



**Hi There.**

There is **no such thing** as a  
**world-class follower!**



**You want to be  
this guy, right?**



Management? Size?  
Strategy?  
Execution?  
Leadership?  
People? Ideas? Money?  
Processes? Innovation?

# Decision Making

Management?

Size?

Execution?

Strategy?

Processes?

People?

Money?

Ideas?

Leadership?

Innovation?

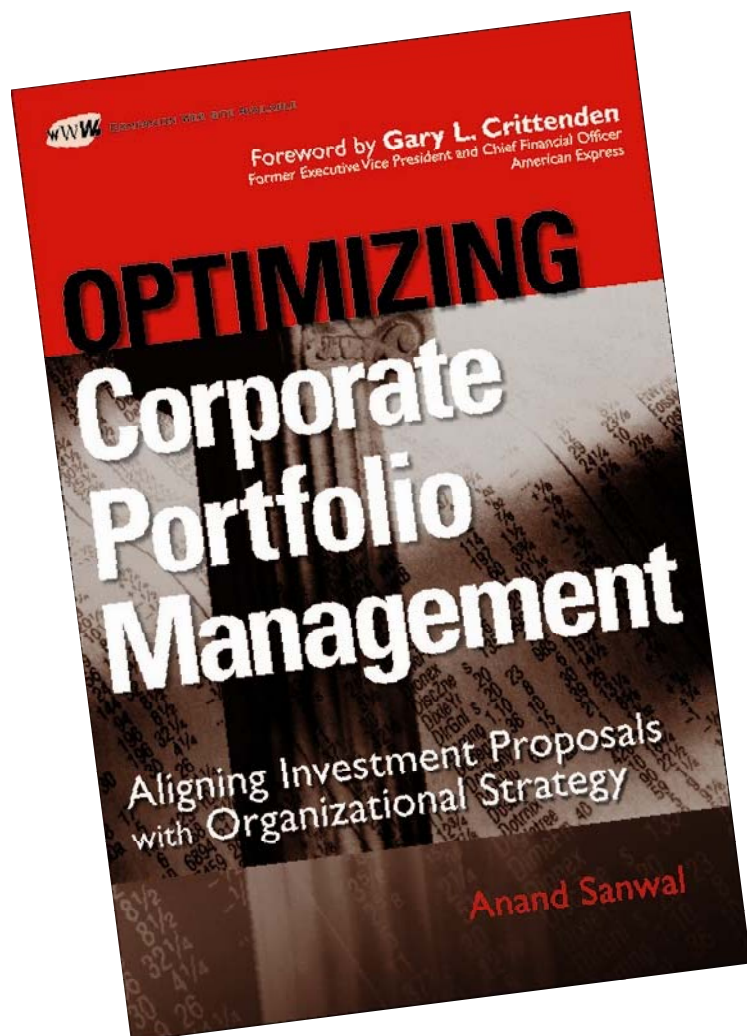
Focus of this Presentation:

# **Decision Making Around Expenses**

## INCREASING EXPENSES TO DRIVE BETTER SHAREHOLDER RETURNS

- A bit about me
- What we're seeing in today's tough times
- Why traditional restructuring & cost optimization efforts are useless
- Why we keep making the same mistakes
- There's gotta be a better way
- Benefits of the better way
- Blatant self-promotion





- Managing Director @ Brilliont – a boutique research and advisory firm
- Led AmEx's Corporate Portfolio Management group
- Led building and management of CPM at AmEx since '03
- Also managed strategic planning group of AmEx CFO
- Led AmEx's inaugural \$50MM Chairman's Innovation Fund. Fortune Magazine recognized AmEx as most innovative in financial services.
- Holder of CPM patent
- Author of *Optimizing Corporate Portfolio Management*
- Foreword by Gary Crittenden, former CFO of AmEx and now CFO of Citigroup
- Prior experience in venture capital and strategy & operations consultant and worked in venture capital
- Finance and accounting from Wharton School of Business
- Chemical Engineering from University of Pennsylvania

# The House of Rolling Heads

Traditional restructuring efforts have always demanded workforce reductions. However, those companies where restructurings truly have impact more often rely on methodologies that don't disappear once the heads have rolled. Anand Sanwal and Sandeep Arora explain how to put your company on the path to continuous optimization.

BY ANAND SANWAL AND  
SANDEEP ARORA

**THIS YEAR IS A LEAP YEAR**, and like February 29 — which comes around every four years — it seems that restructuring efforts unfortunately come into vogue in a big way only every few years in response to some economic issue or malaise. You need to just read through any number of recent company earnings announcements to see that many organizations are taking restructuring charges and lowering their earnings as a result. Restructuring is generally a euphemism for “heads are rolling,” and despite the significant impacts to the organization and its people, restructuring efforts are often undertaken in quite a haphazard and arbitrary way. Organizations often find that while restructuring may cause everything to change, nothing is actually different once completed.

Traditional restructuring efforts, whether in the finance organization or across the company, tend to suffer from

mental problems reside in inefficient and poorly constructed processes. Traditional restructuring only goes after the visible signs of substandard performance — it doesn't get at the underlying causes.

■ **They are generally reactive.** Restructuring typically happens in the face of economic challenges that are hurting the organization, so such efforts are often “imposed” on the organization because of exogenous issues or factors.

The fact is that organizations should always be restructuring and optimizing how they do things. This ongoing optimization can be likened to the well-known philosophy of Toyota, which seeks continuous improvement. This notion of a well-defined Process and Cost Optimization methodology, we have come to refer to as “PaCO.” And it is our belief that those companies that adopt the PaCO methodology

Written along with  
**Sandeep Arora** – CFO  
Global Staff Groups  
and Head of Planning  
Center of Excellence  
at American Express

Business Finance  
Magazine, Sept '08

**About 550 full-time equivalent positions in the US sales force organization are planned to be reduced in a socially responsible manner, with more than half of the reductions planned from not filling already vacant positions. The new organization will start on January 1, 2009.**

**- Novartis**

**Expected to announce thousands of job cuts as part of cost cutting measures. The exact number of job cuts is unclear, but other US media reports said insiders expect more than 3,000 jobs to be cut by the end of the year.**

**- Yahoo**

**“According to the people, who declined to be identified because they weren't authorized to discuss the cuts, the cuts would amount to about 10 percent of the total investment banking staff. Support staff jobs will also go, the people added.”**

**- UBS**

## WHY TRADITIONAL RESTRUCTURING EFFORTS ARE USELESS

Reason #1

**Every Dollar of  
Expense is Treated  
the Same**

Reason #2

**Done in the face of  
headwinds meaning  
they are invariably  
REACTIVE!**

July 20 – October 20, 2008

45,000 news  
articles  
mentioning  
'restructuring'  
or 'job cuts' in  
this period

July 20 – October 20, 2007

4,700 news  
articles  
mentioning  
'restructuring'  
or 'job cuts' in  
this period

Reason #2

**Every Dollar of  
Expense is Treated  
the Same**



# More on this later...



Reason #3

They are NOT about efficiency. Usually, elaborate shell games.

