



2023 MarginPLUS Survey
Transforming through disruption
March 2023

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Executive summary

Businesses today face extraordinary and prolonged uncertainty and disruption. High inflation. Rising interest rates. Softening demand. Geopolitical conflict. Supply shortages. Currency volatility. New regulations and tax policies. And, of course, the lingering effects of the global pandemic, which continue to make headlines in some countries even as other countries are back to business as usual.

All around the world these unpredictable forces—combined with ongoing challenges such as talent shortages and technology disruption—are making it hard for companies to achieve their growth and earnings targets. All industries and sectors feel the impact. The world's leading technology companies are not immune—many find themselves facing widespread hiring freezes and layoffs.

Facing these challenges, what can companies do to achieve a competitive and sustainable cost structure and establish the right capabilities to run and grow effectively? To find out, Deloitte conducted its global survey of nearly 300 senior business executives with direct involvement in their organizations' margin improvement and transformation efforts. The survey aimed to understand the global impact of disruption and prolonged market uncertainty on organizations' strategic agendas. What actions are companies taking, and are those actions effective? What are their transformation and margin improvement priorities, and what barriers are they facing? Here's what we learned.

Executive summary

Key findings from the survey

Global disruption has increased companies' resolve to improve and sustain margins.

90% of transformation

and margin improvement efforts around the world are currently being triggered by *inflation, talent shortages, and/or supply chain constraints*.

Talent and agility are the biggest barriers to success.

The No. 1 success barrier

was cited by respondents as talent acquisition and retention. Lack of flexibility and agility in their infrastructure and cost structures are further inhibiting success.

Most companies are falling short of their targets.

More than 70%

of surveyed companies are failing to achieve their margin improvement goals, with nearly a third achieving less than half of their targeted improvements.

Companies are investing in permanent transformation capabilities.

More than 90%

of firms are investing in permanent transformation capabilities to support their expanded transformation agendas and improve their chances of success. Companies are creating new executive-level leadership positions, redefining their strategic ambitions, and increasing their transformation budgets.

Margin improvement efforts are increasing in speed and scope.

80% of companies

are increasing the speed and/or scope of their efforts, with most now looking beyond standard cost reduction and prioritizing *broader transformation initiatives focused on driving growth, building new capabilities, and retaining talent*.

Technology-enabled transformation is critical for success.

Three of the top four

transformation focus areas were related to *digital/technology enablement. AI and data strategies, cloud adoption, and process automation* were among the top focus areas where initiatives are being implemented and/or planned.

Even in today's disruptive and uncertain business environment, companies are still expected to expand and grow. Achieving the simultaneous goals of sales growth and margin improvement requires a balance of old and new: applying and refining proven margin improvement methods while at the same time investing in new technologies and capabilities. Technology-enabled transformation is especially important for achieving a sustainable and competitive cost structure where costs don't creep back in once demand recovers and growth becomes the primary focus.

Many companies fail to achieve their margin improvement and transformation goals because they approach the effort as a portfolio of disconnected initiatives without the necessary sponsorship, coordination, discipline, and investment. They miss the mark in establishing the required governance, neglect to define success in a consistent manner, and fall short when managing change.

Ultimately, successful margin improvement requires a rigorous, end-to-end focus on creating sustainable value—using data and technology enablement to transform the business and establish new capabilities. Standard approaches to margin improvement are no longer enough.

About the survey

The survey was conducted from May to July 2022 and comprised nearly **300** senior executives with direct involvement in their organizations' margin improvement and/or transformation efforts. The goals were to:

Understand the impact of prolonged market and operational uncertainty on margin improvement actions.

Identify margin improvement priorities and expectations for businesses as they navigate the current environment.

Assess the effectiveness of previous actions taken—and understand barriers to success.

Of survey respondents, **80%** are CXOs, with **75%** of the surveyed companies having annual revenue exceeding **\$1 billion** and **35%** having revenue exceeding **\$5 billion**.

Figure 1. Respondents' management level and company revenue

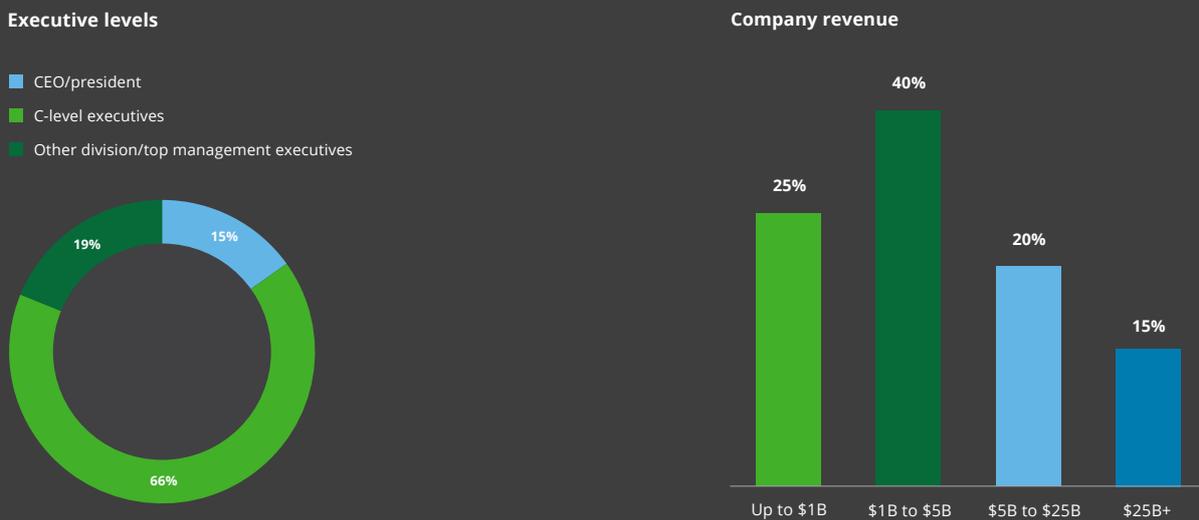
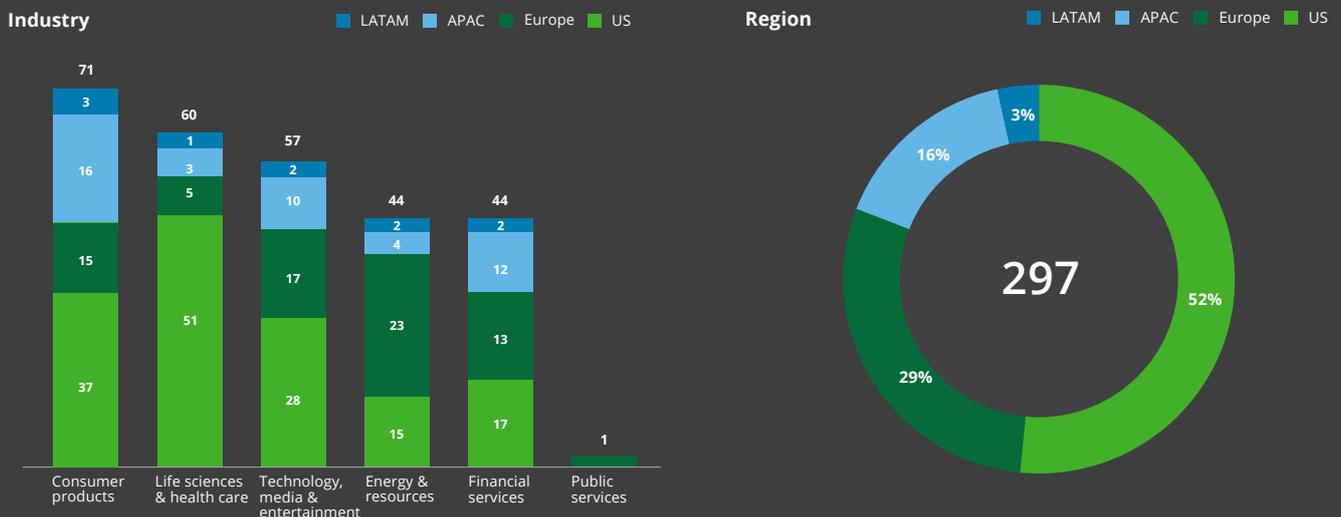


