

Operations Practice

2021 and beyond: Preparing for the future of SG&A

Shorter planning cycles, higher cost-cutting targets, and hybrid working models are defining how organizations reimagine their sales, general, and administrative (SG&A) functions for 2021 and beyond.

This article was written collaboratively by the global leaders of the McKinsey Corporate Business Functions Practice, a group that includes Michael Glaschke, Matt Jochim, Jung Paik, Abhishek Shirali, and Shubham Tiwari.



As the COVID-19 pandemic continues, it is clear that leaders need to reimagine their sales, general, and administrative (SG&A) functions beyond just ambitious cost-management programs. For many companies, the pandemic has been a catalyst for transformative changes to operating models, and once-temporary fixes are now becoming embedded into new ways of working. Moreover, given the pace and the scale of the changing nature of the pandemic's effects—vaccines providing hope for some parts of the world, while new variants of the virus are increasing concerns for many—organizations are increasing the frequency of forecasting and shortening their planning cycles, building granular, driver-based budgets while preparing for multiple scenarios, allowing them to be more resilient and better manage volatility.

Simultaneously, a dispersed and evolving workforce continues to be a challenge. Future working models are likely to be hybrid, with organizations building new safeguards to address the risks of both in-person and remote working. And, as the mass transition to remote working continues, and leaders embark on the next wave of automation and digital journeys—both for their own teams and their customers—plans for 2021 are focusing on reskilling the current workforce and shifting investments towards digital channels and tools.

We see these trends come to life in the findings of our Global Executive Pulse Survey (see sidebar, “Our methodology”). Respondents report working on increased cost-reduction targets, rapidly modifying operating models, and redefining functional priorities. This major survey is undertaken on a semiannual basis; the most recent findings were published in August 2020. The latest iteration, undertaken in the first quarter of 2021, asked functional leaders across a wide range of industries and functions about how they are thinking about the coming year and the future of SG&A.

Change is under way: five emerging trends

Before the pandemic struck, the nature of SG&A functions was already changing to adapt to new workforce and customer needs—as well as to absorb wider socioeconomic effects. We found five emerging trends that are likely to shape SG&A functions throughout the coming decade.

Some of these trends have been accelerated by COVID-19; as organizations manage its effects, overseeing a globally dispersed workforce and accommodating new talent requirements for SG&A work is growing in importance. The extreme digitization of work has shown itself to be a clear priority, as well as an imperative to develop mitigation plans against increasing volatility. And shareholder concerns are changing, encompassing demands that encompass far more than just financial performance (Exhibit 1).

The next wave of cost management

Over the last ten years, SG&A functions such as HR, finance, and IT have continued to drive gains in efficiency. However, as the pandemic continues, cost-reduction targets continue to become more aggressive. In our latest survey, conducted as many organizations were developing their plans for 2021, respondents said they were aiming for an average cost-reduction target of about 16 percent for SG&A over the next year. This figure represents a 45 percent increase over our first survey, conducted in

Our methodology

The latest edition of our quarterly survey of senior executives across the world gathered responses from 200+ senior executives, split across the major geographic regions and with representation across manufacturers, service-industry organizations, and corporate functions (exhibit).

Exhibit

We listened across industries and regions.