- Across the board cuts –  
*“Reduce headcount by 5%”*
- Give up nothing – *“We’ll  
give back open headcount.”*

Reason #4

**They are band-aids  
on infected  
wounds.**

Reason #5

**They don't benefit  
shareholders in the  
long-term.**

# More on this later...

WHY DOES THIS CONTINUOUSLY HAPPEN?

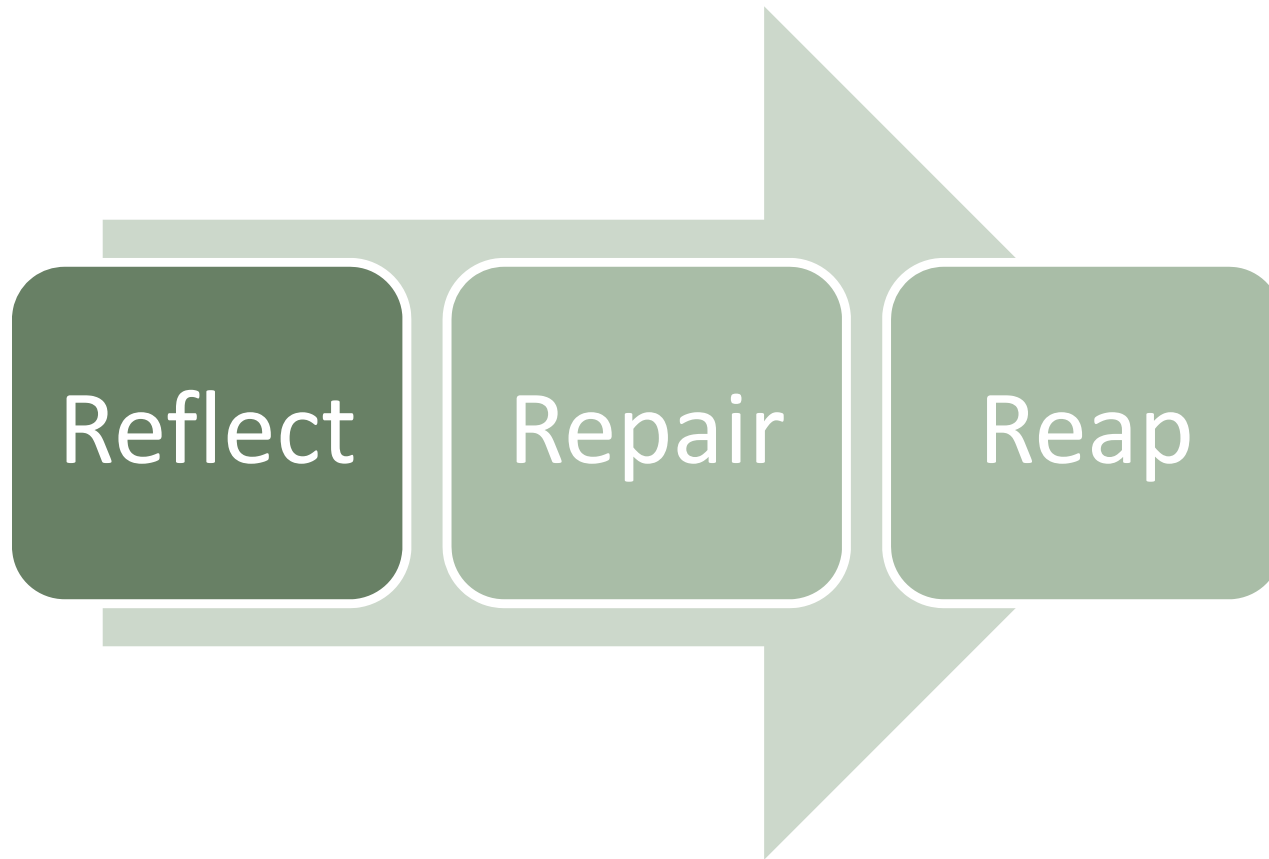
- It's easy
- It's passive-aggressive
- It lets me keep my empire

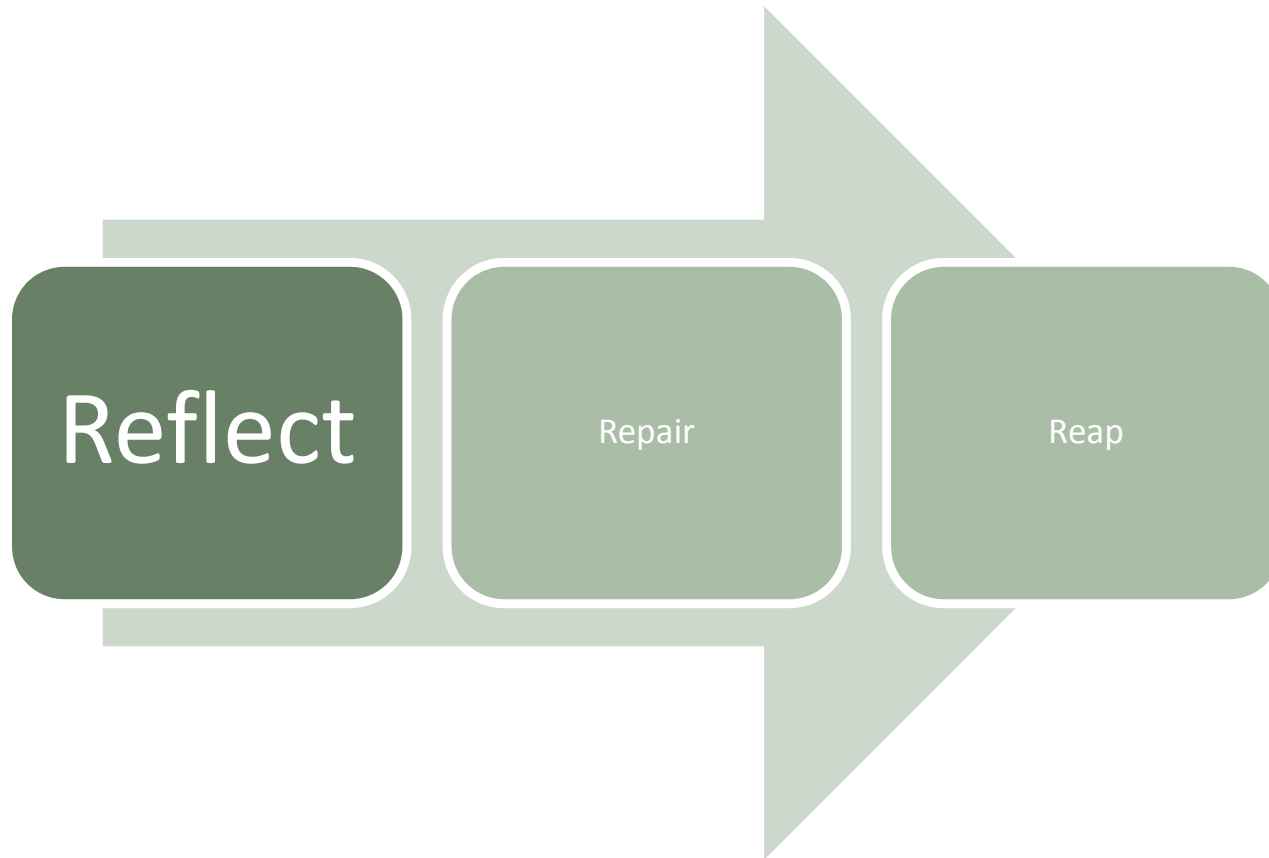


THERE'S GOT TO BE A BETTER WAY

- Continuous
- Efficiency focused
- Surgical

# Process and Cost Optimization (PaCO)





## 100% of Your Expense Base

**Strategic Expenses** are projects and investments that drive customer acquisition, loyalty, growth and innovation. Areas like:

- Marketing
- R&D
- Innovation
- Sales
- Advertising



**Non-Strategic Expenses** are those that while potentially critical for day-to-day functioning of the organization do not drive company growth. Area like:

- Finance
- Real Estate
- HR
- Legal/GCO
- IT infrastructure
- Operations infrastructure



# A brief detour...



### Modern Portfolio Theory

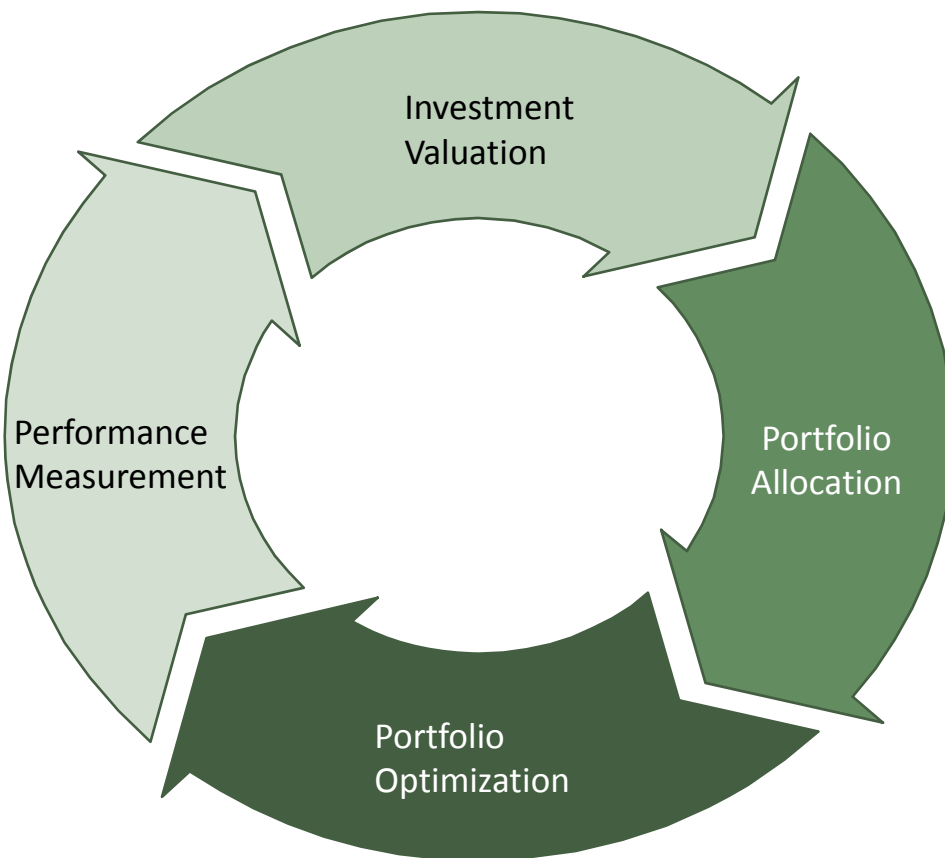
- Investment Valuation
- Portfolio Allocation
- Portfolio Optimization
- Performance Measurement

### Organizational Behavior

- Incentive Alignment
- Data-driven Mindset
- Accountability & Transparency
- Silos Broken Down

- Every organization makes decisions about where to allocate its resources
- Very few actively and appropriately manage their resource allocation decision-making process

## Four Essential Elements to CPM

**Investment Valuation**

- Defining what is an investment
  - Not just CapEx. Includes OpEx.
  - Generally, between 25-40% of OpEx is discretionary
- Valuing investments consistently
  - Not just NPV and ROIs
  - Must consider the value of strategy

**Portfolio Allocation**

- Individual areas select investments based on valuation, opportunity, timeline and risk
- Optimize within their own mini-portfolios – select best projects

**Portfolio Optimization**

- Ensuring an appropriate diversified mix of investments
- Maximizing strategic and financial value per unit of risk

**Performance Measurement**

- Closing the Loop to capture actuals
- Enables better ongoing investment valuation
- Continuously rebalancing portfolio based on results