Figure 2. Industry and geographic breakdown

All major industries and geographic regions are represented, with **52%** of respondents based in the United States, **29%** in Europe, **16%** in Asia-Pacific, and **3%** in Latin America.



*Note: The grand total of survey respondents was 297, but 20 did not provide industry or regional detail.

*Note: Four respondents indicated region as "global," "worldwide," or "operating in 70+ countries."

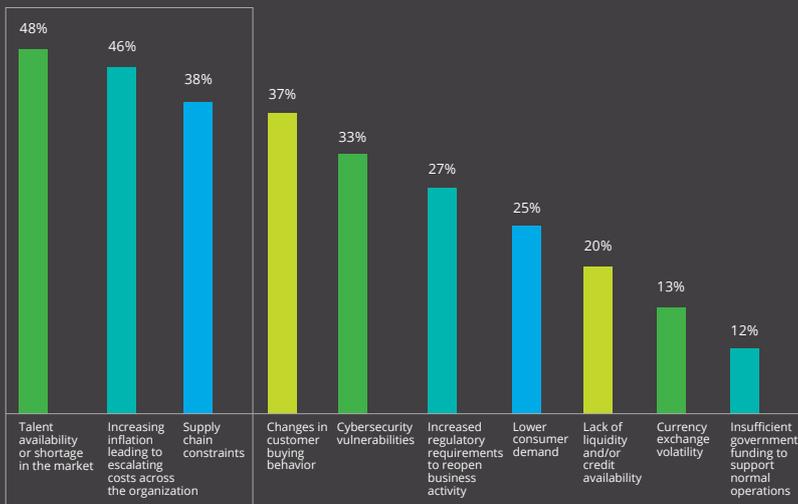
Key findings from the survey

External factors and disruption are forcing companies to improve

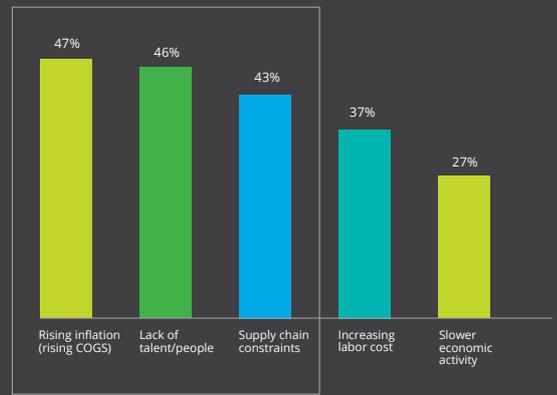
Disruption is affecting companies in many ways; however, the companies in our survey cite inflation (48%), talent shortages (46%), and supply chain constraints (38%) as the top external barriers to success. Not surprisingly, those same three external risks are also the top factors driving the need for margin improvement and broader transformation (figure 3).

Figure 3. External barriers and key drivers for margin improvement

Top external barriers to success
(top three highest ranked answers*)



Top factors triggering margin improvement programs
(answers ranked first and second*)

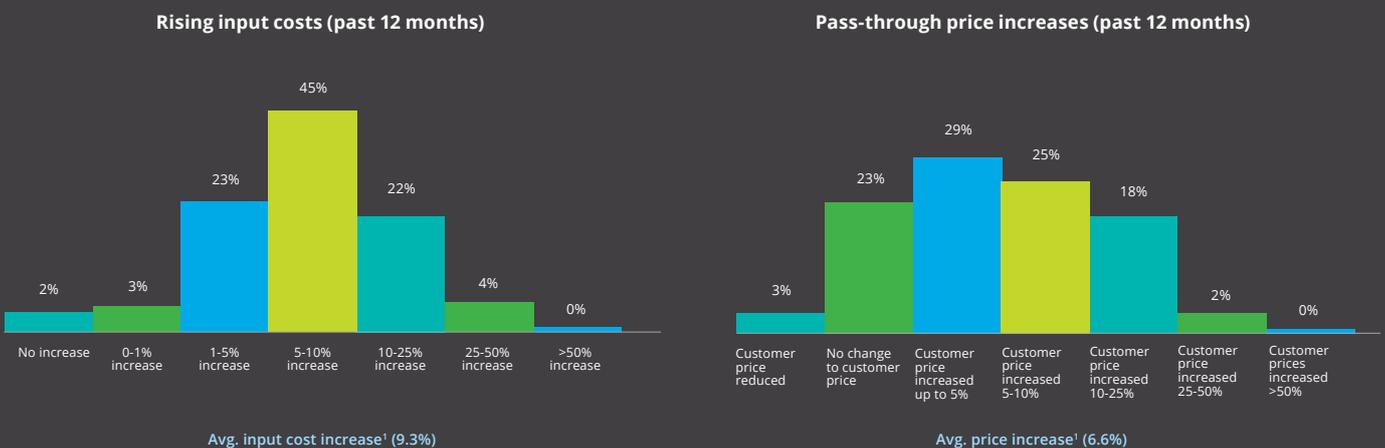


*Respondents were asked to rank the top five factors as part of the survey; charts show top two/three of the top five ranked by users, so total is greater than 100% for both charts.

