

Getting Smarter About Cost Savings Initiatives

How customer value should influence the “what and how” of cost reduction – evidence from 27 years of primary data

Short-term cost savings are often at the expense of long-term growth

The annual inflation rate in the United States rose to 3.5% in March, global energy indices rose more than 1%, and purchasing power variability is making it more challenging for businesses to predict cost. ^{1,2}

In one industry example, technology executives indicated an overwhelming need to identify labor cost improvement, as well as broader operational changes to address increasing margin compression. ³

As sponsors and operators scramble to identify a path forward, efforts are often targeted at where the greatest synergy savings exist *not taking into consideration how customers will respond or the impact on revenue stability.*

And there may be no place in a business that feels this stronger than Customer Service (sometimes called Customer Success): AI companies touting reduction opportunities of up to 2/3rds of their workflow, or a continued shift to global Shared Service Center (SSC) for wage arbitrage. ⁴

However, we have seen Customer Service as a Strong driver of B2B Loyalty more than 22% of the time and the relative importance of which activities are most impactful differs substantially by industry. ⁵ Not taking a preliminary step to understand revenue impact and what aspects of the experience are most critical can be detrimental.

Service is just one example of where synergy savings are often targeted. Organizations pour millions into initiatives to improve customer relationships from the back to front office, but over 50% still fail. ⁵

This underscores the need to first capture customer feedback, pinpoint areas for synergy by modeling across the entire base and track ongoing variation/impact periodically. Those extra 2-3 weeks to get smarter about where to focus can yield 10X greater returns. ⁵

Figure A:

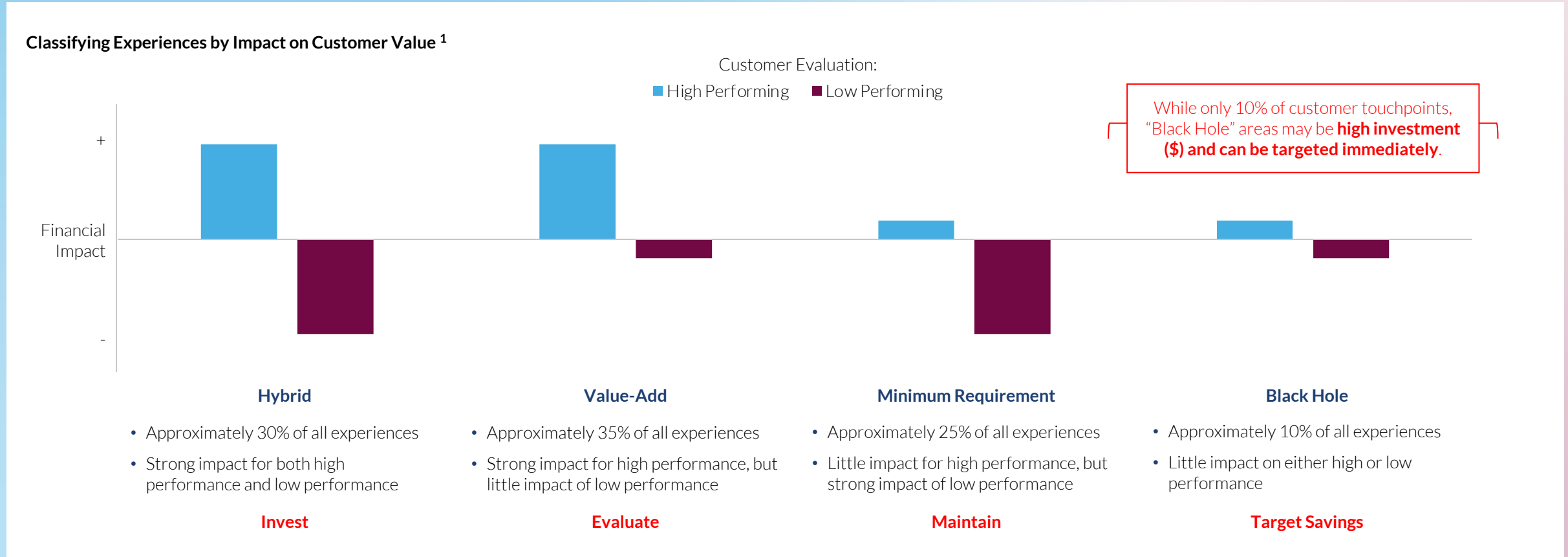
Analyzing 27 years of customer data, quality of service is the primary driver of B2B Loyalty outpacing product and price.