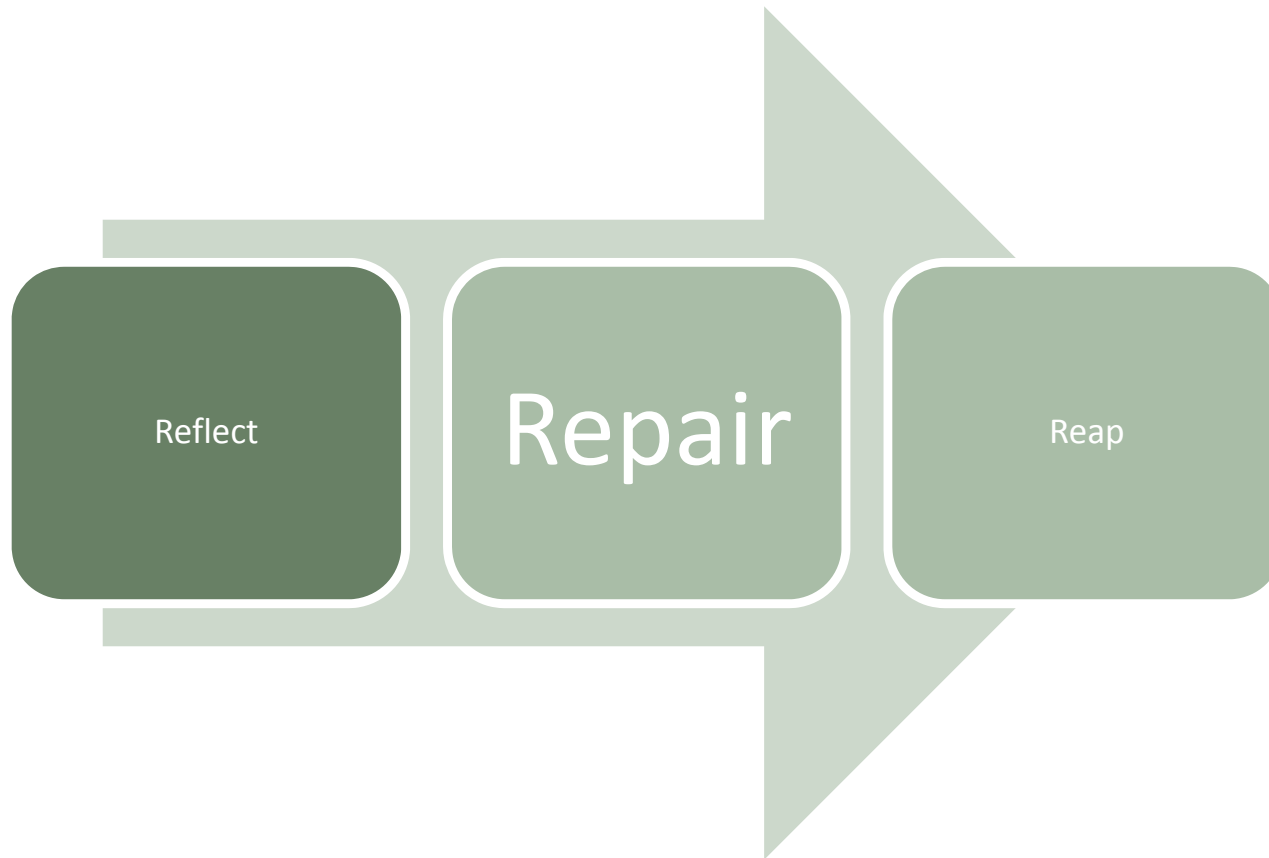
MAXIMIZATION OF THIS METRIC

Organic Revenue Generated  
Discretionary Dollar Invested

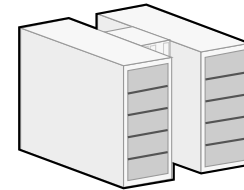
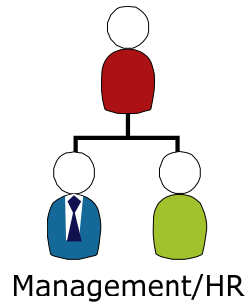
# Back to the program...

- History: Expenses are something to be minimized. In actuality, strategic expenses should actually increase.
- Cultural: Everything is deemed strategic. While non-strategic expenses are vital, they do not directly drive growth and innovation.
- Data: Expense data is not examined or captured in company systems in a way that allows this segmentation.

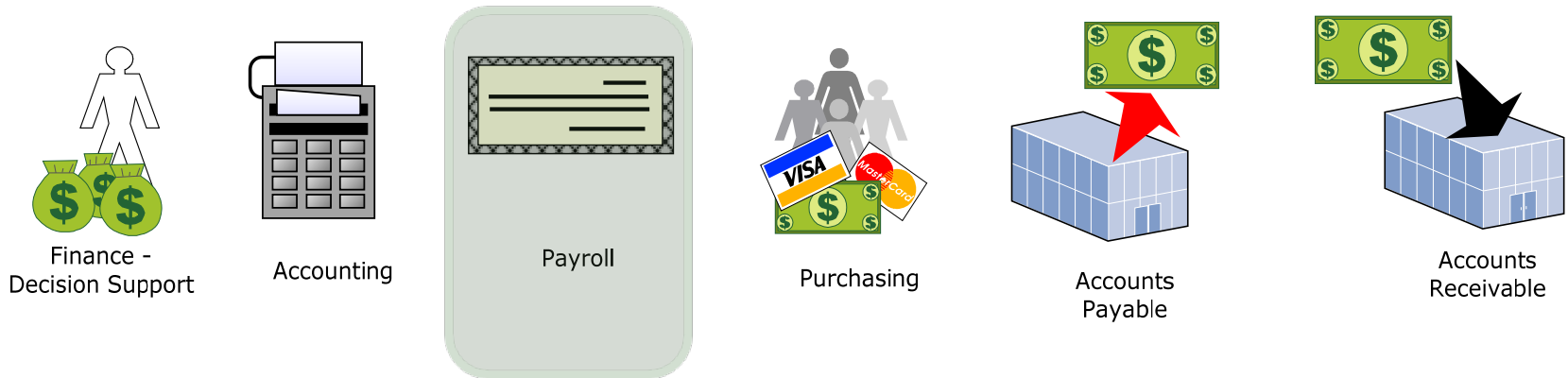
	Non-Strategic Expenses	Strategic Expenses
<b>Management Philosophy</b>	<ul style="list-style-type: none"> <li>• Continuous repair</li> <li>• Constantly updated portfolio of cost savings and efficiency enhancement efforts</li> </ul>	<ul style="list-style-type: none"> <li>• Portfolio management approach</li> <li>• Determine right mix of investments (not expenses) based on strategic, financial and risk implications</li> <li>• Benefits realization and tracking is key to inform future investment decisions</li> </ul>
<b>Metrics</b>	<ul style="list-style-type: none"> <li>• Non-strategic expenses as a % of total expenses should be decreasing</li> <li>• Non-strategic expenses as a % of revenue should be decreasing</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic expense as proportion of total expenses should be increasing over time</li> </ul>



- **What do you know?**  
Understand expense base
- **What should you do now?**  
Focus on repairing underlying processes