Coping with inflation

Inflation is a global problem. It creates margin pressure on companies and complicates the passing through of rising input costs onto customers. Consequently, companies are seeking margin improvements in other parts of the business. Over the past 12 months, the companies in our global survey saw input prices increase by an average of **9.3%**.¹ During that same period, **74%** of the surveyed companies raised their prices to customers—with an average price increase of **6.6%** (figure 4).

Figure 4: The inflationary price gap



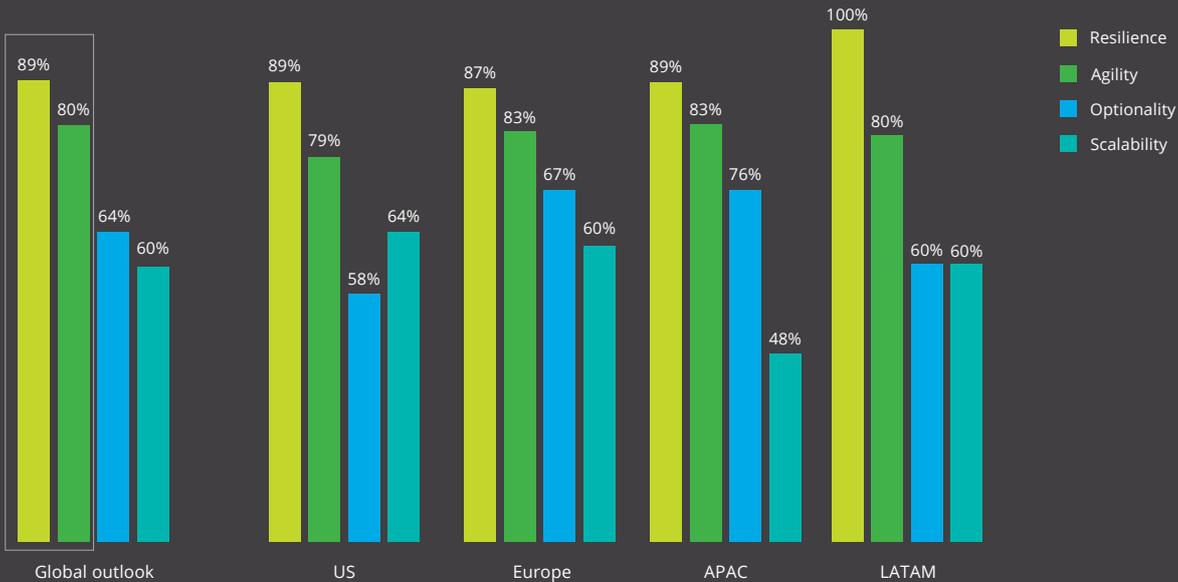
[1] Imputed price increases calculated as a weighted average using percentage of respondents for the average percentage in the range (e.g., 7.5% for the range of 5%–10% increase).

The top transformation priorities are resilience and agility

The top two characteristics that companies aim to develop through transformation are resilience (maintaining operational excellence and results during periods of disruption) and agility (sensing, interpreting, and responding rapidly to change and disruption). More than **95%** of respondents chose one or both of those characteristics as the primary capabilities they aim to develop through their transformation efforts—and both are directly related to managing disruption (figure 5).

Figure 5. Desired capabilities from transformation

Capabilities aimed to develop through transformation*

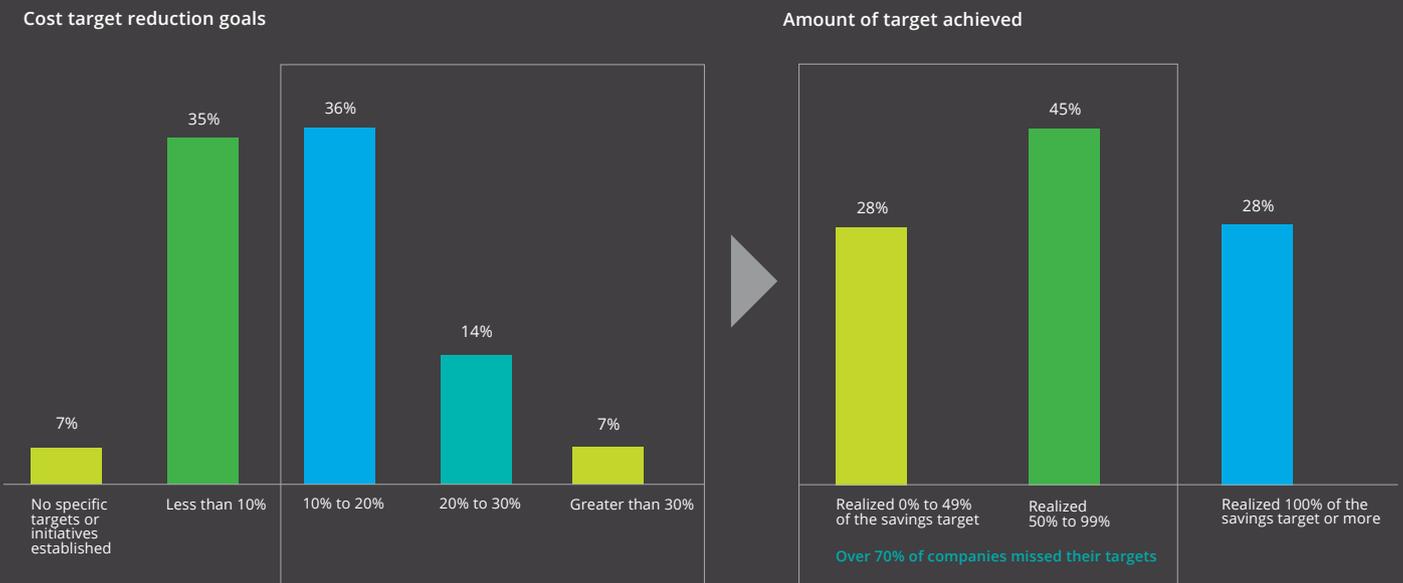


* Respondents had the option to select multiple options, so total of the charts is greater than 100%.

Failure rates for margin improvement programs remain high

The vast majority of companies (**72%**) are falling short of their margin improvement targets, and more than one in four (**28%**) are failing to achieve even half of their targeted savings (figure 6). Key contributing factors include the success barriers noted earlier, as well as the increasing speed and scope of margin improvement efforts. These factors make margin improvement and related transformation more difficult and complex to achieve.