Note(s): 1. US Bureau of Labor Statistics (CPI), 2024. 2. US Bureau of Labor Statistics (Energy), 2024. 3. AlixPartners, 2023. 4. Klarna, 2024. 5. Metanalysis of Loyalty Research Center Data, Conservative Estimates

Figure B:

Not all customer experiences have the same impact on Loyalty. When this is ignored, organizations can pour investment into areas where customers think performance is great. This leads to no impact on financial value (i.e., Share of Wallet, Churn, CLTV) because customers did not change their behavior.







Note(s): 1. Metanalysis of Loyalty Research Center Data, Conservative Estimates

“Our operational diligence helps identify which areas to target cost and efficiency based on P&L and industry benchmarks. These numbers don’t tell the full story.”

Middle-Market Private Equity Firm

Identifying and targeting “Black Holes” to drive cost savings without impacting customer value

There were four common areas observed across industries. Black Holes can drain resources without adding value but require a vigilant “outside-in” approach to identify.

Category ¹	Industry Example(s)
Most Common Black Holes	 Product Variants <ul style="list-style-type: none"> Industrial Services: Significant investment in product packaging as part of delivery process in high transaction volume industries Electronics: Offering numerous variations with different features or slight changes that do not impact Customer Loyalty
	 Extensive Product Lines <ul style="list-style-type: none"> Manufacturing: Product SKU list with uncommon specs, one-off orders, and no formalized sunset process for low order SKUs Software: Tiered packages where differences are marginal or irrelevant to users
	 Over-Elaborate Service Materials <ul style="list-style-type: none"> Telecommunications: Detailed service manuals and user guides for basic services, which most customers do not refer to or prefer an alternative such as online video Business Services: Complex brochures or offering overviews
	 Documentation Accuracy <ul style="list-style-type: none"> Business Services: Overly detailed monthly statements or customer reviews that are too complex to understand

Note(s): 1. Metanalysis of Loyalty Research Center Data, Conservative Estimates

Industrial Services (Add-On)

*Changing the production process to provide bulk instead of individual products for non-customer facing applications **led to ~6% EBITDA savings***¹

A leading approach: Getting more specific about where to target cost and productivity improvement by adding a lens for customer value

Traditional Activities



Assess Savings Potential

- Analyze P&L to understand cost structure and areas with significant spend / inefficiencies
- Benchmark FTE and Labor KPIs against industry standards
- Review existing process documentation to map current workflows and inefficiencies
- Evaluate third-party contracts and spending



Identify & Estimate

- Aggregate areas of excessive spend or underutilization
- Interview key functional stakeholders to validate savings areas and refine
- Estimate potential savings
- Identify technology or digital requirements to help streamline operations and reduce long-term costs



Prioritize Initiatives

- Rank identified savings opportunities based on impact and ease of implementation
- Map activity and milestone dependencies
- Determine quick-wins that deliver fast savings
- Evaluate strategic importance of cost areas related to long-term value



Plan & Execute

- Finalize plan for implementation of identified savings incorporating executive feedback
- Align cross-functional teams to execute with clear accountability, timeline, and tracking
- Implement continuous feedback mechanism to ensure ongoing cost optimization

The difference can be up to 10x greater return and long-term customer value creation.¹

Value-Add

- Sample and interview a subset of customers
- Score Customer Loyalty and collect experience evaluations for relative impact

- Correlate customer scoring to specific operational costs, identifying misaligned resource allocations
- Model impact on Customer Loyalty across each initiative for all customers

- Further prioritize initiatives by aligning them to customer feedback
- Develop action plan for “Black Hole” savings based on timing

- Refresh monthly or quarterly through ongoing customer feedback and platform to view trends/impact
- Track impact on customer experience

Note(s): 1. Metanalysis of Loyalty Research Center Data, Conservative Estimates

Insight to Action: A practical example of prioritizing

Illustrative Example of Prioritizing Savings Initiatives (Simplified)

Target Area	Est. Savings (L-H)	Level of Effort	Target these areas:	
			Impact on Customer Value	Categorization
Consolidate suppliers for customer packaging	2-5%	Medium	Low	Black Hole
Rationalize product SKUs for low volume areas identified	2-3%	High	Low	Black Hole
Outsource billing and administration core business processes (AP/AR)	5-7%	Low	Low	Black Hole
Automate select technical sales processes	4-6%	Low	Low	Black Hole
Move identified Customer Service processes to Account Manager reducing overhead	3-6%	High	High	Minimum Requirement
Restructure Account Managers by industry	2-4%	Medium	High	Minimum Requirement

Avoid these: While high savings potential, the impact of not executing can be substantial on customer value



