

Deloitte Cost Survey: Companies Are Saving to Transform as Digital Disruption Gains Momentum Globally



Digital technology ranked as a top external risk but also a mechanism for gaining competitive advantage

As digital technologies continue to reinvent how businesses grow and operate, the associated risks and opportunities are prompting companies to expand their cost management strategies, according to Deloitte's second biennial global cost survey, released today. The study, "Save-to-transform as a Catalyst for Embracing Digital Disruption," shows that while traditional cost reduction methods are still crucial, many organizations are also investing heavily in transformative digital technologies to improve operating efficiency and cost savings while also boosting overall performance and competitiveness in an increasingly digital world.

Concurrently, as digital disruption emerges as an impetus for change, cost management remains a strong imperative globally. According to the survey of more than 1,200 global executives and business leaders, 71% are planning to undertake cost reduction initiatives over the next 24 months. Sixty-eight percent reported total reductions of 10% or higher, and nearly one-third (31%) have cost improvement targets above 20%. Eighty-one percent, however, report being unable to meet fully their cost reduction goals during the past year, 18 percentage points worse than in 2017, due to implementation challenges, lack of effective systems, and infeasible targets.

Digital disruption and cybersecurity rank as leading external risks

Demonstrating the significant role technology is playing in shaping cost management strategies, digital disruption soared to the top of the list as the biggest external risk according to respondents at 61%, up from just 6% in 2017. Digital disruption was surpassed only by another technology-related risk, cybersecurity, which at 62% ranks at or near the top of the risk list globally and in all regions except Latin America. Internally, reliability and functionality of information systems was identified as a top risk.

"In today's highly dynamic and competitive landscape, digital disruption is changing how companies view every aspect of their business, including cost management practices," said Omar Aguilar, principal and global strategic cost transformation leader, Deloitte Consulting LLP. "Deloitte's study shows that businesses are now recognizing they must save-to-transform, using investments in digital infrastructure to drive dramatic improvements in future performance, efficiency and market position."

Digital risks are spurring organizations to use cost reduction as a mechanism to fund technological transformation. Globally, the survey found that application of artificial intelligence (AI) and machine learning is expected to more than double from 25% to 63%. Findings also show similar growth is expected for automation (25% to 62%) and business intelligence (35% to 59%). Cloud continues to be the most widely implemented digital technology covered by the survey at 49% and is expected to remain popular due to its ability to tighten data security, as well as to reduce costs and improve productivity. However, all technologies in the survey are expected to be implemented at a level of 47% or higher over the next 24 months, signaling the widespread business impact of technology innovation.

Revenue growth is on the rise, but companies are cautious

The survey also found that companies are well-positioned to undergo this type of transformation,

with 86% of respondents reporting increased revenue over the past two years. This optimistic outlook continues into the future, with the same number of respondents expecting revenue growth over the next 24 months as businesses around the world enjoy one of the longest periods of economic expansion in history.

Even with the optimistic outlook, however, forward-thinking organizations are taking a cautionary stance. Economic patterns are cyclical, and potential warning signs are starting to emerge. In particular, the survey data show a 97% increase in global respondents who are concerned about macroeconomic risk over the next two years, and a 20% increase in U.S. respondents who expect a significant reduction in consumer demand over the same period.

Shifting cost management from growth to transformation

Through years of historic economic growth, cost reduction has evolved into an essential tool to help businesses fund their required growth investments (saving to grow). Now, however, many companies are taking things even further, using digital cost solutions and infrastructure improvements. These include robotic process automation, cognitive technologies, business intelligence and cloud-based enterprise resource planning to lift their efficiency, performance, and competitiveness to a new level (saving to transform).

“The 2019 study shows that companies have an enormous opportunity to capitalize on current economic strengths and leverage cost management practices to transform and innovate their businesses,” said Jason Girzadas, managing principal, Consulting, Deloitte Global. “Our mission at Deloitte is to help organizations around the world implement these transformations and make their businesses more efficient and more successful, now and in the future.”

“Cost management practices and approaches have grown increasingly sophisticated over time, and digital solutions, although still maturing, now represent the most advanced level of cost management,” said Aguilar. “By harnessing the power of digital technology to streamline their cost structures and generate cost savings, companies can take full advantage of the latest digital innovations — becoming the disrupters, rather than the disrupted.”

For more insights from Deloitte’s global cost survey report, view the full study.