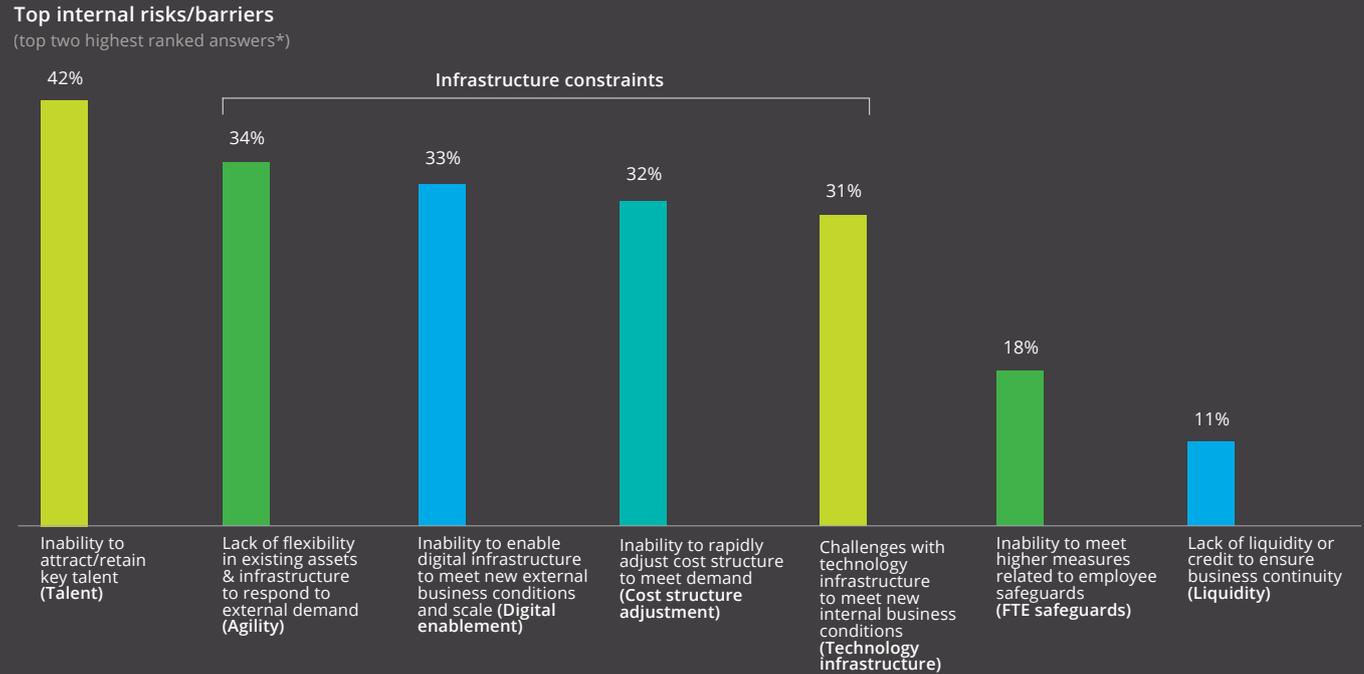
Figure 6. Cost targets and success rates



Internal constraints are creating risk and inhibiting success

The external talent shortage is being mirrored internally, with **42%** of companies citing the inability to attract and retain key talent as a major barrier to their success. That top barrier was followed by a handful of infrastructure-related challenges: lack of flexibility in existing assets and infrastructure (**34%**); inability to enable digital infrastructure (**33%**); inability to adjust cost structure (**32%**); and challenges with technology infrastructure (**31%**) (figure 7). These constraints are making it challenging for companies to efficiently run operations, much less grow.

Figure 7. Internal risks and barriers to success

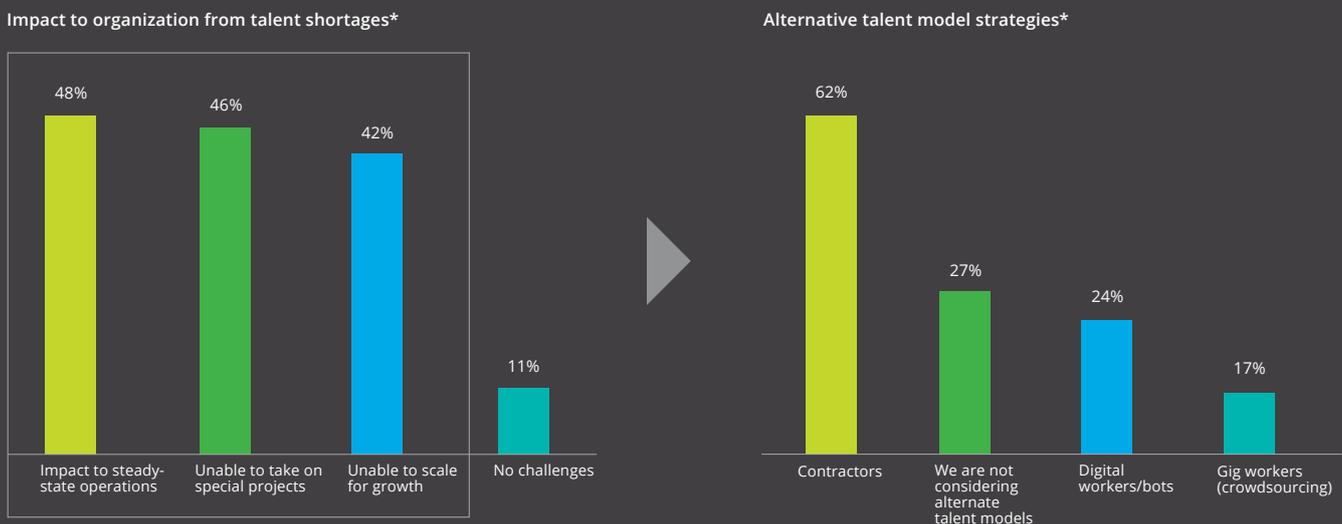


* Respondents were asked to rank the top five factors as part of the survey; chart shows top two of the top five ranked by users, so total is greater than 100% for the chart.

Talent shortages are affecting all aspects of business and driving alternate talent strategies

Nearly **90%** of the companies surveyed are experiencing some kind of operational impact from talent shortages. In particular, **48%** are seeing an impact on their steady-state operations, **46%** are unable to take on special projects, and **42%** are having trouble scaling for growth. These sweeping impacts have led **83%** of companies to seek alternate sources of talent, including various combinations of contractors (**62%**), digital workers or bots (**24%**), and gig workers/crowdsourcing (**17%**) (figure 8).