Seeing it in Action

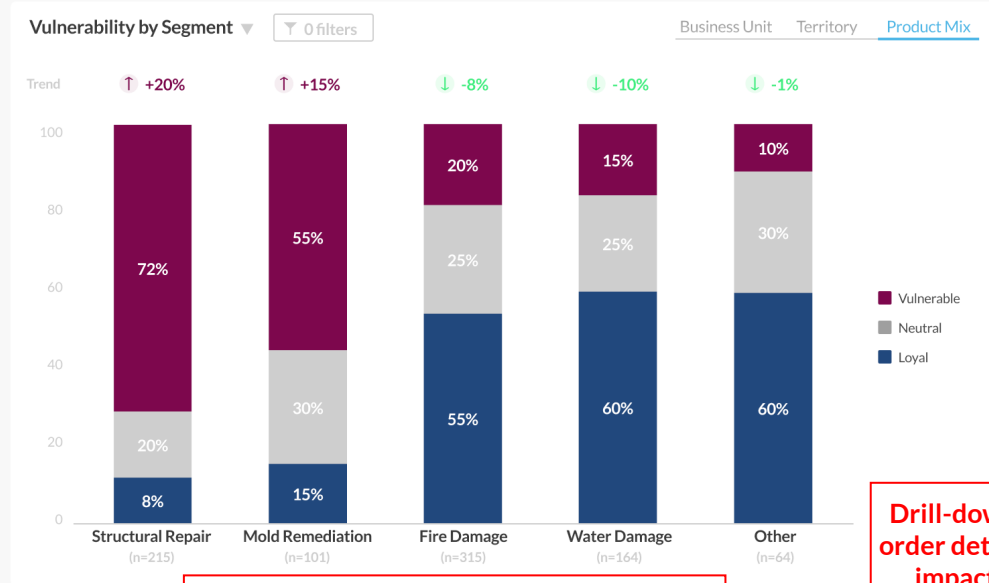
In addition to the approach, the GrowthOptics (“GO”) platform helps prioritize value drivers that differentiate you, including identifying areas that are not important to your customers yet drive complexity and cost.

In this example, specific aspects of account management were identified as critical while certain billing and invoice processes were driving overhead costs without any impact on Customer Loyalty.



Vulnerability

Identify current trends in vulnerability and prioritize for intervention. Results can be filtered by segment, grouped together, and explored further to understand



Understand **what is most impactful to customers** by segment to prevent inadvertently driving churn

Insights

Summary

Vulnerability is highest among Healthcare and Automotive customers largely due to concerns over recent changes in Structural Repair products. The number of at-risk Healthcare customers has surged since the last quarter, attributed to lower evaluations of Account Management. This issue stems from failing to provide timely and accurate information about these changes, especially in the Midwest region.

Trends & Analysis

Strength	Experience	Low Perform	Trend	Insights
Very Strong	Account Management	45%	+20%	Details
Very Strong	Product	18%	+2%	Details
Strong	On-Site Service	20%	-2%	Details
Moderate	Problem Resolution	38%	+13%	Details
	Billing & Invoicing	10%	-4%	Details

View current **Customer Loyalty breakout by segment** and understand trends in performance over time to better target

Drill-down into **second-order detail for areas less impactful** on overall relationship strength to help **target cost intervention**

At-Risk Accounts

UID	Company Name	Business Unit	Product Mix	Rev YTD	Key?	Date Joined	Date Expiration	Name
KFI982	Medivance Solutions	Healthcare	Structural Repair	\$12.1M	Yes	03/29/2021	02/08/2024	Emily Johnson
ARB360	FreshHarvest Delights	Food & Beverage	Mold Remediation	\$2.1M	Yes	04/18/1980	10/02/2030	Michael Brown
NFT246	Healthbridge	Healthcare	Fire Damage	\$0.1M	No	10/12/2008	01/04/2023	Laura Smith
FMC691	VitalityCare Clinics	Healthcare	Water Damage	\$0.1M	Yes	01/01/2001	09/19/2025	Brian Davis
DCB123	AutoPioneer Motors	Automotive	Water Damage	\$0.5M	Yes	12/12/2020	01/15/2024	Angela Martinez
BCA496	DriveTech Innovations	Automotive	Structural Repair	\$1.1M	No	01/09/1993	04/05/2024	Kevin Wilson

About GrowthOptics

Build on decades of B2B operating experience paired with over 27 years of benchmarking data, GrowthOptics improves enterprise value creation decision-making through easy-to-use AI & ML based tools. Our process harnesses the power of primary customer feedback complemented by internal customer and operational data.



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