

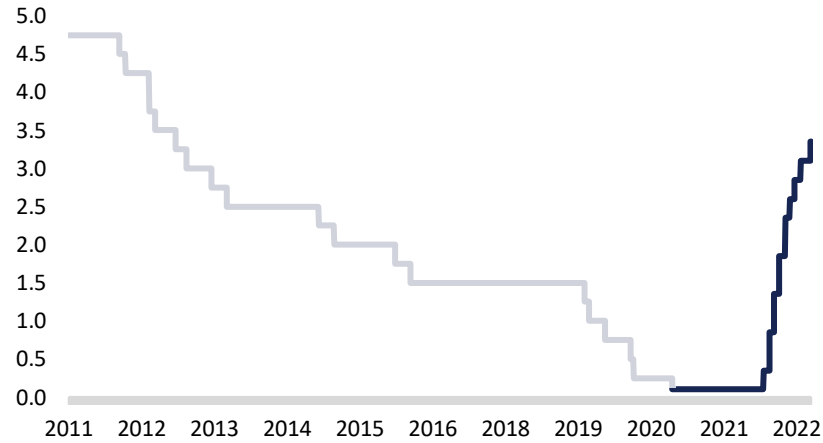
# Addressing Margin Challenges Without Damaging Your Organisation

May 2023

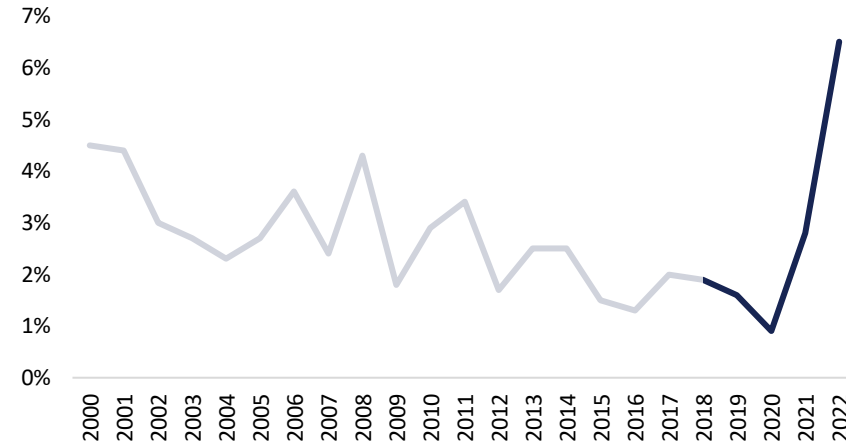


# We are all aware of the inflationary and interest rate challenges

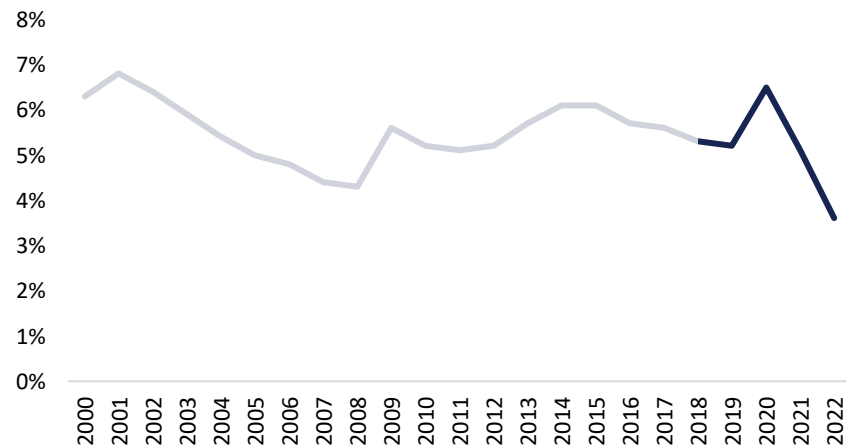
Australian Interest Rates, % target



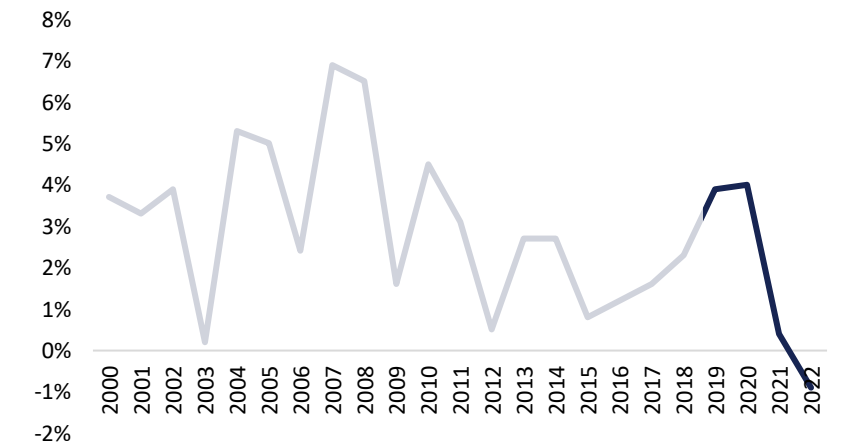
Australian Inflation, % change YoY



Australian Unemployment, % change YoY



Australian Disposable Income, % change YoY

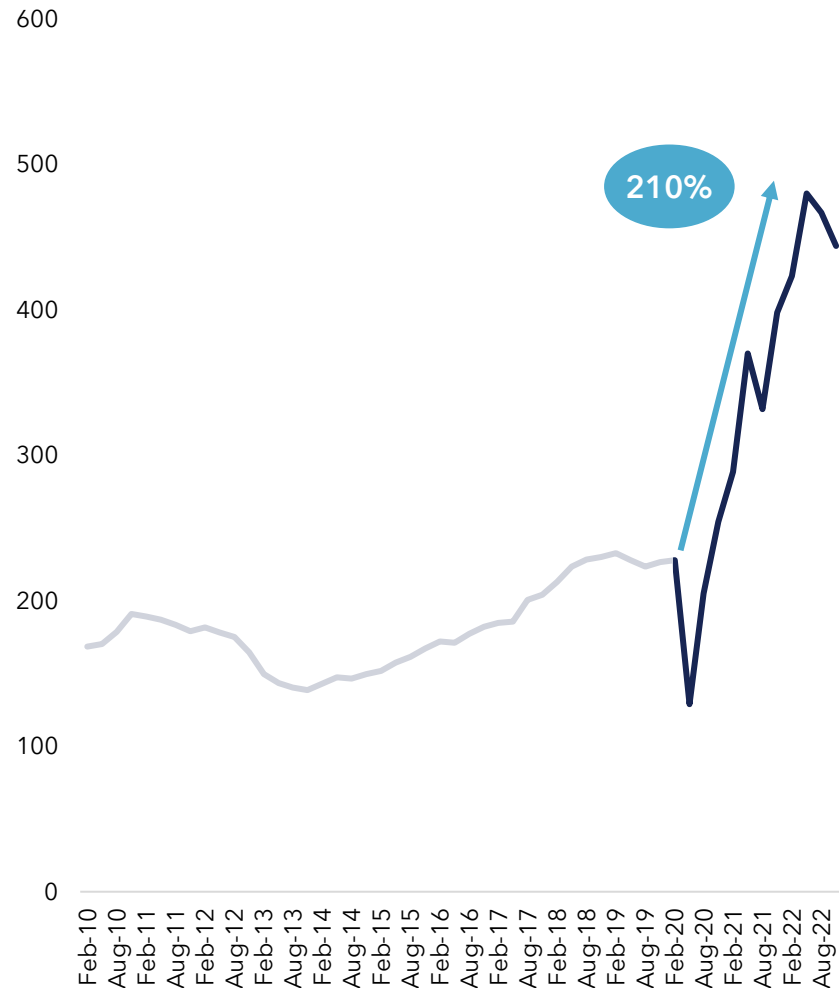


## Insights

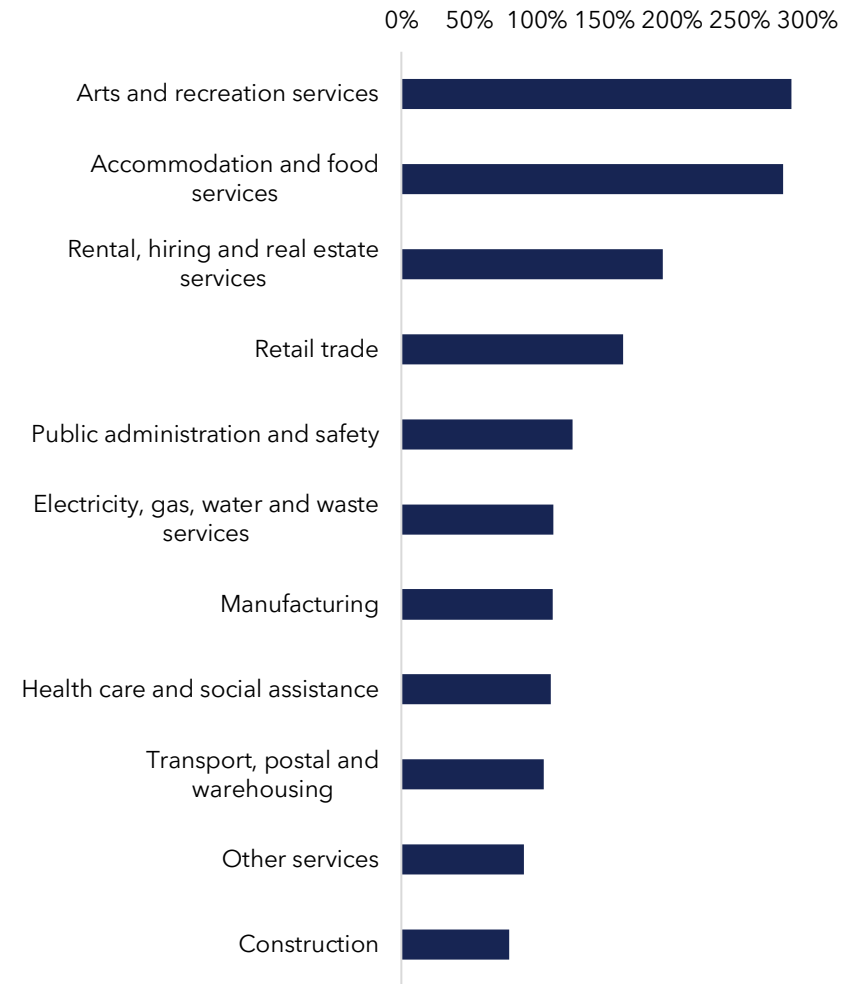
- Interest rates have rapidly climbed after many years of loose monetary policy
- Multiple macroeconomic factors have resulted in the highest period of inflation Australia has experienced since 1990
- Demographics have led to historically low unemployment numbers, leading to under-resourcing issues for many sectors and industries
- Consumer disposable income has begun to decline, leading to increased economic anxiety
- Uncertainty reigns in market commentaries and half-year result presentations

# As well as the staffing and skills challenges we face

Job Vacancies, total, '000



Increase in Vacancies, by industry, % change pre-COVID



## Insights

- Total job vacancies peaked at peak of 480,000, and whilst there has been improvement, the numbers are still high
- This represented the largest number of job vacancies ever recorded in Australian history
- The impacts of COVID-19 are still being felt in many industries, and are a contributing cause to the labour shortage crisis
- Some sectors are facing a nearly 300% increase in the number of vacancies since pre-pandemic levels
- The arts, retail, government, and health sectors are amongst those hardest hit by the slump in the size of the workforce
- Many industries are undergoing radical changes to address aforementioned issues

# The emerging impacts of these challenges are both negative and material

Organisations are unable to raise end-prices faster than input costs, with this challenge not being limited solely to the construction sector

## The Construction Industry is a Stark Example of This



With fixed prices for services, yet rapidly rising input costs



The forward pipeline may offer opportunities to price differently, but the industry is having problems "changing the business model"



