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Rethinking the rules of reorganization

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Play favorites. Ask for bad ideas. Skip meetings. Here's some unconventional advice on how consumer companies can get the most out of an organizational redesign.

With the US consumer sector changing at an unprecedented pace, retailers and consumer-goods manufacturers are actively reshaping their business and strengthening their presence in new and fast-growing markets and channels. To help fund their efforts in these new growth areas, companies are on a seemingly constant quest to cut selling, general, and administrative costs—and many of these cost-cutting programs involve reorganization. Indeed, according to our analysis, approximately 60 percent of companies in the S&P 500 have launched large-scale cost-reduction and reorganization initiatives within the past five years.

Yet our research shows that only 26 percent of those companies have successfully prevented costs from creeping back up. Worse, many consumer companies are failing to reallocate resources even as their strategies change: their budgets remain skewed toward mature, low-growth brands rather than newer, high-potential brands, or they continue to invest heavily in traditional capabilities such as retail real estate while underinvesting in newer capabilities such as digital marketing and data analytics.

How can companies capture—and sustain—the impact of their cost-cutting and restructuring efforts? We believe part of the answer lies in jettisoning widespread but outdated beliefs about organizational redesign. Our extensive work with leading retailers and consumer-goods companies has shown us that, in many cases, companies would be better off doing the opposite of what conventional wisdom tells them to do. In this article, we outline five new rules of organizational redesign. By following these rules, companies can simultaneously cut costs and drive growth—and do so for the long term.

Rule one: Shake up the core of the organization.

When embarking on cost-cutting programs, many consumer companies adopt a hands-off posture toward what they consider strategic functions—those they see as core to the business, such as marketing and merchandising—and focus instead on finding back-office efficiencies. Companies have repeatedly searched for savings in their cost centers and support functions by implementing lean techniques as well as through more transformative changes such as automation and outsourcing. The core functions, on the other hand, remain full of unexplored opportunities. For example, even companies that have shifted a considerable portion of their media budget from print to digital media continue to retain their print-marketing infrastructure.

The entire organization—no exceptions—should be in scope when contemplating a cost-reduction effort. In our experience, when companies assess the savings potential in all their departments, they identify twice as much savings in the core functions as they do in back-office functions.

Looking at interactions across departments can surface even greater savings potential. Many companies—particularly those that have been in belt-tightening mode for several years—have already tapped into the most obvious savings opportunities within departments or business units, but they've yet to examine inefficiencies in cross-functional, cross-channel, or cross-regional activities and processes. One example of a cross-cutting activity is retail promotions, which typically involve the marketing, sales, and merchandising departments and require coordination across channels (stores, catalogs, and online).

A global beverage manufacturer had been hesitant to even consider trimming its market-research budget, as the company had always viewed market research as central to its success. But, as part of a broad cost-cutting effort, the company decided to review market-research spending line by line: who had commissioned each piece of research, for what purposes, which suppliers conducted the research, and how the results were used across the organization. The company found that its market-research spending was more than twice the industry average and that its supplier base was highly fragmented, consisting of more than 50 providers. Based on its findings, the company made several changes: it redesigned and simplified cross-functional work flows, consolidated its vendor relationships, and created rate cards for standard research types. These changes lowered the company's market-research costs by 20 percent without adversely affecting revenues.

As this example suggests, a cost-cutting program—which companies sometimes view as a necessary evil—can actually help a company become more effective and more agile. Reducing costs, especially in core functions, can be a catalyst for creating a leaner, faster, and ultimately healthier organization.

Rule two: Play favorites.

Every part of the business must be fair game for cost cutting, but that doesn't mean that every part of the business should have identical cost-reduction targets. When it comes to budgets, management would be smart to play favorites.

An equitable mandate—for instance, "All business units must cut costs by 10 percent"—may sound sensible and wise; after all, it's much easier to get buy-in from across the organization when everyone sees that the burden is shared equally. But such an approach misses the point of a reorganization. Setting across-the-board targets is counterproductive if the goal is to reallocate resources from low-growth to high-growth areas.

Some companies already play favorites, but in a way that doesn't support their strategic priorities. For example, at a global specialty retailer, the bulk of the merchandising department's staff and budget was dedicated to mature brands as opposed to newer, high-growth brands (exhibit). This situation persisted even though the company's strategic plan had called for greater investment in the newer brands. We've seen the same kind of misalignment at several other consumer organizations, from food manufacturers to household-products companies.

