into a comprehensive region-wide efficiency plan. • Short-term lever identification and sizing: Identified additional short-term levers for savings to close gap to margin target. • Initiated and accelerated execution: Steered implementation of selected short term levers (spend management review, analysis of spans & layers) and large scale transformative opportunities (nearshoring selected processes).
Results	• Helped the client achieve margin-target by identifying savings potential across the region and obtaining commitment from the responsible budget owners. • Delivered analysis with countries to execute on initiatives and deliver savings.



Category		Potential levers	Description
Cost savings enablers	Growth & Margins	Local centralization	• Centralize value-adding activities that have strong needs for local handholding/ tailoring to drive client growth to benefit from economies of scale (e.g., pool similar activities for optimal resource utilization)
		Onshore / regional centralization	• Consolidate activities that require a degree of local proximity (e.g., due to local language availability or time-zone dependencies) in regional/offshore hubs to drive scale advantages and capability specialization • Offshore location-agnostic activities that have limited impact on client growth to benefit from cost-effective resource locations, specialized capabilities and economies of scale
		Offshore / global centralization	• Offshore location-agnostic activities that have limited impact on client growth to benefit from cost-effective resource locations, specialized capabilities and economies of scale
		Outsource / Leveraging Vendors	• Outsource activities to external providers to reduce cost of labor and administrative/infrastructure cost (i.e. leveraging the superior performance or cost effectiveness of third party vendors)
	Client Experience & Operations	Demand Management	• Rationalize products and services- focus on must haves vs. nice to haves • Optimize resource allocation to activities that generate incremental value for the client
		Process Standardization	• Simplify and standardize high volume, low complexity processes to improve efficiency • Redesign processes to take out transactional / low value-added work
		Process Digitization / Automation	• Automate transactional processes and enable no-touch/low-touch service delivery (e.g. ability to self-serve) • Implement standard ERP and commercial solutions to enable RPA and AI proliferation across processes
	People & Change	Restructuring & Delayering	• Reduce layers in the organization by removing unnecessary chains of command and rationalize roles to optimize span of control to industry benchmarks (e.g. focus on managers with no direct reports)
		Role Redesign and Salary Benchmarking	• Redesign roles to align activities with the appropriate resource skill level • Reduce average salaries by e.g. differentiating between data-based versus guidance-based analytic roles

Next steps

Most business leaders agree that strategy, cost management, and an organisational structure that is calibrated for performance leads to strategic success. Understanding how these factors integrate and reinforce one another is complex. The solution to manage change in a continuously evolving business environment lies in focus, execution and agility. Through mastering the integration of these factors and understanding the performance drivers and capabilities, improvements and value can be realised.

Strategy& possesses global expertise in organisational strategy, structure, and cost and capability review and execution. These skills and expertise, paired with senior management's intimate business knowledge and expertise, creates the opportunity to unlock true transformation and market leadership.

The Fit for Growth (FFG) model presents a holistic approach to strategic transformation, emphasising the importance of aligning strategy, cost management, and organisational structure to foster sustainable growth. This comprehensive framework, supported by Strategy&'s global expertise, offers a roadmap for businesses seeking to transform their operations, culture, and outcomes in pursuit of long-term success. For additional context on how Fit for Growth's can assist in solving complex business challenges, please reach out to Andrew Dalling, Partner and for Fit for Growth Lead in South Africa. In addition, our Fit for Growth Minibook provides a more comprehensive review of what has been discussed in this article, including additional insights and case studies on how Fit for Growth has realised value for a broad spectrum of clients.

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