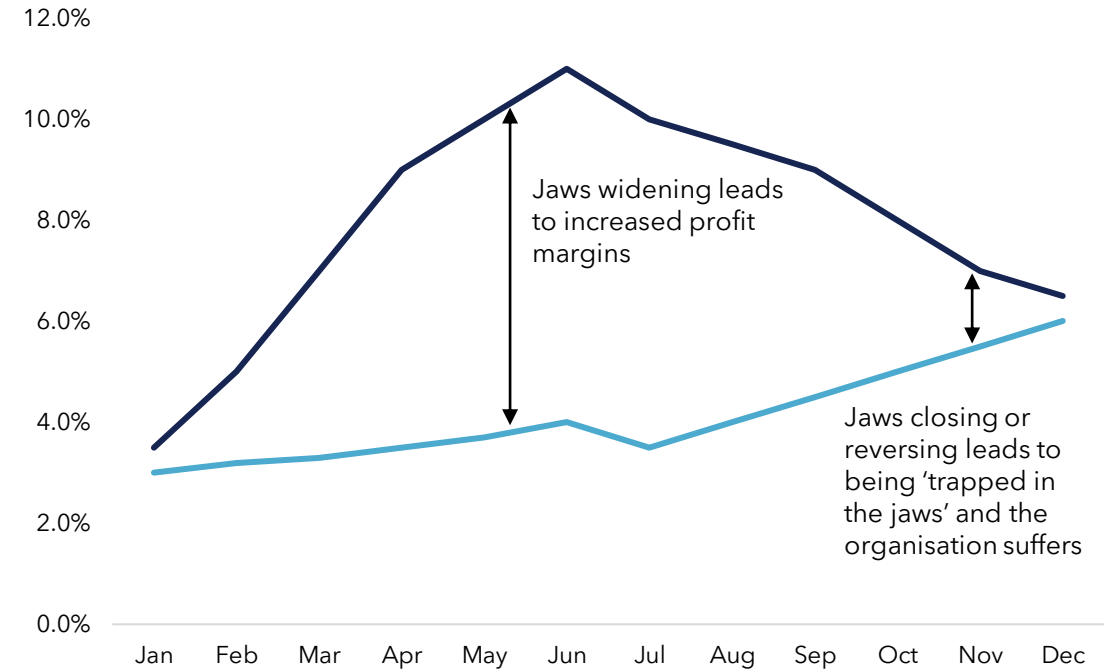
A number of builders have already gone into voluntary administration



It is worthwhile noting that construction represents 9% of Australia's GDP

## Margin Jaws, revenue growth vs cost growth, % change

ILLUSTRATIVE



# There are a range of ways that organisations can deal with these challenges - for example, targeted cost reductions

## Early Actions



- Target based reduction (i.e. budgets)
- **Discretionary spend reduction**
- **Cash flow management actions (e.g. supplier terms)**
- Service level adjustments
- Aggressive inventory management
- Software licensing adjustments

### Direct staff cost reductions

- Temporary pay cut / move to part-time staff
- Leave without pay / Leave on part pay
- Bonus suspension / salary cuts
- Furlough / Standing down staff (but only as required by cash flow demands, e.g. airlines)
- **Contractor / Staff mix**
- Emergency redundancies
- Recruitment freezes (probably first!)

## Medium Term Actions



- Procurement reviews and renegotiation (rate and volume)
- **Channel switching (e.g. customer acquisition)**
- **EBA re-negotiation (for cost and productivity)**
- Contract re-negotiation
- Product rationalisation
- Geographic consolidation
- Rapid restructuring (business consolidation and delayering)
- Operational efficiencies for utilisation and realisation
- Asset ownership models
- Asset utilisation (and urgent consolidation)
- Waste reduction

# However, some of these carry deep risks. For instance, restructuring, while an important response, carries substantial execution risk