More than 200 senior executives



Industry, %



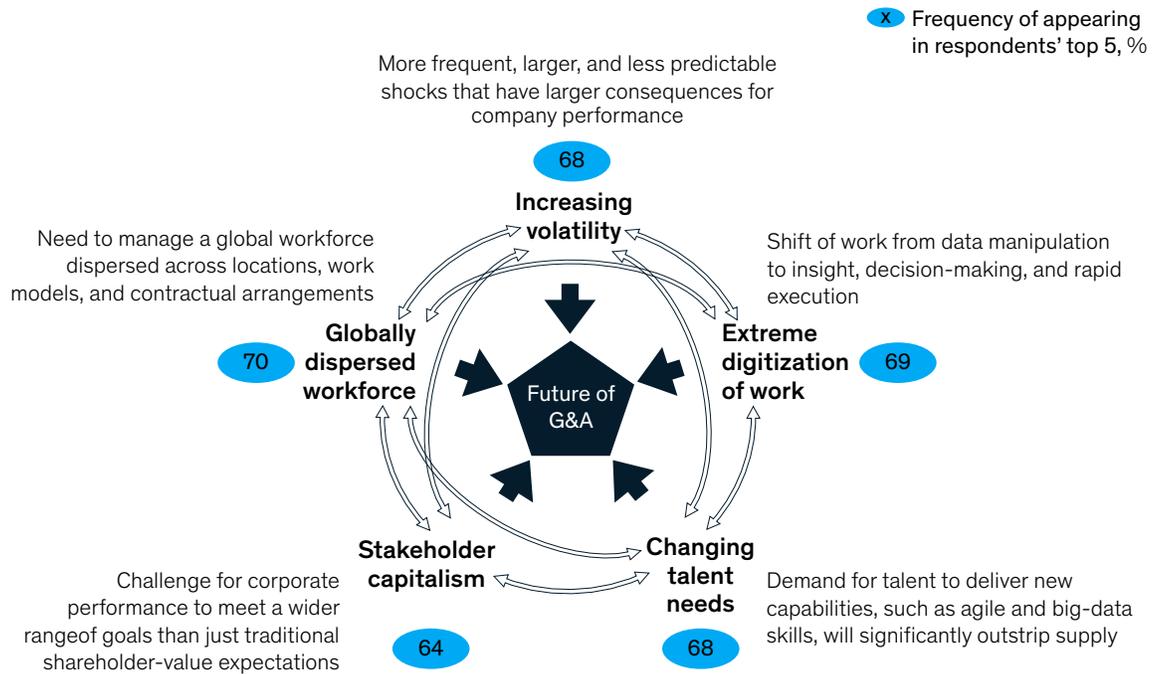
Function, %



¹Advanced electronics, aerospace, automotive, defense, and semiconductors
Source: McKinsey Corporate Business Functions Practice

Exhibit 1

Five emerging trends are shaping the future of G&A.



Source: McKinsey Corporate Business Functions Practice

the second quarter of 2020, when targets hovered at around 11 percent—a time when organizations still expected the pandemic to be over within the year (Exhibit 2).

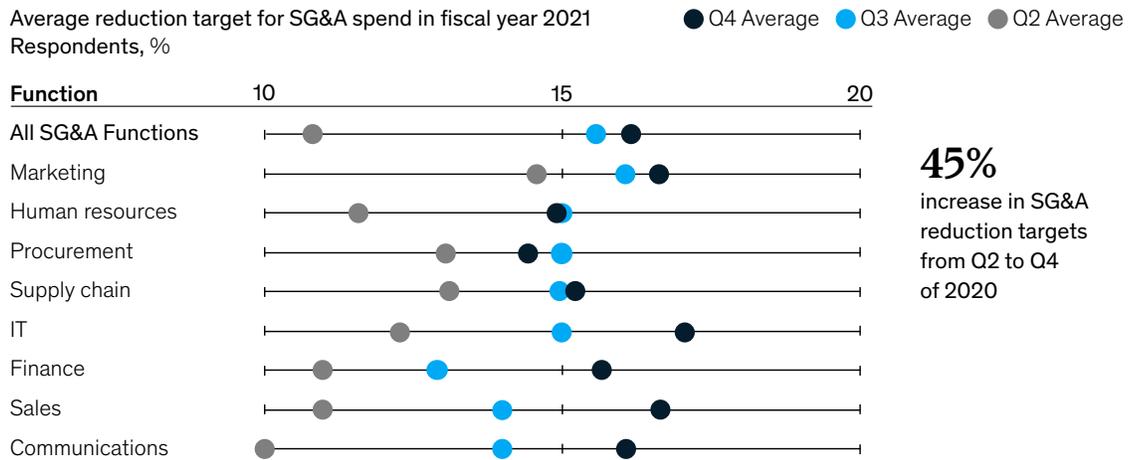
This urgent push can be seen in organizations embarking on the next wave of cost-management programs. One in two executives say that they plan to begin a cost-reduction program in 2021. However, uncertainty around the success of these programs continues to grow, with 70 percent of respondents saying they are unsure of whether the work will be successful—compared to 66 percent with that sentiment in the third quarter of 2020 (Exhibit 3).

