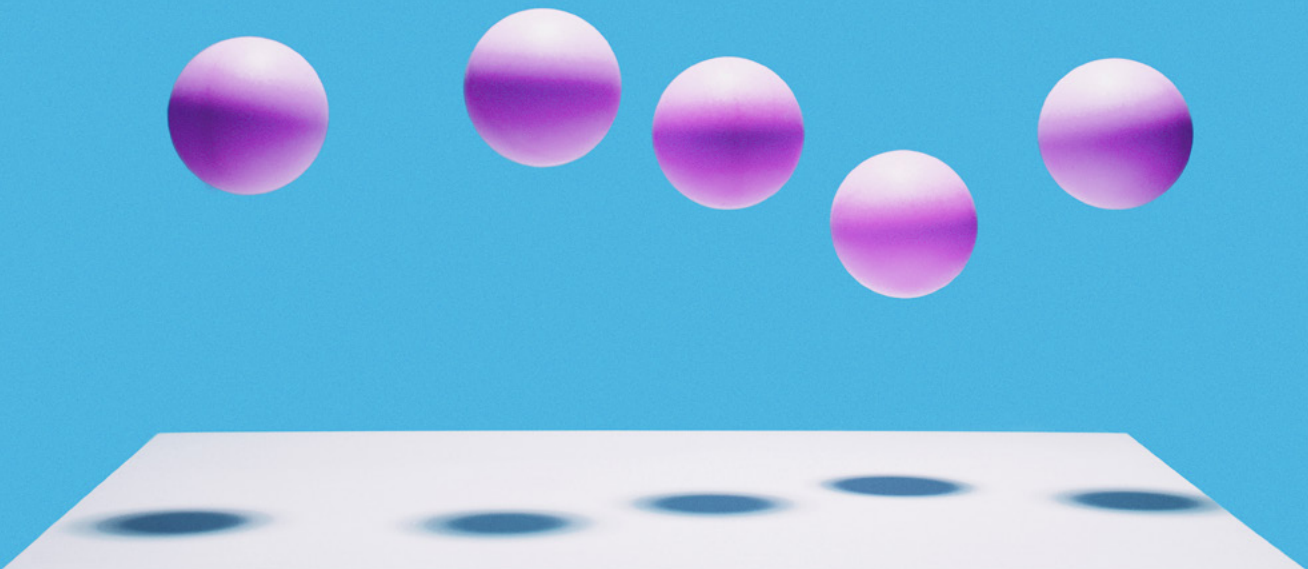


Operations Practice

Reimagine: Preparing for SG&A in the next normal

As the COVID-19 pandemic continues and its economic impact increases, the productivity and reallocation imperative for sales, general, and administrative (SG&A) activities continues to sharpen.

This article was written collaboratively by the global leaders of the McKinsey Corporate Business Functions Practice, a group that spans regions and includes Steven Eklund, Heiko Heimes, Matt Jochim, Rowan Mawa, Carey Mignerey, Jung Paik, Rob Pepper, Abhishek Shirali, Ed Woodcock, and Megan Wells.



The COVID-19 pandemic has brought rapid change to organizations as they strive to adapt to the next normal. Transformations that would typically take years to implement are being achieved in a few months—such as skyrocketing growth in e-commerce and omnichannel platforms and the rapid implementation of automation technologies.

We see similar trends in the findings from our survey of nearly 300 global CXOs across a wide range of industries and functions: organizations are increasing their cost-reduction targets, modifying their operating models on the fly, and redefining their functional priorities. Conducted as a follow-up to "Reset and reallocate: SG&A in the next normal" from May 2020, the latest poll asked how executives are thinking about SG&A in the months ahead.