## Elements of Poorly Executed Restructures Which Lead To...



Unclear purpose



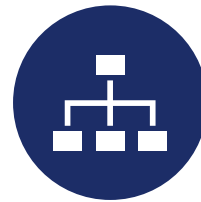
Unclear role design



Poor communication leading to confusion



Poor or out-of-date metrics



Unclear rationale for structuring decisions



Unclear accountabilities

## ...Negative Outcomes for You and Your Organisation



Emotionally damaging process



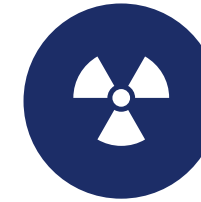
Reduced organisational loyalty



Failure to follow up with key changes



Decline in customer service



Heightened risk of industrial sabotage

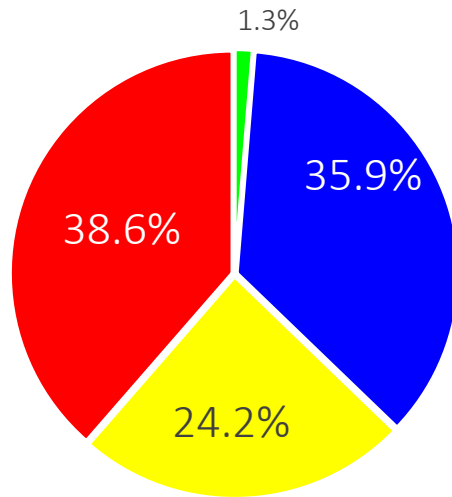


Loss of key personnel

# Fortunately, most Australian organisations have plenty of productivity opportunities, for instance, the average level of waste in personnel time is 39%

Long Term Average Waste Levels, % of Effort

Noise (Waste)



## Key:

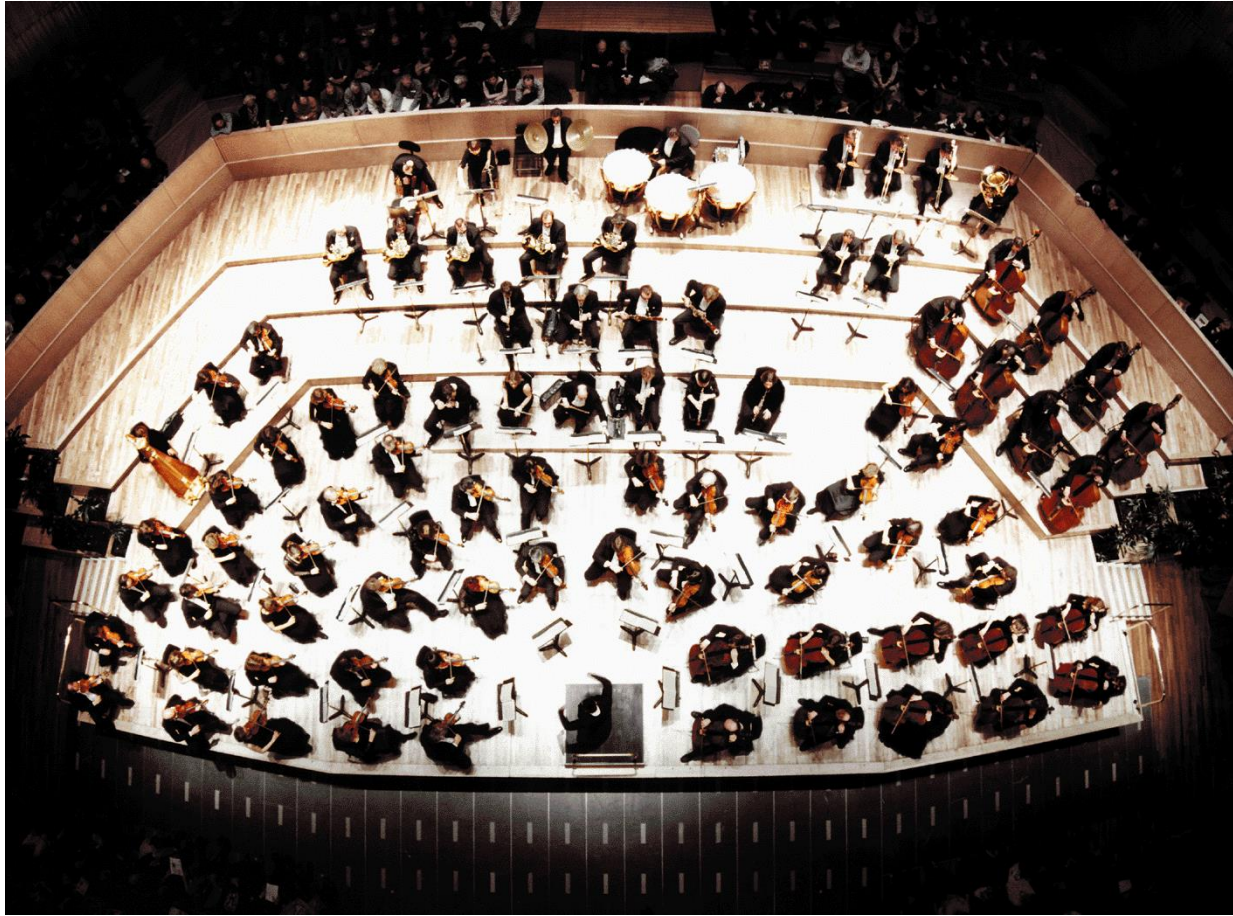
<b>Noise (waste)</b>	Non-value adding activities (waste) which add cost to the organisation
<b>Discretionary</b>	Activities that manage risk or introduce management approvals/checks
<b>Support the mission</b>	Activities that enable efficient delivery of a current service
<b>Improve the Core</b>	Activities that directly increase service, decrease cost or enhance capability