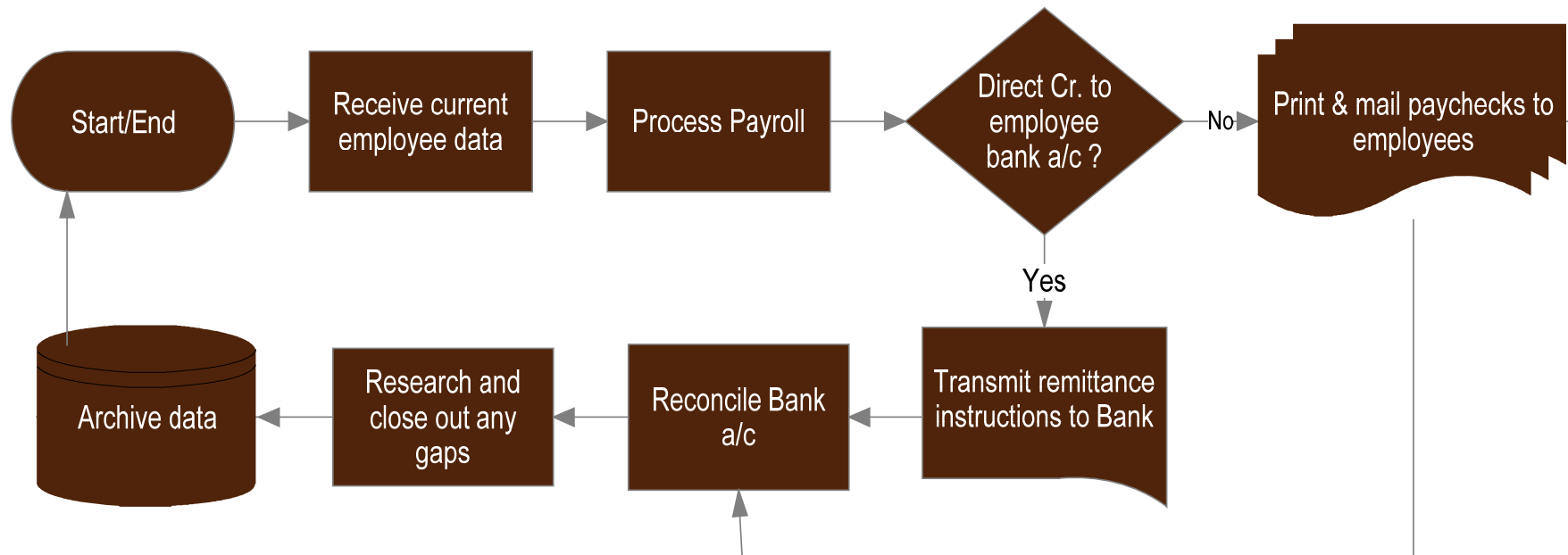


- The size of the “prize”
- Prioritize based on size – big to small

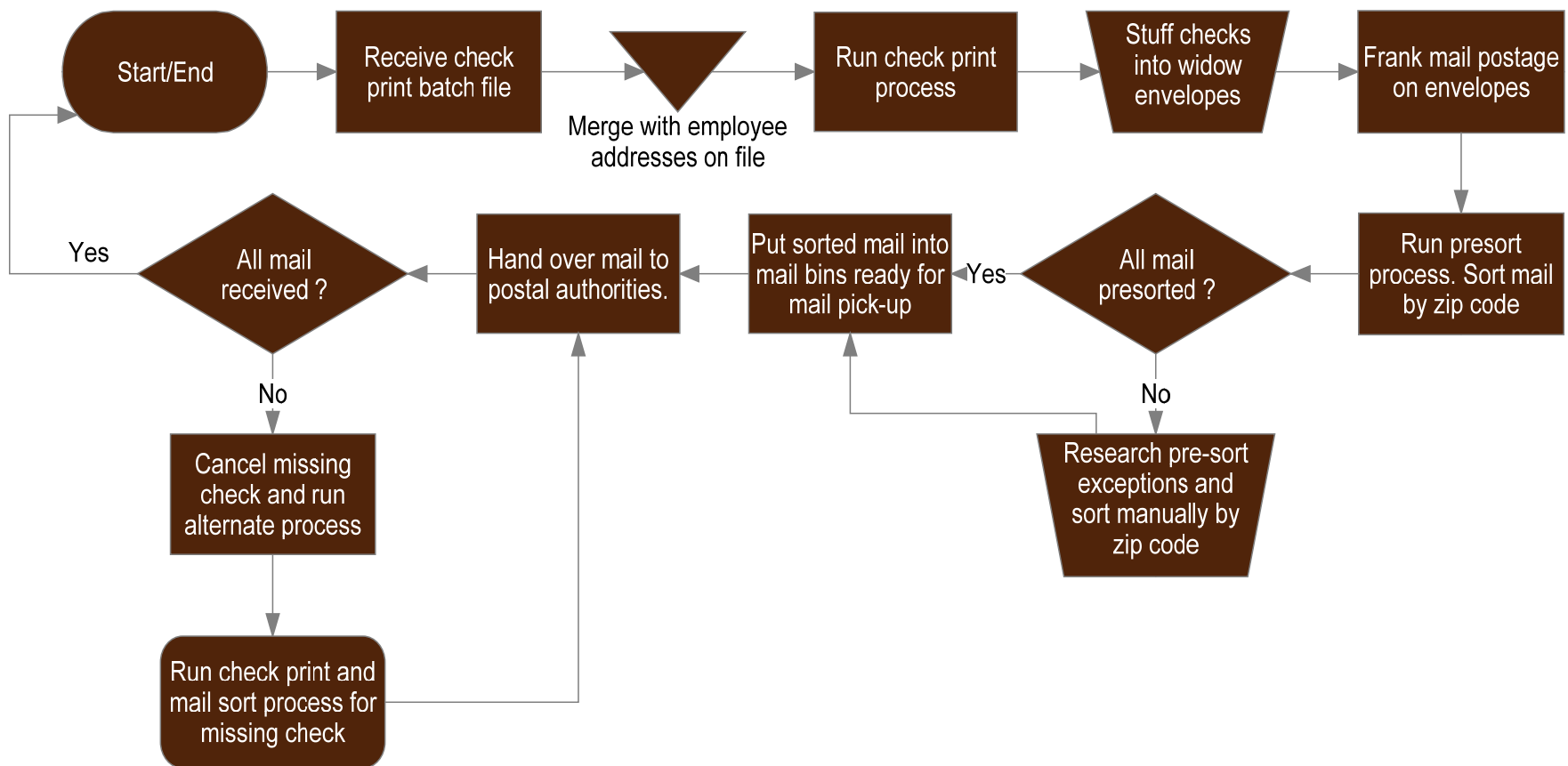


- Focus on largest expense pool
- Unless there are known issues



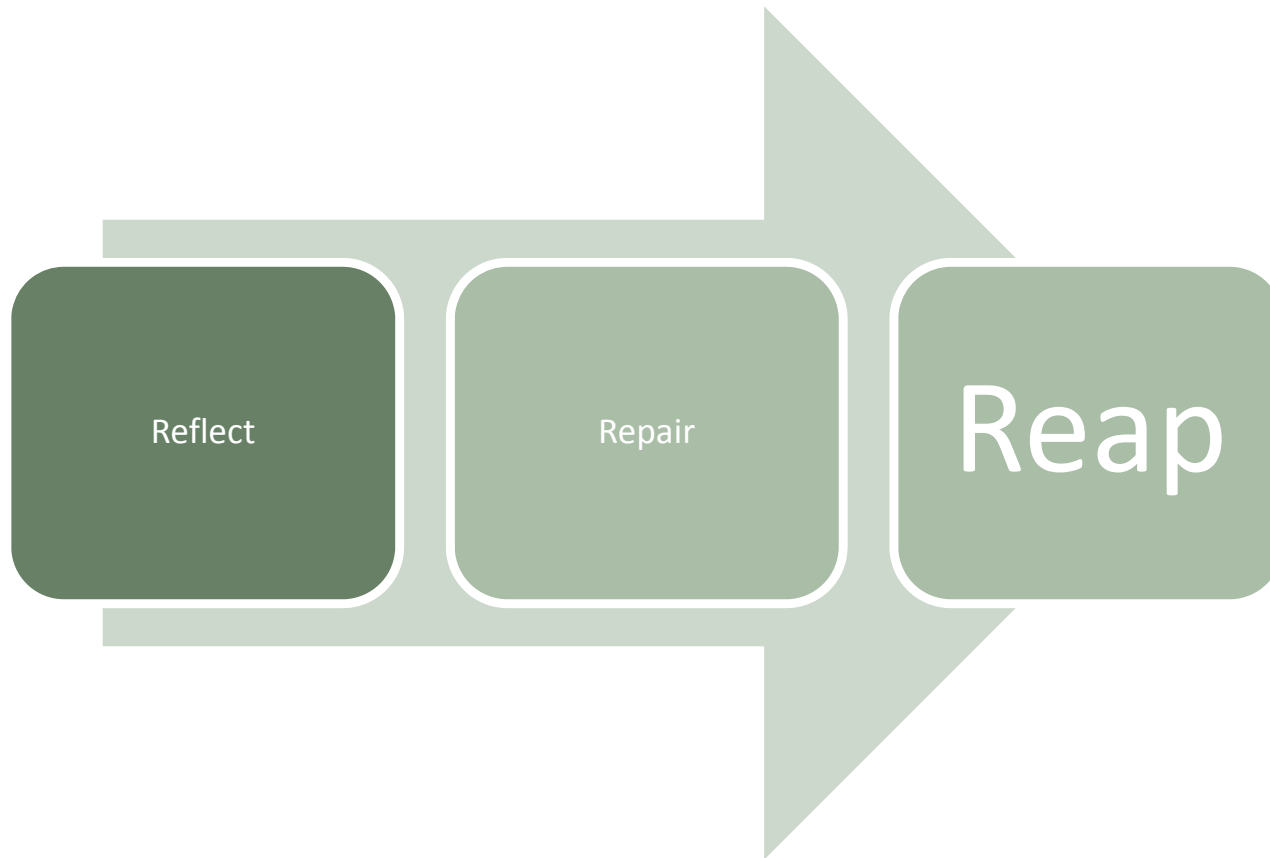


- Too high-level to yield opportunities
- Unless the process is very broken

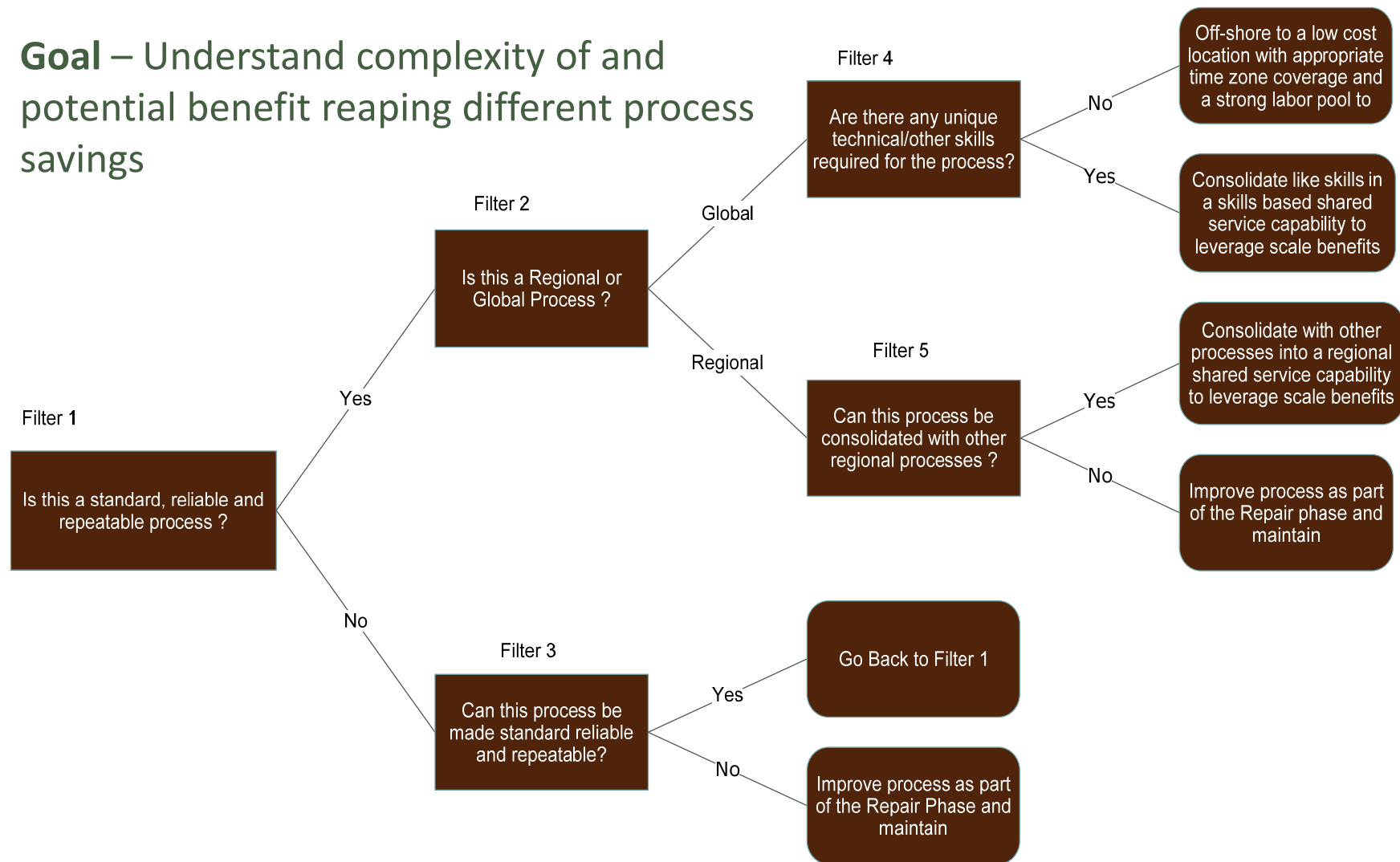


- Too many defects due to manual processing or out of date capabilities for the process
- Too many FTEs for each input level due to lack of technology or lack of scale
- Re-work or redundant effort due to lack of clearly defined hand-offs at each step of process
- Higher than benchmark costs due to higher # of FTEs, higher overhead, geographic cost differences, etc

- **You have** – Systematic, data-driven review of processes and capabilities
- **Your goal** – Get the right people with the right skills in the right location carrying out the right processes in the right way