Figure 8. The widespread impact of talent shortages



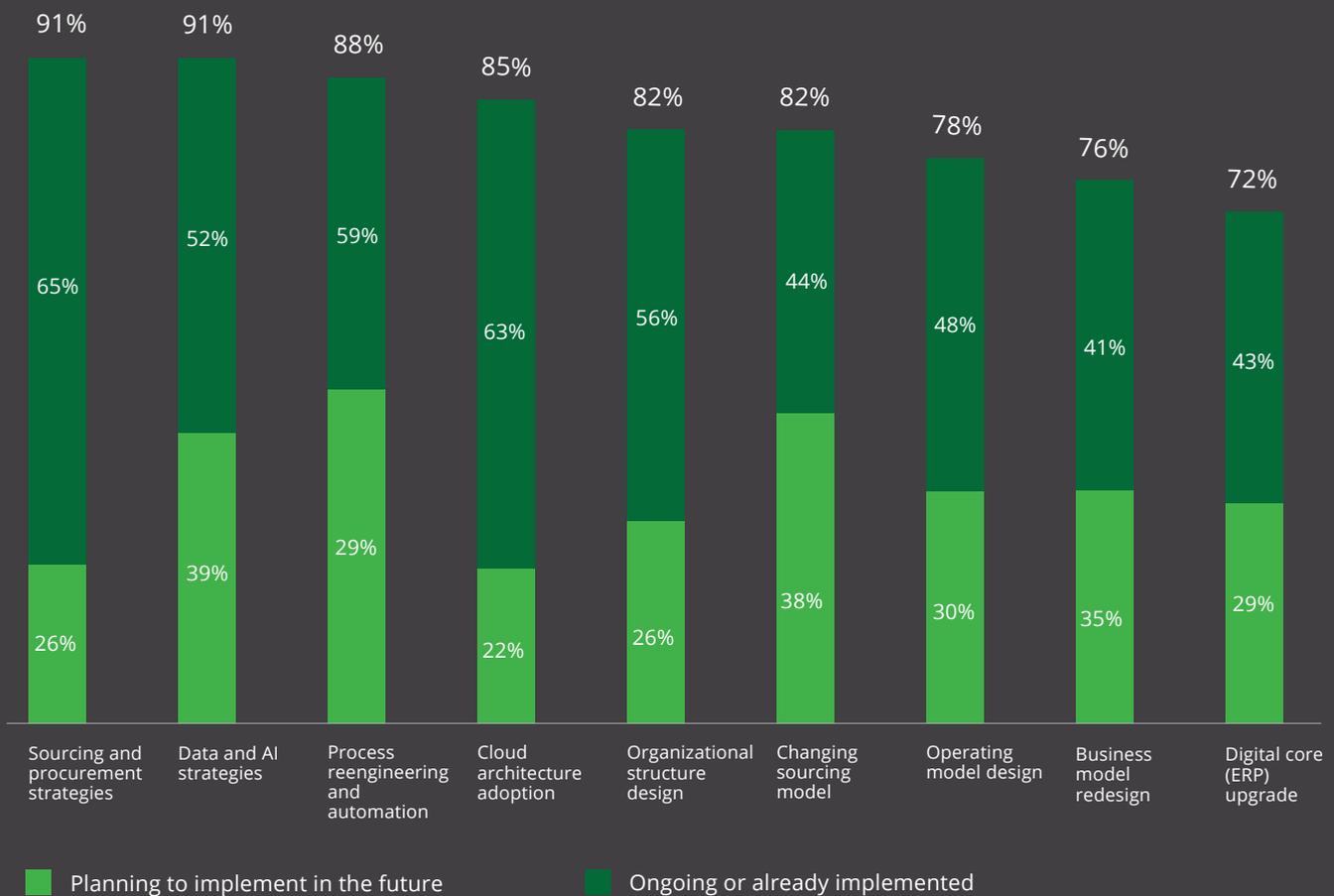
* Respondents had the option to select multiple options, so total of the charts is greater than 100%.

The scope of transformation is expanding

Most companies describe their transformation efforts as “all-encompassing” and say they are pursuing (or plan to pursue) all available options—not only standard cost levers, such as procurement and organizational restructuring, but also technology-driven cost levers, such as AI, automation, and cloud. On average, respondents plan to add two or more additional levers to their existing programs—expanding the average scope to seven levers (an increase of approximately **30%**). With these additions, all levers included in the survey have a planned utilization rate of at least **72%**—led by sourcing and procurement strategies (**91%**), data and AI strategies (90%), and process reengineering and automation (**88%**) (figure 9).

Figure 9. The expanding scope of transformation

Transformation levers utilized*



* Respondents had the option to select multiple options, so total of the charts is greater than 100%.

Margin improvement priorities are shifting toward technology-enabled transformation

Companies are shifting their margin improvement priorities from small-scale and isolated initiatives to building new technology-based capabilities that help reduce labor needs while providing a foundation for transformation, flexibility, and growth. Looking at the data, the two margin improvement approaches with the largest drop in priority in the past 12 months and the next 12–24 months are small-scale/isolated cost initiatives (**47% to 37%**) and zero-based budgeting (**27% to 23%**). At the other end of the spectrum, the two approaches with the largest jump in priority are automation (**34% to 39%**) and cognitive solutions, such as artificial intelligence and machine learning (**29% to 38%**). See figure 10.