## Typical Solutions for Removing Waste

- The figure on the left represents the long term average waste levels that we see across our clients in all industries and functions
- This represents a huge opportunity for organisations to remove waste, and optimise their value adding activities – making your organisation more effective and efficient
- Examples of common opportunities, and ways you can reduce Noise are:
  - Process reengineering
  - Automation
  - Improve information quality and promote ‘first time right’
  - Remove unnecessary hand-offs and clarify RACI
  - Enhance systems integration
  - Improve management of digital channels



## These productivity opportunities can be identified and realised through operating model thinking



- An operating model is the combination of elements your organisation needs to achieve its mission, consistent with strategy. It includes, amongst other things, structure, role design, process, technology and management practice
- The orchestra is a good example of a sustainable operating model. It is flexible in that it can play many different musical scores, and indeed many different genres of music
- Yet, it is very **robust and clear** - everyone understands their role, knows where to sit, knows where to look for the conductor, where to sit and where the sheet music goes.



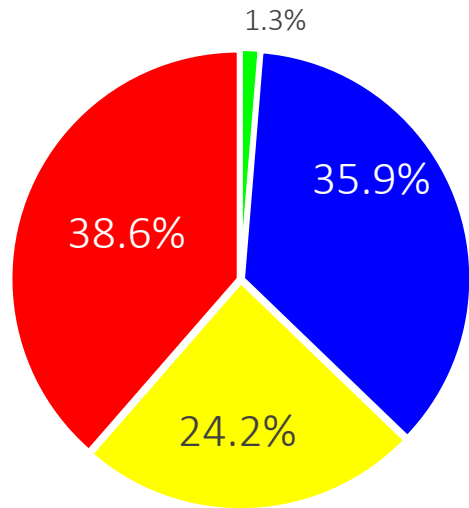
# Operating model design looks for interconnected opportunities in a range of organisational elements



# For instance, a practitioner may find that process inefficiencies can be addressed by intelligent automation, which can lead to a different skills profile

## Value Add Analysis

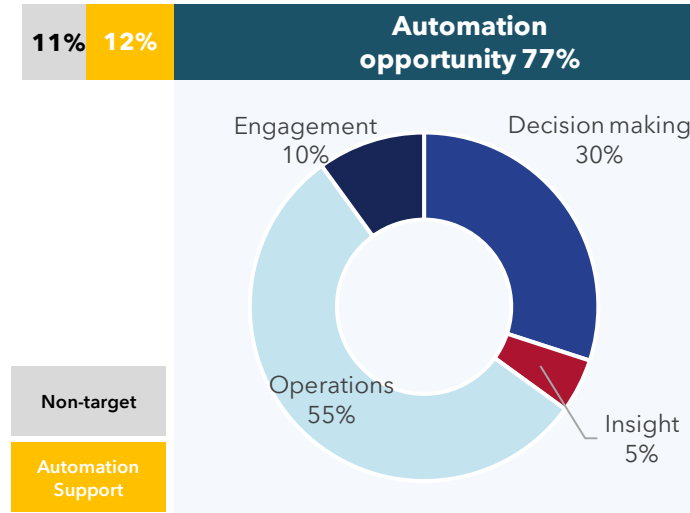
Understanding process efficiency



- Tasks and activities documented
- Actual staff effort mapped across the process
- Value adding activities and non-value adding activities (Noise) categorised
- Drivers of inefficiency identified (Noise drivers)