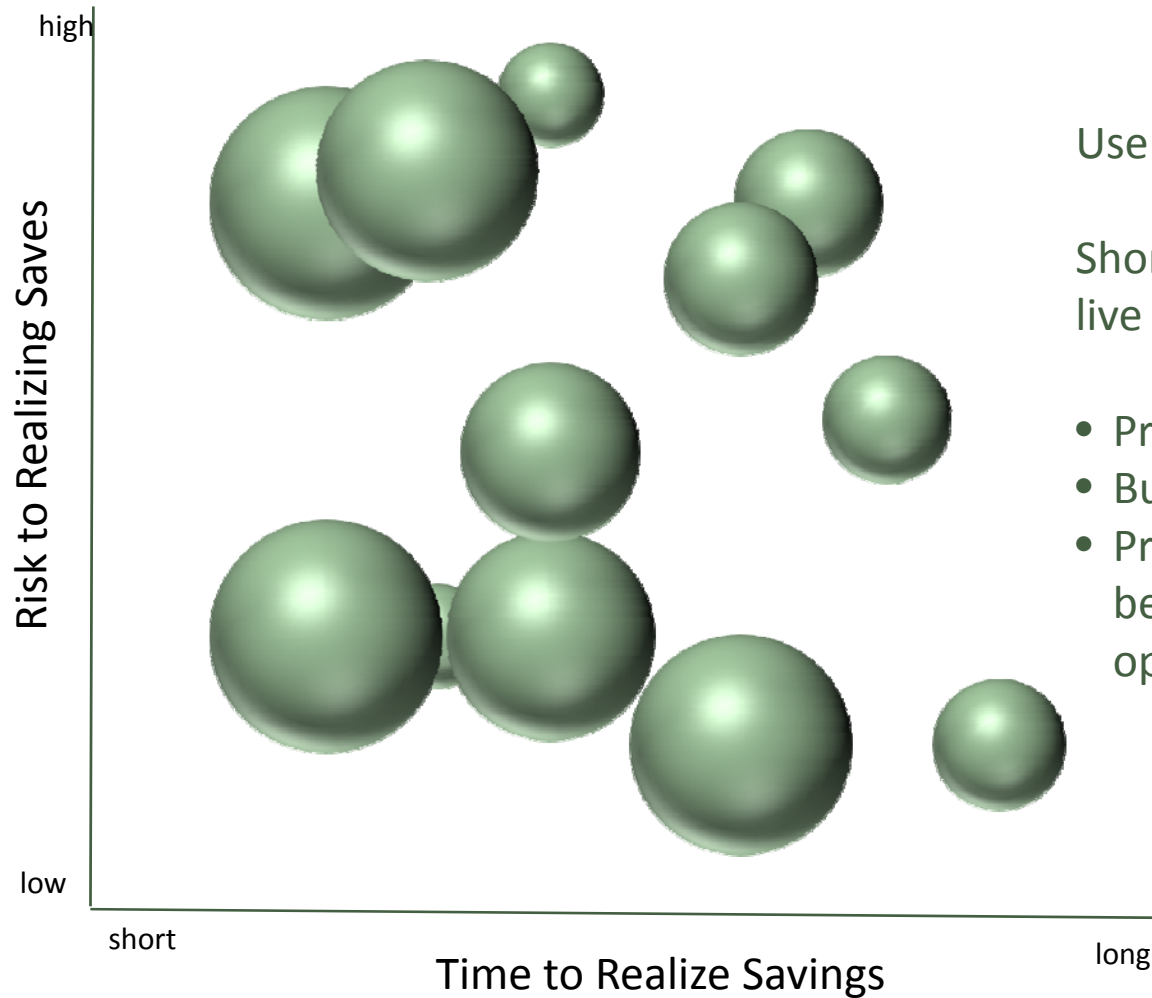


# Goal – Understand complexity of and potential benefit reaping different process savings



Offers benefits via any of the following:

- Onshore vs. Offshore
- Shared servicing / COEs (Centers of Excellence)
- Ongoing process improvement protocols like 6-Sigma



Use a PORTFOLIO approach

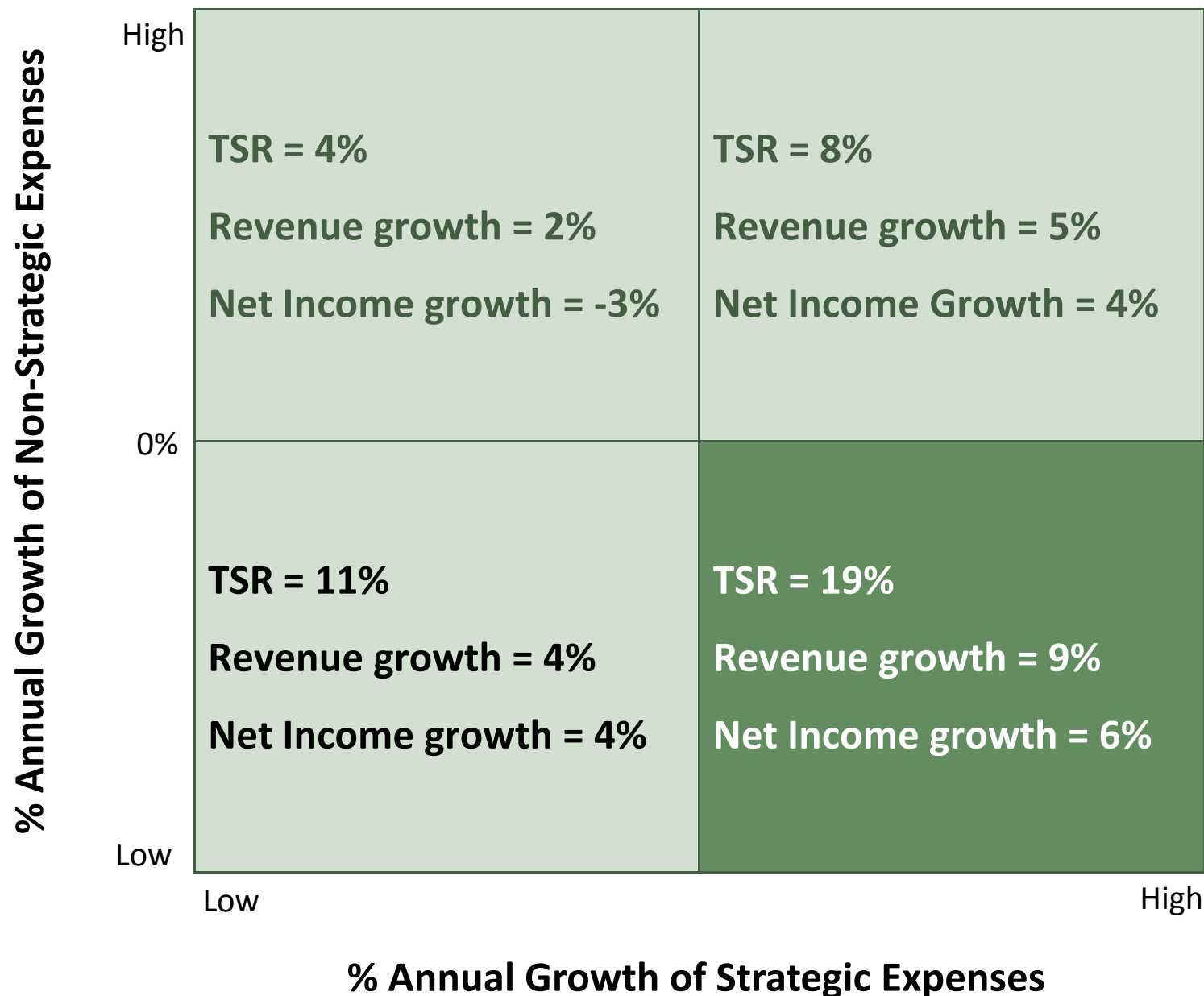
Short-term wins let you live to “fight another day”

- Provide momentum
- Build credibility
- Provide savings that can be reinvested for other opportunities

## BENEFITS OF THE BETTER WAY

- 900 mid- and large-cap companies from 2002 – June 2008
- Evaluated their mix of strategic vs. non-strategic expenses





- Don't be reactive
- Every dollar is not the same
- Restructuring is ongoing discipline
- Reduce non-strategic expenses
- Reap savings
- Invest savings into strategic expenses
- We've seen a 15-20x return from such efforts

“To separate yourself  
from all the talk about  
quality, put it in writing.”  
– Lee Iacocca

With that said, if we cannot identify \$1 million of cost savings for an organization after our 4-week PaCO Assessment, we'll give you your money back.