Cost reduction continues, but not at the expense of growth

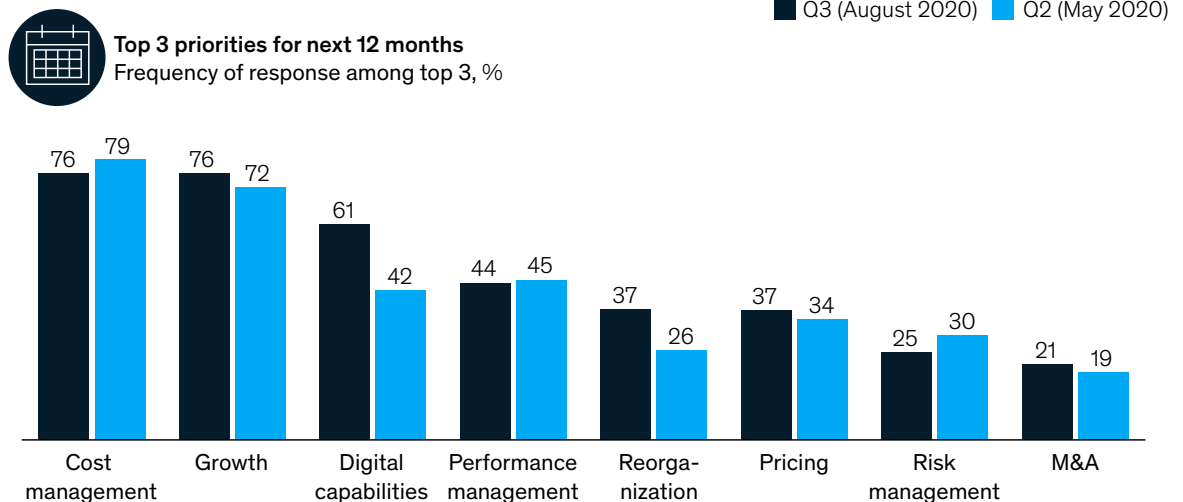
Given current challenges, it's hardly surprising that 76 percent of executives reported cost management and growth as two of their top three priorities over the next 12 months. More noteworthy are the respondents' plans for spending: building digital capabilities has risen to become as a clear top-three priority, with 61 percent of respondents citing it as a top priority, up from 42 percent just one quarter earlier.

Reorganization also increased in priority since last quarter, rising from 26 percent to 37 percent. That finding matches what we have heard from individual CXOs: months of remote working and rapidly changing circumstances have prompted fundamental questions about new ways of working and decision-making (Exhibit 1).

Exhibit 1

Executives are prioritizing cost and growth for the next 12 months.

Digital capabilities are a rising focus



Source: McKinsey Corporate Business Functions Practice

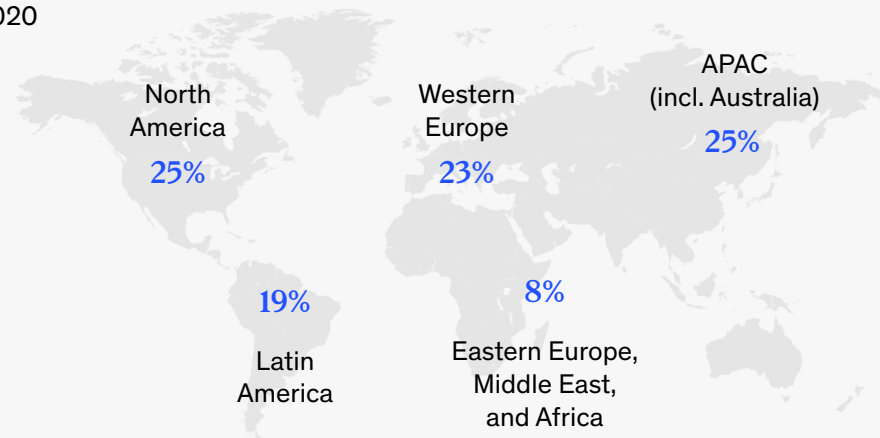
Our methodology

The latest edition of our quarterly survey of CXOs across the world gathered responses from 289 C-suite leaders, split across the major geographic regions and with representation across manufacturing, service industries, and corporate functions (exhibit). A wide range of sectors were represented, with the highest number of responses from the telecom, media, and technology subsectors at 22 percent, financial services close behind at 21 percent, and retail accounting for 15 percent. Functional representation was diverse as well, with finance, HR, procurement, and IT together accounting for just over 60 percent of the total responses.

Exhibit

We listened across industries and regions.

289 CXOs
as of September 2020



Industry, %

Telecom, media, and tech	22
Financial services	21
Retail	15
Healthcare	11
Consumer goods	10
Travel, transport, and logistics	7
Pharma and medical products	7
Metals and mining	3
Other	5

Function, %

Finance	19
HR	15
Procurement	14
IT	13
Sales	10
Strategy	9
Marketing	9
R&D/Legal	6
Facilities	5

Source: McKinsey Corporate Business Functions Practice

Cost targets get tougher, with little tailoring

We also explored how companies intend to achieve these priorities, beginning with cost reduction. Since the second quarter, the reduction targets have increased by as much as 5 percentage points, depending on category (Exhibit 2). What has not changed, however, is the uniformity of the targets across the organization: one-size-fits-all continues to be the dominant model. Almost 80 percent of executives reported a dispersion among targets

of less than 20 percent across functions. As we have said earlier, while this approach might seem fair, it often leaves money on the table, and risks sacrificing future strategic needs to current short-term demands.