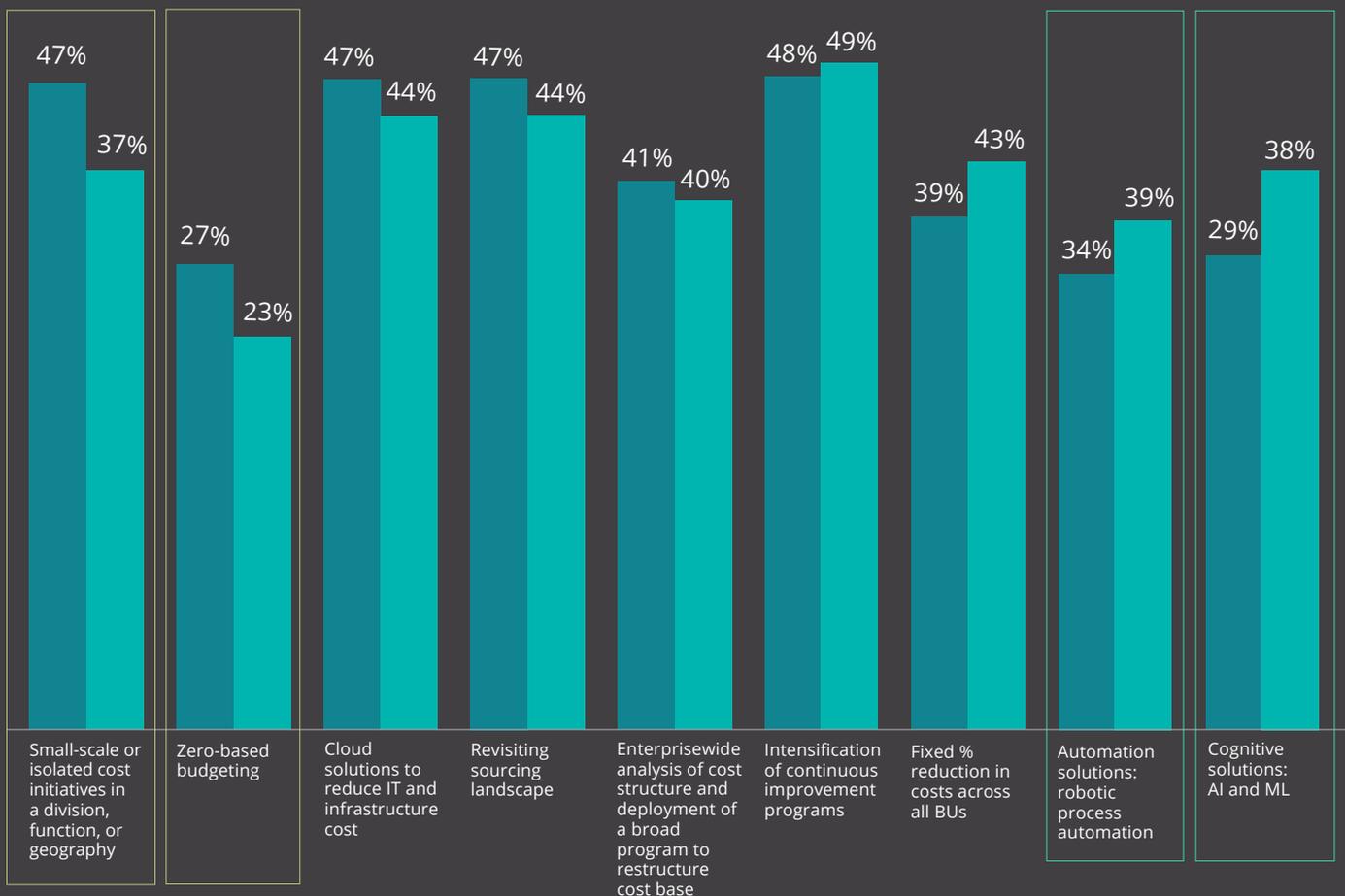
Figure 10. Shifting margin improvement priorities

Top changes in priorities

(Past 12 months vs. next 12–24 months*)

■ In the past 12 months

■ In the next 12–24 months



* Respondents had the option to select multiple options, so total of the charts is greater than 100%.

Technology-enabled transformation can help companies cope with disruption and achieve both growth and margin improvement in good times and bad—generating sustainable cost savings that endure through periods of rapid growth by enabling new capabilities, new revenue models, and new ways of doing business.

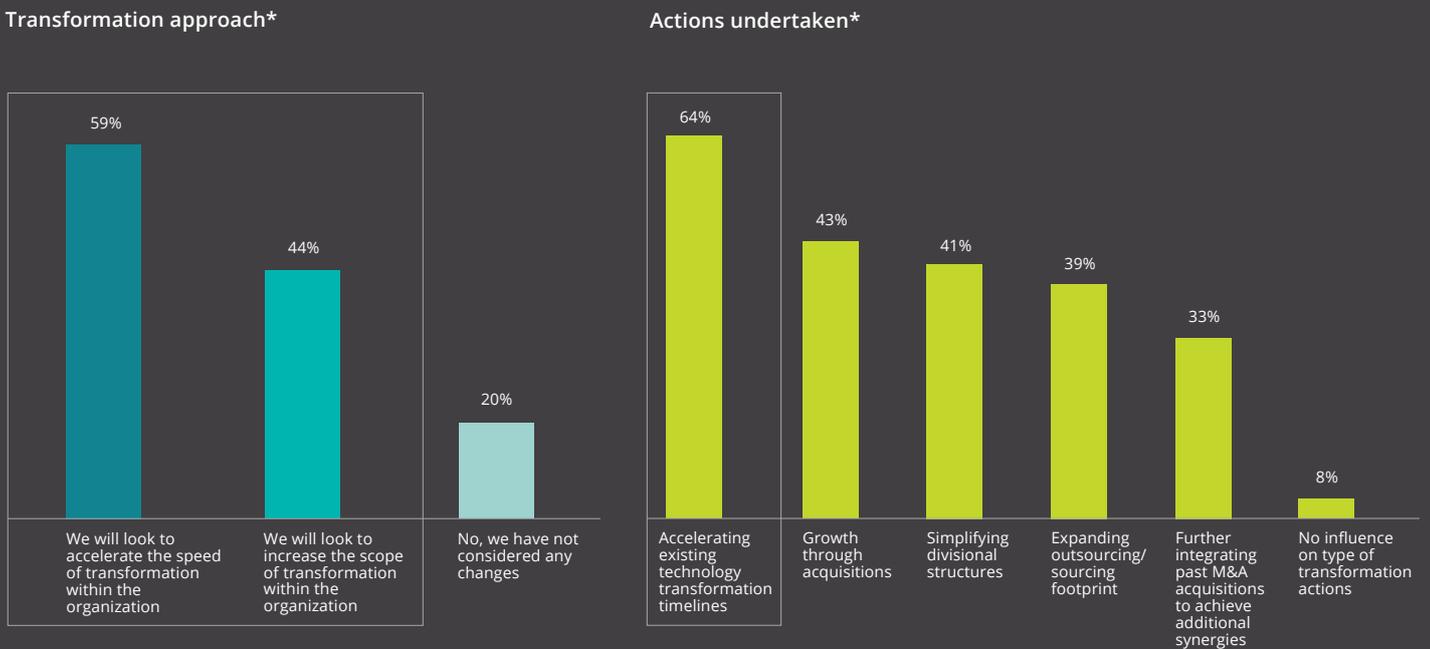
It can also improve flexibility and scalability, helping businesses maintain operational excellence and respond rapidly and effectively to challenges and changes in the marketplace.

The pace and scope of transformation are increasing

Companies aren't just expanding and refocusing their margin improvement efforts; they are also increasing the pace and scope of transformation.

Among the surveyed companies, **80%** are looking to accelerate and/or expand their transformation efforts, with **59%** planning acceleration, **44%** planning scope expansion, and many planning to do both. Also, **64%** have already taken action to accelerate their existing technology transformation timelines (figure 11).

Figure 11. Transformation approaches and actions



* Respondents had the option to select multiple options, so total of the charts is greater than 100%.