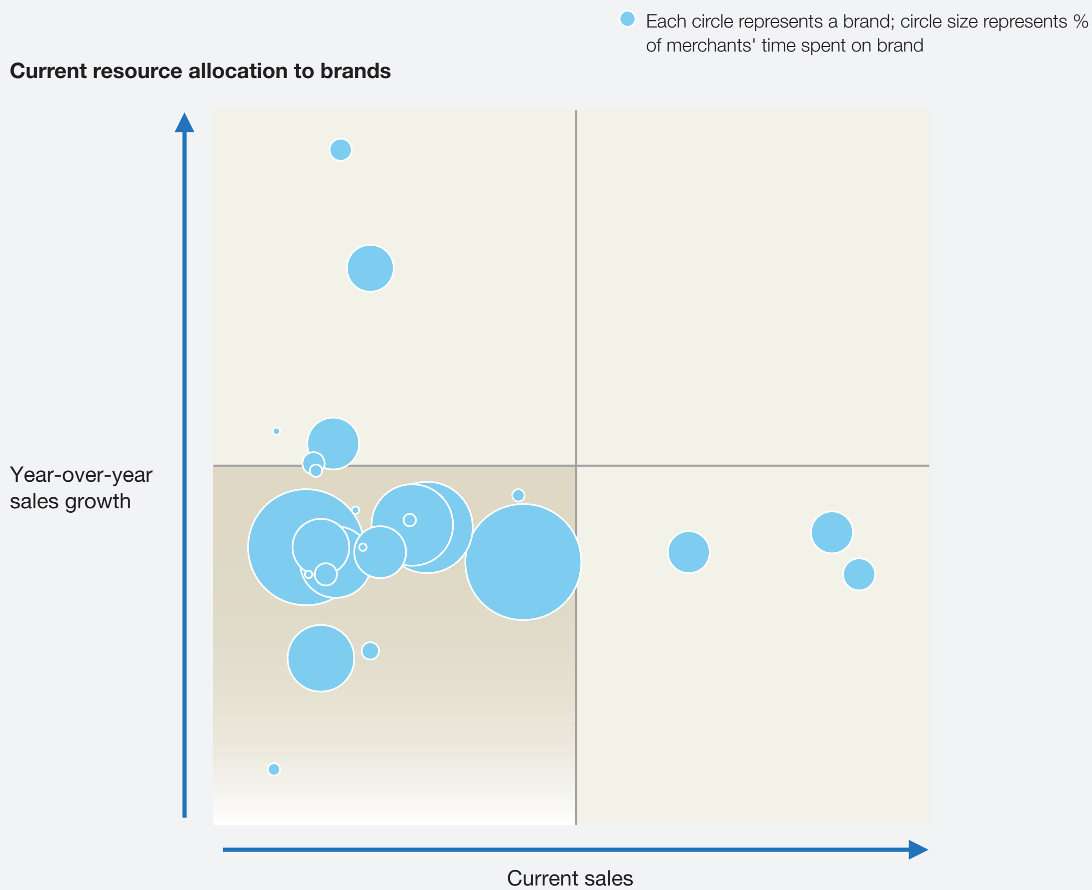
A better approach is to set different cost-reduction targets and investment levels based on a business unit's growth and efficiency potential. Leaders should also define the capabilities that are critical to growth and invest in those capabilities while "leaning out" other areas to free up funding.[1] For example, a global retailer reduced head count in its copywriting team by having copywriters work in both print and digital media instead of exclusively in one media channel. This consolidation helped fund new positions in digital analytics.

Rule three: Ask for bad ideas.

An ambitious cost-reduction initiative will have the best chances of success if people in the organization are empowered to think creatively and to make bold—even outlandish—suggestions. Role modeling by senior leaders goes a long way here: when leaders aren't shy about offering up

Exhibit

A specialty retailer found that its merchandising team was spending the most time on mature, low-growth brands.



ideas that could be controversial or unpopular, they embolden others to do the same.

One hindrance to idea generation is a territorial profit-and-loss (P&L) owner. Conventional wisdom prescribes that the person with P&L responsibility also take charge of a cost-cutting program, because that person will be the most motivated to make it successful. The flip side is that the P&L owner has largely brought about the current state of affairs and therefore may not have an objective view. He or she may find it difficult—even impossible—to envision different ways to structure the work or different roles for individuals he or she hired. The P&L owner might concede to incremental moves but resist a fundamental rethinking of the organization, which in some cases is what's needed.

One proven approach for ensuring objectivity is to form a steering committee comprising the functional leaders and at least two C-level executives. The steering committee's role is to make decisions for the benefit of the entire company rather than just one business area.

Committee members should regularly challenge the status quo and push for a “no sacred cows” mentality—for instance, spurring the business unit to consider options that it may have previously viewed as off-limits (such as automation and the use of third-party providers). What might seem a terrible idea to the P&L owner could be an intriguing idea to committee members. Even rejected ideas shouldn’t be permanently discarded, but instead kept on a running list to be revisited in the future.

At a US multicategory retailer, the steering committee asked to be informed of all cost-reduction ideas—even those that the business unit had considered and rejected. One such idea was to do away with the gift boxes given to shoppers during the holidays. The business unit felt the move was too radical and would annoy customers who had come to expect retailers to provide free boxes for their holiday-gift purchases. The steering committee implemented it anyway, and the result was $2 million in annual savings. The retailer’s chief competitors soon followed suit, eliminating their own practice of giving customers free gift boxes.