## Automation opportunity analysis

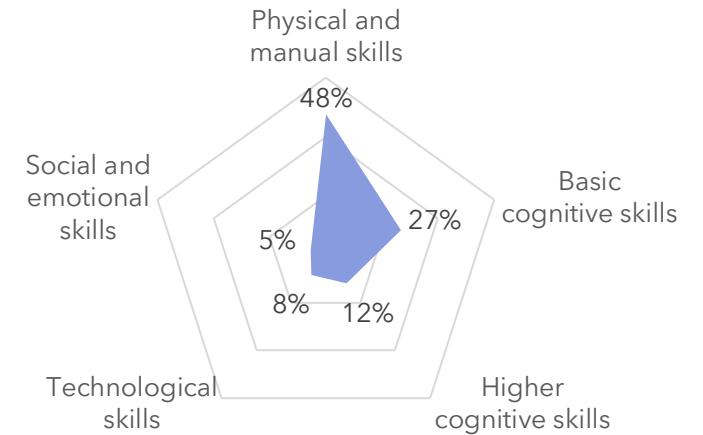
Identifying opportunities



- Automation opportunities identified and mapped across the process
- Automation opportunities categorised according to seven application types
  - Operations; Insight; Decision making; Optimisation; Engagement; Automation support; and Non-target