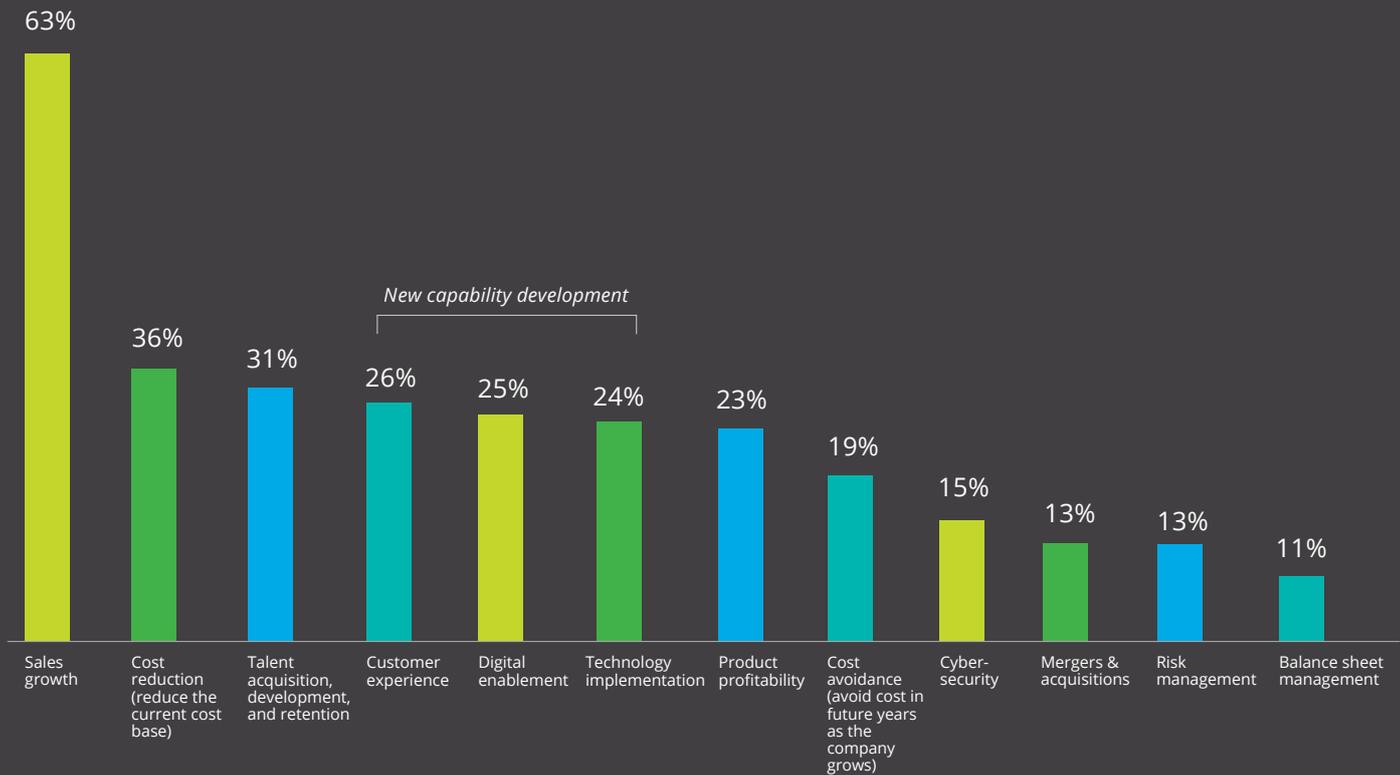
Growth is currently the top business priority

Despite the challenging business environment, nearly two-thirds of companies (**63%**) are focusing on sales growth as one of their top priorities—almost twice the number that are prioritizing cost reduction (**36%**) and talent (**31%**). Beyond those top priorities are three additional priorities focused on developing new capabilities: customer experience (**26%**), digital enablement (**25%**), and technology implementation (**24%**).

All three of those capability areas—along with talent—are generally viewed as key enablers for both sustainable margin improvement and sales growth (figure 12).

Figure 12. Near-term business priorities

Top priority areas over next 12–24 months
(top three highest ranked answers*)



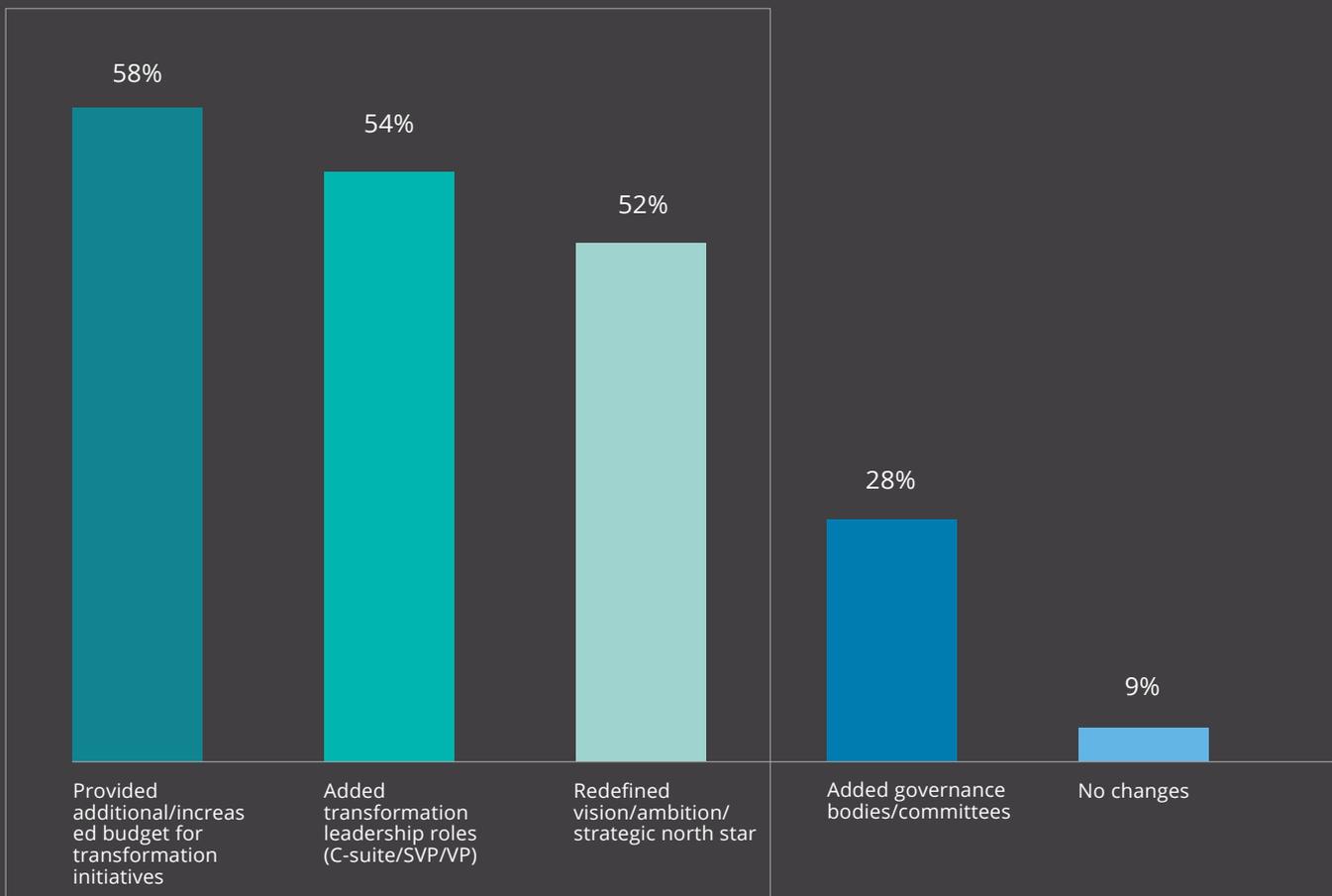
* Respondents were asked to rank the top five factors as part of the survey; chart shows top three of the top five ranked by users, so total is greater than 100% for the chart.