This urgent push can be seen in organizations embarking on the next wave of cost-management programs.

Exhibit 2

A higher cost-reduction appetite still shows different aspirations across functions.

On average, executives call for a 10–20% reduction across functions



Source: McKinsey Corporate Business Functions Practice

Exhibit 3

Organizations are preparing for the next wave of SG&A cost management.

But confidence in meeting targets is low



Source: McKinsey Corporate Business Functions Practice

Planning for uncertainty

As the pandemic continued throughout 2020 and into the early part of 2021, CFOs have been required not only to act for the present, but also to start planning to become more resilient in the future. In response to questions about planning discipline in 2021, three out of five CFOs said they were increasing forecasting frequency, undertaking more regular scenario planning, and using the outcomes of these exercises to build driver-based budgets (Exhibit 4).

The next wave of digital and analytics is here

The past year has shown the importance of digital and analytics solutions and automation for both SG&A teams and their customers. That importance has been reflected in investment levels, with two out of three executives saying that they had already increased spending in this area, and expected to continue to do so in future (Exhibit 5).

However, the reasons behind the investments varied, ranging from continued spending on existing strategic priorities to paying for short-term cost improvements. It should be noted that investments linked to strategic priorities were judged to be more successful than those with a short-term focus—a factor of success we've noted in our earlier work.

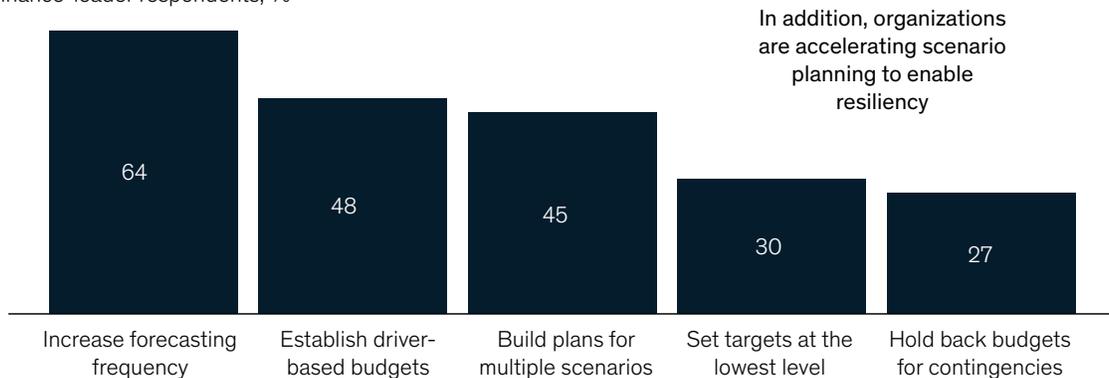
Exhibit 4

CFOs are increasing forecast frequency and building driver-based budgets.