# Questions, Comments, Ideas??

Or to request case studies

asanwal@brilliont.com  
(212) 785-0205 – office



BRILLIONT BACKGROUND

## About Brilliant

**Brilliant** is a boutique consulting and advisory firm helping clients create and deliver shareholder value through disciplined cost optimization, investment optimization and innovation. The Brilliant team is comprised of experts and practitioners who have managed and led significant organic growth enhancement efforts at S&P 500 companies. The firm's groundbreaking report, **S&P 500 Organic Growth Efficiency Benchmarking: Leaders and Laggards** is the most exhaustive analysis of organizational organic growth efficacy ever done and has already been used by many organizations as a starting point to begin understanding how they can improve their organic growth generation capabilities.

## Recent & Upcoming Publications

"S&P 500 Organic Growth Efficiency Benchmarking: Leaders and Laggards", June 2008

"The House of Rolling Heads", Business Finance Magazine, July 2008, by Anand Sanwal and Sandeep Arora

"Budgeting: All Bad Things Must Come to an End", Journal of Corporate Accounting and Finance, Fall 2008, by Dominic Paniccia

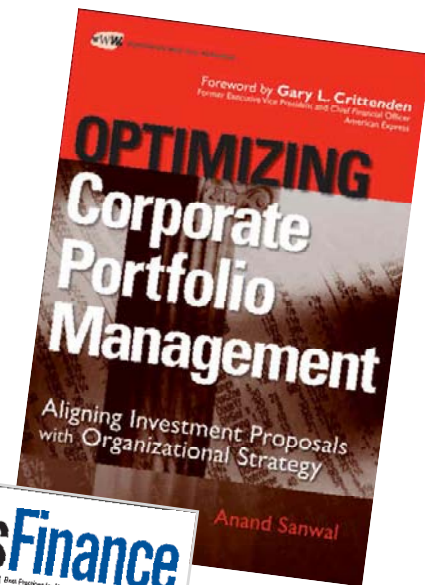
Optimizing Corporate Portfolio Management (book), by Anand Sanwal with foreword by Gary Crittenden, CFO Citigroup

"OpEx as Investment: How to Spend More Strategically", BPM Magazine, March 2008, by Anand Sanwal

## Select Recent & Upcoming Events

Members of the Brilliant team have been or will be featured speakers at the following events:

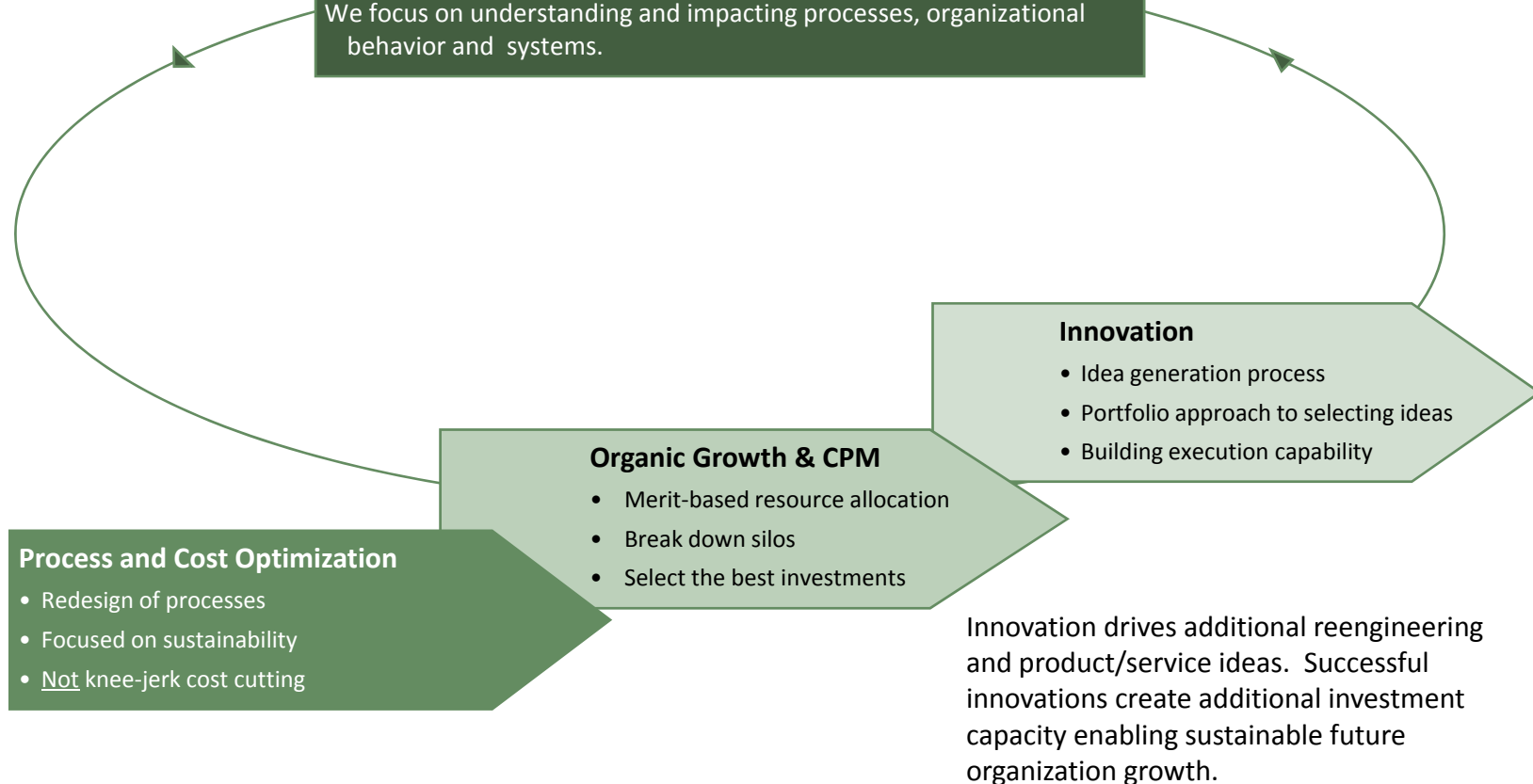
- World Bank Resource Forum, Dec 2008
- Pharmaceutical Portfolio Management Summit, Nov 2008
- BPM Summit, Oct 2008
- American Strategic Management Institute, June 2008
- Beyond Budgeting Roundtable, April 2008



## What Brilliant Does

Real-world expertise in 3 primary inter-linked disciplines.

We focus on understanding and impacting processes, organizational behavior and systems.



Improved decision-making and resulting benefit to investment efficiency from portfolio management discipline generates capacity for investment in innovation.

Resources saved through reengineering efforts are invested in business-building investments which are managed through the portfolio management effort

The Brilliant team have worked with numerous organizations and have been recognized by several thought leaders and news organizations for our pragmatic insights into reengineering, corporate portfolio management and innovation. Some of these include:

Gartner

AIG

Google

accenture

Pfizer

intel Leap ahead™

AMERICAN EXPRESS

CFO conferences

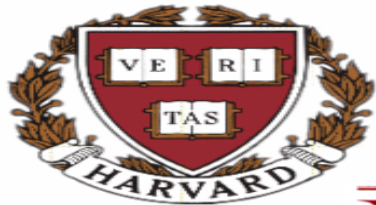
CORPORATE EXECUTIVE B.O.A.R.D

Baseline

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