

KordaMentha



Cost-out with a different mindset

Delivering material financial improvement
and positioning for a sustainable future.

kordamentha.com



Cost-out in times of distress

Delivering improvement and positioning for a sustainable future.

When faced with complex financial, commercial and operational challenges, organisational leaders and owners turn to us to help them address issues and deliver material and sustained performance improvement.

For many organisations, this means a rapid, ambitious reduction of their cost base. At times of heightened scrutiny and pressures, those who optimise this opportunity do so with a mindset to thrive, not just survive. This means making the hard decisions fast, but also thinking strategically about how to reposition as a financially viable organisation into the future.

Our experience includes organisation cost-out as part of a broader transformation agenda, or more focused turnaround activities in subsidiaries or divisions. We work with private and public sector organisations navigating disruption and facing significant risk to value through financial and reputational outcomes.

Drawing on KordaMentha's heritage of deep financial insights and implementation speed, our team are experts in both identifying and executing a path to rapid financial recovery. Our experience and insight allow us to support organisations needing significant cost-out support. We work on cost-out issues that are time-sensitive and critical to the ongoing success of the organisation.

What makes us different?

We do more than advise. We work alongside our clients to pinpoint and address their most pressing financial challenges.

Our team are experts in working through periods of financial stress, navigating challenges, and balancing intense stakeholder scrutiny and competing needs.

Our experience and hands-on approach enable us to support a wide range of privately owned and publicly listed corporates as well as public sector and NFP clients.

We work with organisations on time-sensitive and mission critical issues. We tackle entrenched problems and deal with the root causes of financial stress, often considered too difficult or intractable by insiders.

How we work with clients

We work side-by-side with clients to plan and execute cost-out to position the organisation for success. This includes ensuring immediate relief, as well as sustained longer-term performance.

Measurable results Our clients come to us when they need results. We deliver measurable and sustained financial improvements. If we can't deliver agreed outcomes, we won't take on the work. Success is demonstrated by our clients' improvement across financial key performance indicators (KPIs) and sustainability.

Implementation partners We partner 'in the trenches' often by providing additional bandwidth to executive and operational teams and sometimes by taking on those executive roles on an interim basis. This can include embedding our turnaround professionals into an organisation in key leadership or support roles. We see the organisation's challenges as our responsibility to solve and we work collaboratively to make meaningful and sustainable change.

Flexibility We know that large, complex organisational challenges require agile thinking and flexible delivery models. KordaMentha contributes unparalleled financial, business, and commercial turnaround expertise and where needed partners with complementary, industry leading specialists to support our client's sector specific challenges.

Bias to action Our financial improvement plans focus an organisation's efforts and prioritise action. Our strong implementation capability and bias to action builds confidence and momentum from day one. To break inertia and ensure delivery of results, we use our experience and judgement to achieve rapid progress in uncertain environments.

Our focus on successful implementation

We bring an evidence-based approach to cost reduction with a strong emphasis on action and partnering with the organisations to achieve and sustain results. This is delivered through an accelerated three-phase process: Diagnose, Plan, Implement.

Indicative activities

Diagnose

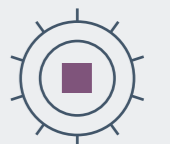
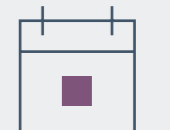
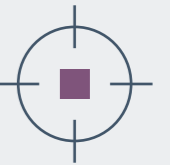
- Understand the current business model, budgeting process and baseline organisation's cost base, looking more broadly than operational costs to understand both the Profit and Loss and Balance Sheet cost profile.
- Engage with the executive team, ensuring ownership of financial improvement opportunities from the outset.
- Conduct an objective review of the organisation's cost structures to identify underlying trends, opportunities and challenges.
- Diagnose the root-causes of legacy cost structures and cost overruns, validating quantitative analysis with qualitative insights.
- Identify areas of investment that may be needed to reduce legacy costs in order to sustain and grow the organisation.
- Quantify the potential cost-out opportunities prioritise based on complexity and benefit.