Planning for uncertainty in 2021

Building plans for 2021

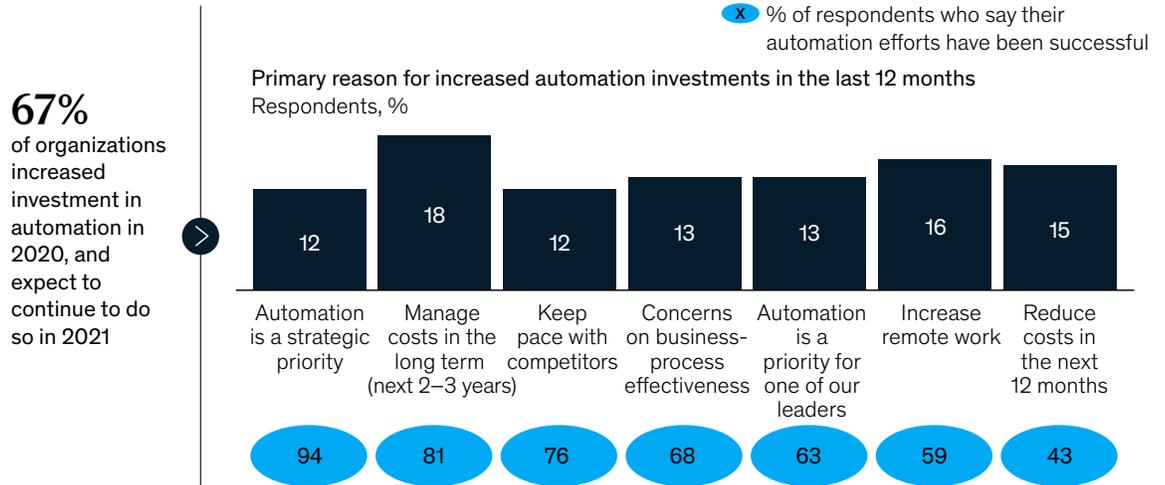
Finance-leader respondents, %



Source: McKinsey Corporate Business Functions Practice

Exhibit 5

Regardless of goal, automation efforts were more likely to succeed when linked to strategic priorities, not short-term returns.



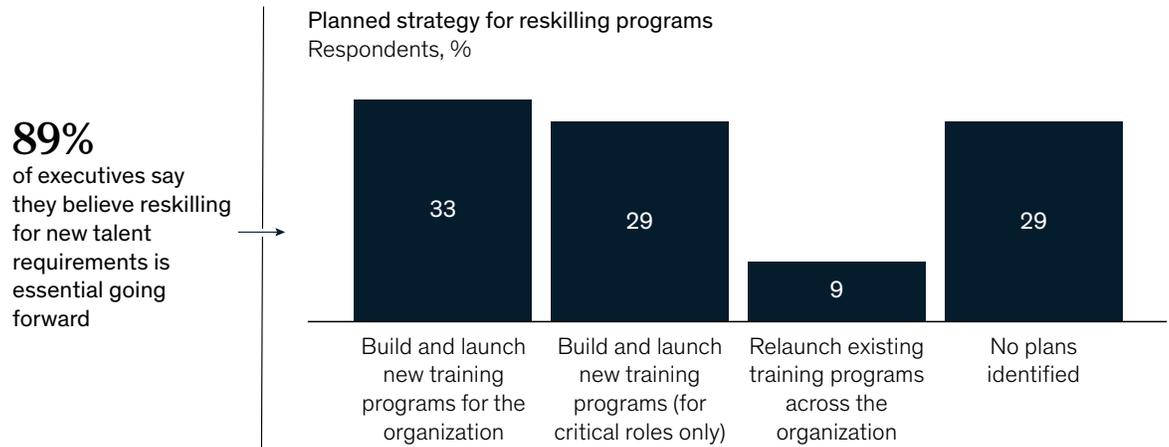
Preparing for changing talent needs

As organizations evolve their operations for the next normal, their talent requirements are simultaneously evolving. While the importance of reskilling is almost unanimously acknowledged, with 89 percent of respondents telling us that they believe reskilling will be essential in the future to meet new needs, organizations are not clear on the best way to run such programs. Strategies range across creating new programs for the whole organization, taking a more targeted approach, or relaunching existing programs. However, 29 percent of respondents have yet to identify how they want to develop any program (Exhibit 6).

As a result, many organizations have not begun reskilling programs, hampered by a mix of budget restrictions, a lack of understanding of future talent requirements, and insufficient senior-leader sponsorship.

Exhibit 6

Reskilling programs are necessary, but getting started is hard.



Much of 2020 was spent applying sticking-plaster solutions to allow organizations to act quickly in the face of the fast-moving pandemic. Now is the time to formalize new processes, such as frequent scenario planning, and embed them into daily working. And it is also the time to ensure that people have the skills they need to get the most from digital, analytics, and automation solutions in the next normal. Doing so will improve resilience for long term—even if uncertainty persists for at least the early part of 2021.

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