The road ahead looks complicated

When we undertook this survey, most organizations had already launched SG&A improvement programs. The findings indicate

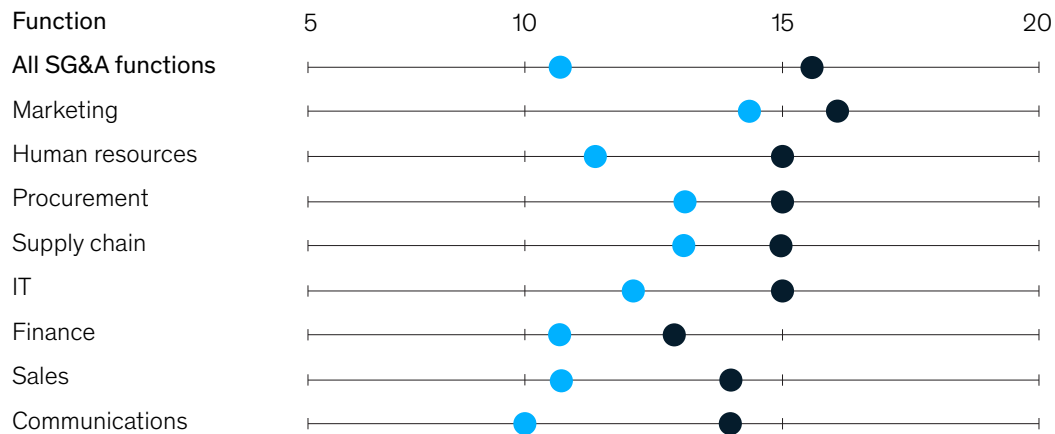
Exhibit 2

Reduction targets have risen, but still follow a 'one size fits all' model.



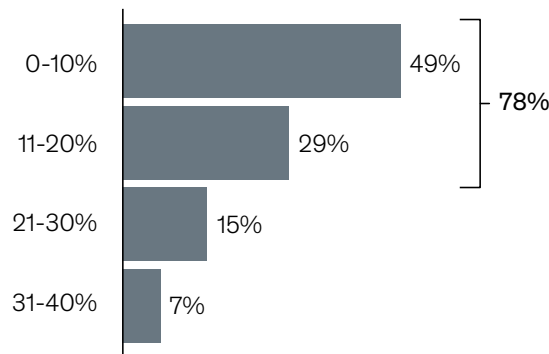
Target percentage reduction in SG&A spend in FY20
Average among respondents

● Q2 average ● Q3 average



Dispersion of reduction targets among functions

% of respondents



Source: McKinsey Corporate Business Functions Practice

a significant pessimism regarding the potential outcome of these transformations, with most respondents feeling at least “somewhat unprepared” or worse when asked about their confidence in meeting targets (Exhibit 3). Our guidance for SG&A programs is threefold: set the efficiency and effectiveness ambition high, realize the value creation potential in those investments, and reset from a zero base.

Remote work is hard work

A shift to remote work often changes an organization’s operating model. Although the resulting challenges are not new, organizations face increasing pressure to maintain productivity while further accelerating the adoption of digital and analytics technologies. Even as executives increasingly accept that remote working is here

to stay, they also acknowledge that making it sustainable will involve a combination of hard and soft success factors—from technology infrastructure and data security to improved collaboration, coaching, and performance management (Exhibit 4).

The center rises

To manage the complicated road ahead, executives say they are looking to their corporate centers to steer the ship. As organizations usher in the next normal, they expect greater centralization, with the corporate center playing an increasingly pivotal role in operating-model changes, strategy setting, and financial governance (Exhibit 5).