Another way to ensure the objective evaluation of ideas is to appoint a neutral “cost-category owner” who can ask tough questions and bring a fresh perspective. At a packaged-goods company, the head of supply chain served as the category owner for marketing co-op funds. This executive was able to discover maverick spending that marketing executives hadn’t been aware of.

Rule four: Move beyond benchmarks.

Managers either love or hate benchmarks. Those in the former camp see benchmarks as valuable metrics for understanding the competitive landscape and for triggering important internal discussions; they believe companies should strive to meet or exceed benchmarks. Those in the latter camp argue that every company is unique and that it’s therefore unhelpful and illogical to compare one company’s decisions, structure, and head count to another’s.

Both camps are right, to some extent. Organizational benchmarks can tell a company, for example, the average number of employees its competitors have in each department. But that information is meaningless without deeper insights into what those employees actually do. Thoughtful leaders use benchmarks not as default targets, but rather as indicators that shed light on areas in which a company’s investment differs markedly from competitors, and then as a starting point to generate ideas for how to operate more efficiently.

Leading companies complement benchmarks with a thorough diagnostic, encompassing internal quantitative and qualitative analyses (such as time-allocation surveys that highlight the activities to which employees devote most of their workdays). Done right, a diagnostic will surface what should change: Where are the bottlenecks in core processes? Are employees using cutting-edge tools, or are manual processes limiting their productivity? Are they spending too much time on low-impact tasks?

Through benchmarking, a retailer saw that its marketing team was 45 percent larger than the marketing teams of several competitors. Instead of reflexively cutting head count, the retailer dug deeper and discovered that its marketing team produced more than twice the number of catalogs as comparable retailers did. These findings led to data-driven discussions about the retailer’s marketing investments. It decided to discontinue its least profitable catalogs, reduce the number of in-store events, and consolidate all marketing-analytics functions—previously dispersed across the company—into centers of excellence. These moves helped shave 15 percent off the company's baseline marketing spend.

Rule five: Skip meetings and stop writing reports.

A reduction in force won't necessarily lead to a reduction in work. Leaders must spell out exactly which activities should cease, which ones should change, and which should continue. Otherwise, those critical decisions will be left up to lower-level employees, and costs will quickly creep back up.

We've found that, in many companies, certain activities take up an inordinate amount of time but yield little benefit. One example is the often dreaded meeting. In general, meetings occur too frequently, last too long, involve too many people, and often don't end with clear next steps. When a US apparel retailer administered time-allocation surveys among members of its product-development team, it found that designers were spending an astounding 70 percent of their week either preparing for or attending meetings. The survey results were an eye-opener and became a powerful case for change. The retailer reduced the number and frequency of meetings as well as the number of meeting attendees, in part by allowing team members to give certain approvals via email or online instead of in person.

Another way to reduce work is to examine a company's decision-making processes. Many companies find that they can halve the number of people involved in making certain strategic decisions. Typically, after an organizational redesign, about 80 percent of decision rights are obvious; only 20 percent—we call them "pinch points"—are murky (in many cases due to shared responsibility) and thus need senior-leadership attention. As part of an effort to increase organizational effectiveness and agility, a global retailer identified its "high-value, high-pain" pinch points—cross-functional decisions that had far-reaching financial or strategic implications but that were widely perceived as slow and painful. A clean-sheet redesign of three pinch points led to faster, simpler decision making. In each of the pinch points, up to 20 percent of process steps were eliminated, and the duration of one monthly process was reduced from ten days to five days.

Like meetings, business reports can be time wasters. At a global food-and-beverage company, the finance function was constantly churning out financial reports. After close investigation of who was requesting the reports and how frequently, how long they took to prepare, and how they were being used, the company eliminated the laborious but low-impact reports. In total, the finance staff stopped producing 25 percent of the reports, thereby freeing up time for more-valuable activities such as deeper financial analysis.

There may be other activities, beyond meetings and reports, that companies can either de-emphasize or stop doing entirely. Leaders could come up with a list of such activities by asking questions such as, "What tasks are being done purely because the company has always done them? What tasks are employees constantly complaining about as not being worth the time and effort? Are there operations that we could shut down without major repercussions?" The answers may prove surprising.

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An organizational redesign won't "stick" without thoughtful change management.[2] One aspect of change management can be compared to a marketing campaign, aimed at making the case for change and inspiring and motivating the organization—perhaps through frequent CEO missives and heartfelt testimonials from leadership. Another is more like a military campaign, concerned with adjusting budgets, establishing checks and balances, and monitoring progress. Retailers and consumer-goods companies that pay close attention to both these hard and soft aspects of change management—while keeping in mind the five rules outlined above—will be well on their way toward building an organization that can continually control costs while also, crucially, building new muscle for growth. ■

[1] For more on resource reallocation, see Michael Birshan, Marja Engel, and Olivier Sibony, "Avoiding the quicksand: Ten techniques for more agile corporate resource allocation," *McKinsey Quarterly*, October 2013, McKinsey.com.

[2] See Boris Ewenstein, Wesley Smith, and Ashvin Sologar, "Changing change management," July 2015, McKinsey.com.

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