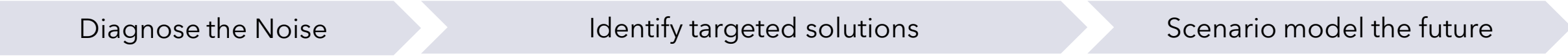
## Skill fingerprinting

Baselining current skills

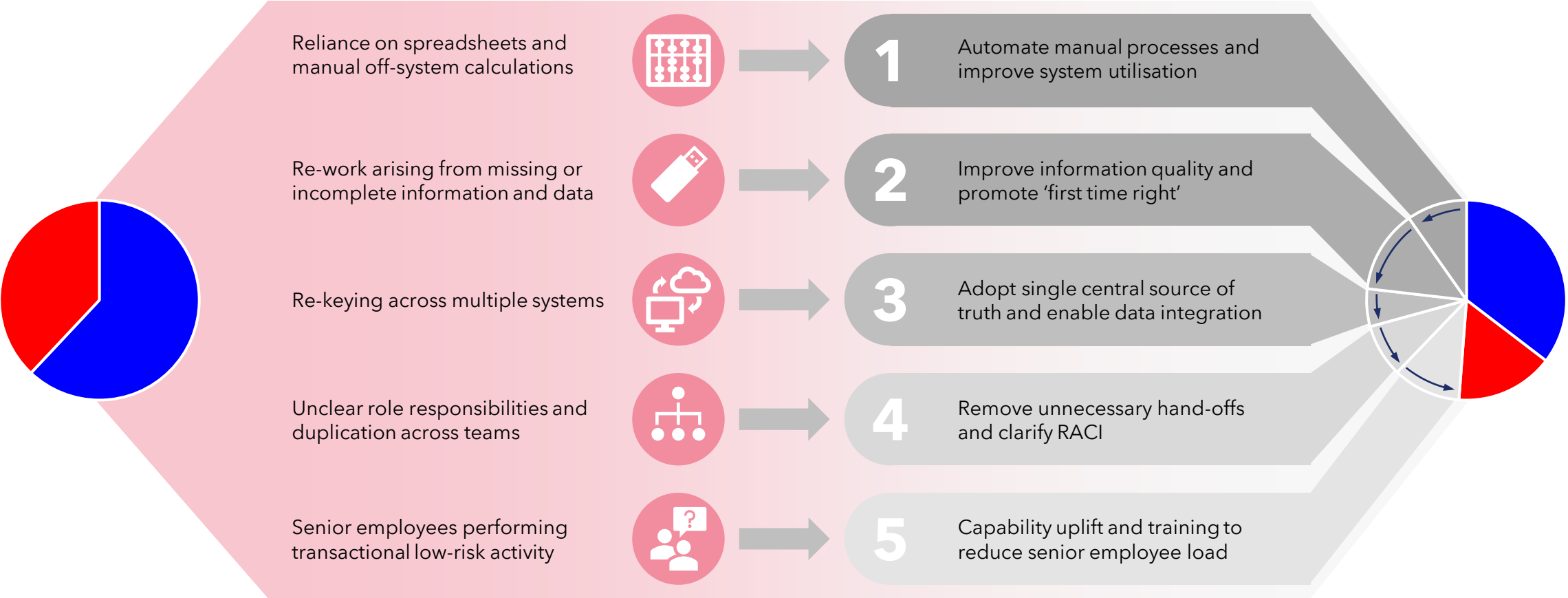


- Current tasks and activities mapped according to five skills categories:
  - Physical and manual
  - Basic cognitive
  - Higher cognitive
  - Social and emotional
  - Technological
- Current skills fingerprint identified based on staff effort distribution

# Reducing inherent waste is a common way to reduce staffing pressures



Commonly found examples of **Noise**



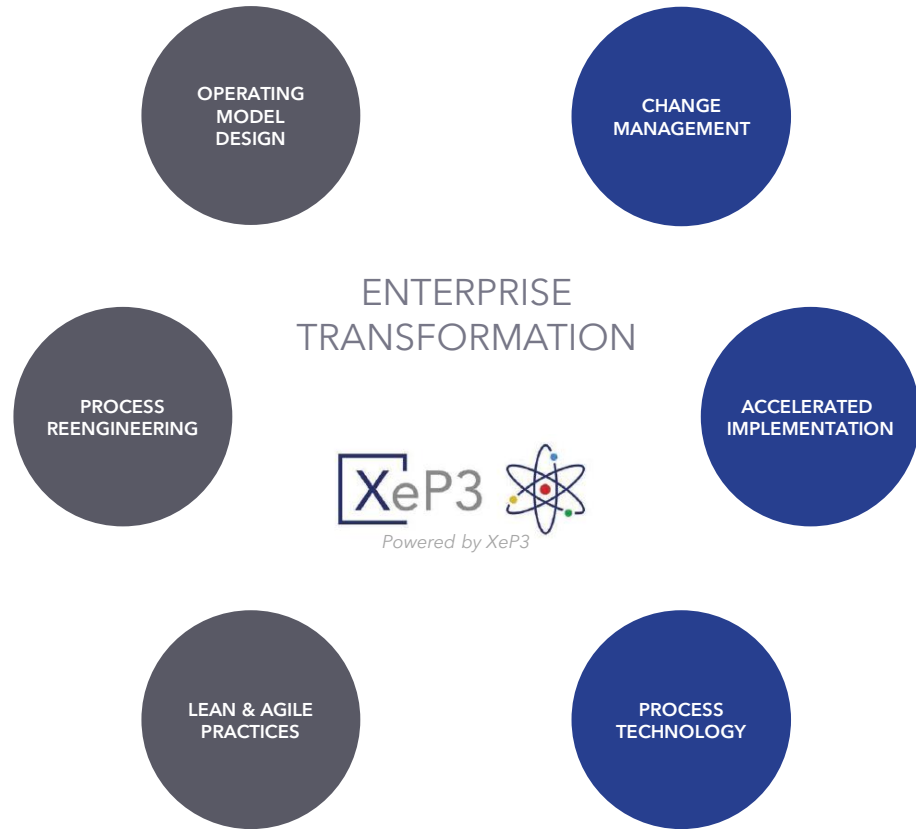
■ Noise   
 ■ Value-add   
 ■ Capacity gain

## Overall, operating model design offers a contemporary and powerful set of options

- This approach is ideal to develop a meaningful plan to **practically address margin compression challenges**
- The process of design creates a **unified perspective and plan** (amongst leadership)
- The steps to build an Operating Model design also provide an excellent opportunity to understand **what great practice looks like** (including visiting other organisations where appropriate)
- It provides a **consolidated message** on direction. This is essential to **engaging staff** on a journey that, whilst controlled, involves considerable personal change
- The emerging plans are
  - **Practical** - taking into account technology and organisational elements
  - **Staged** - wave-based implementation
  - **Focused** on early benefits delivery
  - **Explainable** to a broad range of stakeholders
- The **principles** provide a way for different project streams to **stay aligned**

# For more information, please feel free to contact the Bevington Group

Bevington Group is a specialist consultancy with 6 core practices:



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