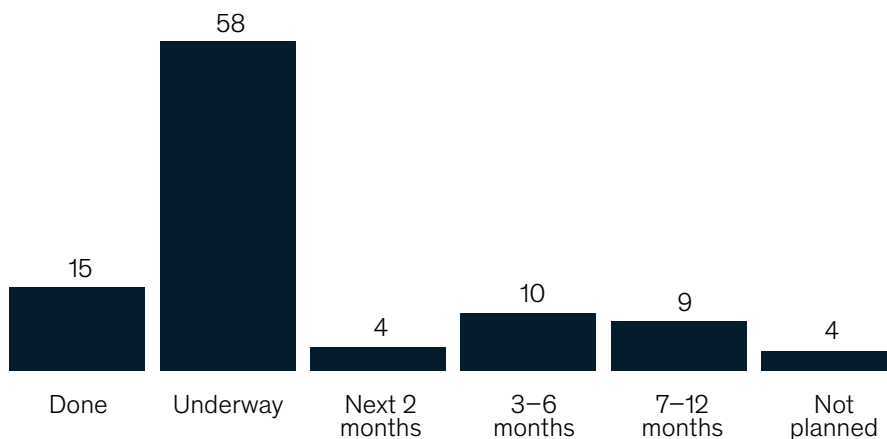
Exhibit 3

Targets appear out of reach for many SG&A programs now underway.

Pessimism is widespread about meeting SG&A targets



Timeline to launch SG&A improvement program
% of respondents¹



Yet...

66%

Feel “somewhat unprepared” or worse when asked about confidence in meeting spend-reduction targets

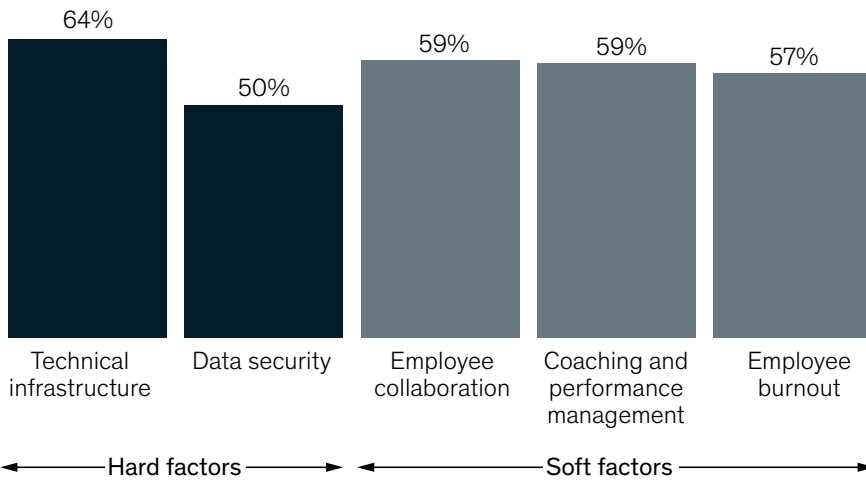
¹35 respondents did not provide an answer
Source: McKinsey Corporate Business Functions Practice

Exhibit 4

Long-term work from home raises technology and human challenges.



Top challenges in implementing work from home
% of respondents



72%

of executives say that their organizations have started adopting permanent remote-working models

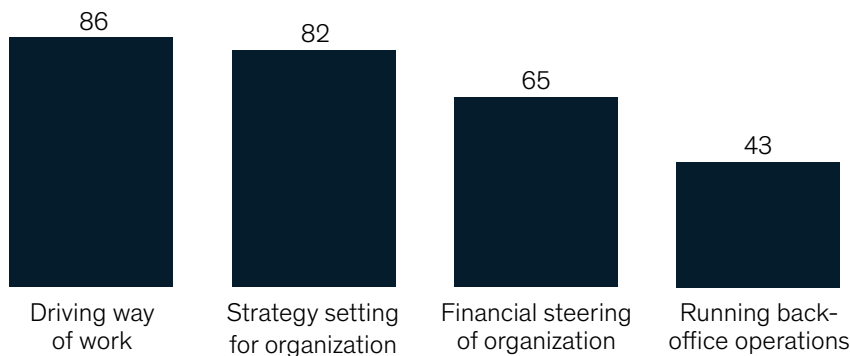
Source: McKinsey Corporate Business Functions Practice

Exhibit 5

Executives foresee the corporate center taking a greater lead in shaping activities.



Corporate center's responsibilities in a post-COVID world
% of respondents



70%

of executives expect the corporate center to play a more relevant role in steering the organization

Source: McKinsey Corporate Business Functions Practice

At the start of the COVID-19 pandemic, executives acted with speed and agility to address challenges head-on.

The rapid shift to remote work in the last year appears likely to stick. Now organizations have the

opportunity to transform their operating models with new priorities, new capabilities, and a new flexibility to reflect the changing needs of the next normal.

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