Companies are accelerating and expanding their transformation visions, investments, and leadership

As companies accelerate and expand their transformation efforts, they are increasing their transformation budgets (58%), adding executive-level transformation leadership roles (54%), and redefining their transformation visions/ambitions (52%). These actions enable companies to achieve their growth and transformation goals by providing resources, leadership, and strategic clarity (figure 13).

Figure 13. Actions to support transformation and growth

Changes to transformation management*



* Respondents had the option to select multiple options, so total of the charts is greater than 100%.

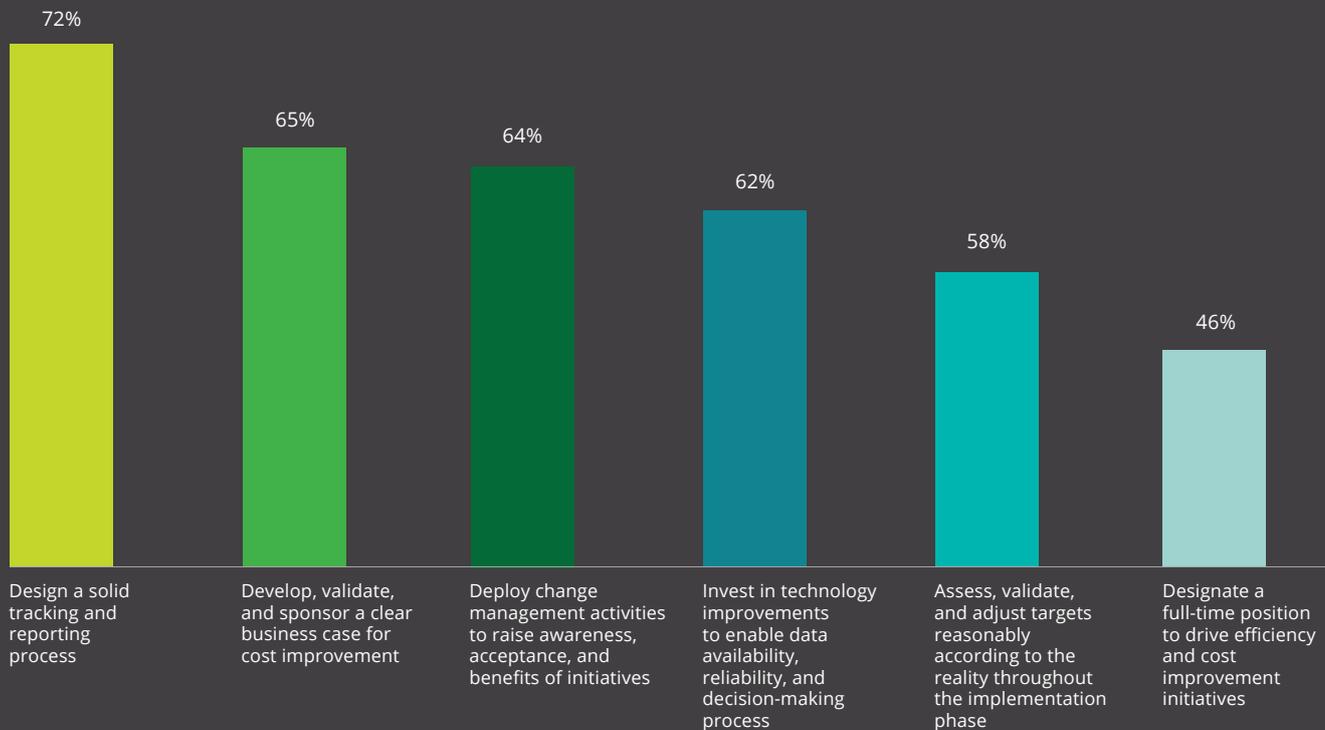
Keys to successful margin improvement

As a business leader, what can you do to help your company achieve its margin improvement, transformation, and growth goals?

The companies surveyed cite several key success factors and lessons learned that help them achieve their margin improvement targets. These include solid tracking and reporting (**72%**), a clear business case (**65%**), effective change management (**64%**), investment in technology improvements (**62%**), realistic cost targets (**58%**), and dedicated leadership (**46%**). See figure 14.

Figure 14. Keys to success and lessons learned

Key factors driving target achievement
(top two highest ranked answers*)



**Respondents were asked to rank each lesson on a scale of one to five; chart shows answers ranked four or five, so total is greater than 100% for the chart.*

Many companies fail to achieve their margin improvement and transformation goals because they approach the effort as a portfolio of disconnected projects without the necessary sponsorship, coordination, discipline, and investment. They don't provide the right governance and guidance and don't define success in a consistent way. They overwhelm people with change and don't learn from their mistakes.

Ultimately, successful margin improvement requires a rigorous end-to-end focus on creating sustainable value—using data and technology enablement to transform the business and establish new capabilities that deliver lasting value long into the future.

Taking action

Constant disruption and prolonged uncertainty are creating an urgent and ongoing need for margin improvement and technology-enabled transformation. Success requires a balance between old and new: applying and refining tried-and-true margin improvement methods while at the same time investing in new capabilities.

Using technology-enabled transformation to reimagine the business and how work gets done is crucial to achieving the simultaneous goals of growth and margin improvement.

You can't cost-cut your way to profitable growth without making significant changes to how you operate.



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