Plan

- Prioritise of cost reduction initiatives, assign clear executive accountability for each. Partner with key organisational leaders to validate the approach.
- Focus on clear time-based deliverables that are sequenced to maximise benefit, providing clarity on savings targets, milestones, implementation risks and resources.
- Align cost-out activity to investment and growth agenda where relevant.
- Develop internal and external stakeholder engagement and communication strategies.

Implement

- Where relevant, establish a short-term control environment (e.g. procurement, recruitment) to stabilise spend and achieve early reductions to operating cost base.
- Embed a governance and reporting structure with management to remove barriers to implementation.
- Embed key support or leadership roles on high impact and high benefit opportunities to supplement organisational capability.
- Build confidence by delivering quick wins and realising lower impact opportunities.



Case studies

Central Adelaide Local Health Network

Outcomes and benefits delivered

- >\$150 million annual financial improvement in FY19.
- Improved operating performance against the national efficiency benchmark by 10% (132% to 122%).
- Embedded immediate financial controls and redelegation of authority to stabilise spend across the organisation.
- Bottom-up build of the network's first activity-based budget for FY19, embedding visibility and accountability for efficient delivery.
- Procurement diagnostic identifying between \$12 million to \$31 million in cost reduction opportunity (up to 19% of addressable spend baseline).
- Completed a nine-month organisational redesign, engaging with six unions and 1,400 employees to increase accountability, reduce spans of control and embed new leaders.

- Embedded operational controls and process improvement, including network wide bed planning governance and a regular ward efficiency program.
- New performance management framework and cost-out governance rhythm embed to achieve cost reduction targets.

Background

Central Adelaide Local Health Network (CALHN) is South Australia's largest healthcare network with circa 13,300 staff, five hospitals and a \$1.8 billion annual budget.

CALHN was an organisation in financial and cultural distress, forecasting a \$274 million FY19 budget overrun. A comprehensive diagnostic identified a systemic breakdown and lack of respect for financial controls and an absence of accountability to deliver against budgets and performance KPIs.

Approach

We undertook a diagnostic review and developed and implemented a series of successful financial control and cost reduction initiatives.

This included the immediate establishment of a procurement and employee appointments control environment, bottom up build of an activity-based budget, full cost driver diagnostic and implementation of ward to Board performance management and cost-out governance.

Network 10

Outcomes and benefits delivered

- Delivered circa \$100 million in year one savings.
- Circa 10% reduction in existing workforce costs and redeployment of capacity toward growth areas.
- Organisational redesign including a restructure of executive leadership roles to allow better global alignment, enable interdependent decision making, accountability and focus on growth.
- Supported evidence-based decision making on profitability and margin assessments through analysis and insights.

Background

Network 10 is an Australian commercial television network operating across multiple traditional media platforms with circa 1,000 staff.

In 2017, Network 10 reported half year losses of \$232m. Soon after, Network 10 went into voluntary administration resulting in the network being acquired by US television giant CBS. In 2019, parent company CBS re-merged with Viacom, forming ViacomCBS.

Approach

We were appointed as interim Chief Transformation Officer by ViacomCBS Australia. ViacomCBS recognised the need for major change and a different mindset to address free-to-air market decline and drive sustainable cost reduction.

A transformation program was designed and delivered to reduce the traditional cost base, realise operational synergies and efficiencies, and invest in new growth opportunities.

Slater and Gordon

Outcomes and benefits delivered

- Divested or wound down 12 unprofitable legal practices, transferring, or exiting circa 250 employees with an annualised salary saving of over \$20 million.
- Reduced shared service headcount by 20% to service the simplified business.
- Reduced head office space and exited eight leasehold properties to right size property footprint.
- Contributed to a \$100 million improvement in EBIT over two years.

Background

Slater and Gordon is an iconic Victoria-based law firm that narrowly avoided insolvency via a recapitalisation backed by a US hedge fund.

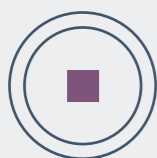
In Australia, Slater and Gordon reported a \$67 million EBIT loss in FY17 and had 1,100 staff operating in 51 locations.

Approach

We diagnosed key financial, operational and people issues and designed and implemented a transformation and cost-out plan. The cost-out plan focused on exiting non-core and unprofitable businesses, rationalising the leasehold property portfolio and right-sizing shared services based on the future state.



How we can help you



Cost diagnostic and review

We prepare and execute strategies focused on sustained cost reduction and avoid pursuit of short-term targets at the expense of long-term success.

Identifying an organisation's key drivers of financial performance ensures an evidence-based approach. We engage early with management to ensure leadership and ownership of outcomes from the outset.

To ensure performance improvement, we review and implement changes to legacy cost structures, including functions and processes, to better align with organisational strategy and embed strong performance tracking frameworks.

We establish regular performance meetings with clear and measurable KPIs, structured reporting and stakeholder engagement to secure outcomes.



Financial delegations and control environment

We understand the importance of rapidly stabilising financial performance during times of pressure and financial stress. Our clients can achieve considerable financial improvements early in a cost reduction program through focus on tightening financial delegations and controls.

We review and improve an organisation's processes, policies, and procedures to better manage finances and associated internal controls. This may include heightened controls for recruitment, remuneration and procurement to immediately reduce spending.

We also develop detailed zero-based budgets and forecasts, and provide CFO services, such as team structuring, compliance processes, management reporting and risks management to embed an ongoing culture of financial control.



Procurement and supply chain

We recognise that improvement to an organisation's procurement and supply chain operations often presents significant opportunity in reducing operating costs and embedding a culture of cost control.

We review an organisation's supplier contracts and contract management framework to understand the contract environment including expiry and renegotiation options and existing contractual gaps.

We also analyse the cost to serve of supply chain and operations to identify cost reduction opportunities in the activities required to serve customers.



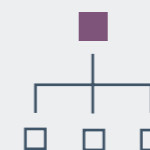
Labour reductions and workforce management

We undertake a full labour diagnostic, identifying the drivers of labour costs as well as current recruitment delegations and controls.

We work with clients to develop a workforce framework that is considered, empathetic, and aligned to operational strategy and financial objectives.

This may include:

- Design and implement a workforce reduction program and realign capability against future growth areas.
- Review organisational spans and layers to identify inefficiencies in management structures.
- Design and execute a workforce strategy to realise targeted savings, including union engagement.
- Develop and implement appointment and recruitment controls.
- Review and improve workforce utilisation.



Operating model and organisation design

Cost-out alone is not enough to reboot a distressed company. Organisations who reposition effectively consider the capability and investment required to fuel growth.

We work with clients to define the 'future state' organisation and plan their workforce transition.

This may include:

- Design and implement future state operating model to deliver value and platform for future growth.
- Design of the organisational structure, including the functions, capability and headcount required.
- Define the workforce transition strategy to realign against the new organisation design.
- Development of change and communication strategies.
- Assume interim roles to stabilise leadership when required and transition to future leaders.



Real estate portfolio review and optimisation

We work with clients to develop real estate portfolio strategies that enhance performance, reduce cost, maximise value from owned property, and minimise lease liabilities.

Our areas of expertise include:

- Critical assessment of 'go forward' footprint requirements, financial liability and legal and commercial leverage.
- Scenario modelling of existing lease liabilities to develop and execute exit negotiation strategies and wind down plans.
- Preparation of asset and development strategies to add value and reposition surplus freehold property.
- Development of divestment strategies to unlock capital, including sale-and-leaseback of operational assets.
- Management of operational and organisational wind down requirements.

“In a relatively short period of time KordaMentha submitted an impressive, insightful and detailed written review, identifying key opportunities, risks and challenges facing the business. They also identified a range of quick wins and management priorities that could immediately enhance financial performance together with longer term strategic initiatives.”

Director, Aged Care

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