



FORTLANE PARTNERS
STRATEGY · M&A · TRANSFORMATION

Cost Management “Pulse-Check 2023”

How well are companies prepared for further cost increase?

Executive Summary

After significant cost increases, companies will face further cost pressure in the near future – optimization measures strongly focus on short-term savings instead of long-term investments

EXECUTIVE SUMMARY

01 COMPANIES HAVE EXPERIENCED A SIGNIFICANT COSTS INCREASE SINCE 2020

Since 2020, enterprises in the GSA¹⁾ region have recorded sharp cost increases.

For over 30% of the companies surveyed, cost increases resulted in a reduction in the EBITDA margin of more than 5pp.

03 COMPANIES TAKE OPTIMIZATION MEASURES IN RESPONSE TO COST INCREASES

In addition to optimizing cash flow, savings measures associated with investment budgets and personnel expenses continue to be key levers.

The possibility of passing on cost increases to customers, e.g. through price increases, appears to have been pushed to the limit and will only be of subordinate relevance in the future.

02 COSTS ARE EXPECTED TO RISE FURTHER IN THE COMING MONTHS

Awareness and monitoring of cost developments have increased noticeably among the companies surveyed.

Furthermore, a change in cost structure has been noticed and a large number of companies expect further cost pressure to arise over the next 24 months, especially due to further increases in personnel expenses.

04 PERSONNEL MEASURES USUALLY DO NOT FOLLOW A SUSTAINABLE STRATEGY

Often, personnel restructuring still focuses on short term cost effects. The organization's performance in regard to recruiting and personnel development is rarely addressed, despite existing technology solutions.

Efficiency-enhancing investments in automation also take a subordinate role on the 2024-25 management agenda.

METHODOLOGY

The Fortlane Partners Cost Management Pulse Check 2023 is based on a representative survey of managing directors and executives from over 400 companies in the GAS region.

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Status Quo | Significant margin losses in German companies

Most companies surveyed have recorded significantly higher costs since 2020 – for over 30% of companies, the sharp cost increases also resulted in a substantial EBITDA margin reduction

COST AND EBITDA DEVELOPMENT SINCE 2020

Significant cost increase
(>5pp) since 2020



Substantial reduction in EBITDA margin (>5pp) since 2020



~60% of companies with significant cost increases



Substantial EBITDA reduction due to cost increase

Cost increases can be (partially) absorbed via pricing

No significant cost increase

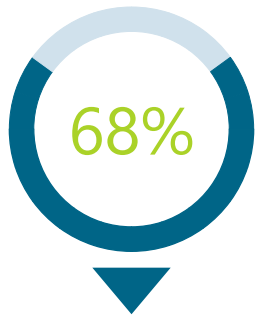
COMMENT

- The majority (77%) of surveyed German companies, have been under significantly **higher cost pressure since 2020**
- Almost a third of the companies had to deal with a **substantial EBITDA margin reduction** of more than five percentage points – only two-thirds of the sample could maintain **EBITDA levels**
- 60% of companies with significant cost increases could absorb the **increased cost base** (at least in part) via price increases that were passed on to **customers**

Status quo | Changing cost structure and monitoring

German companies are noticeably increasing the monitoring- and response mechanisms for costs in the company – a large number of companies expect further cost pressure due to rising personnel costs

PERCEPTION AND HANDLING OF COST DEVELOPMENT



INCREASED ATTENTION OF MANAGEMENT

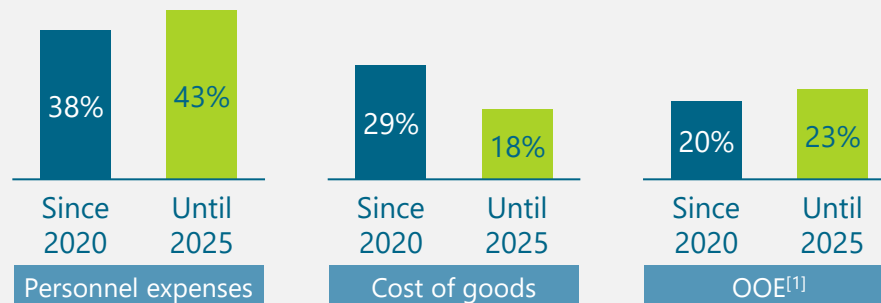


AMPLIFIED COST MONITORING



CHANGED COST STRUCTURE

Cost types with the strongest cost increase (since 2020) and anticipation of future development (until 2025)



COMMENT

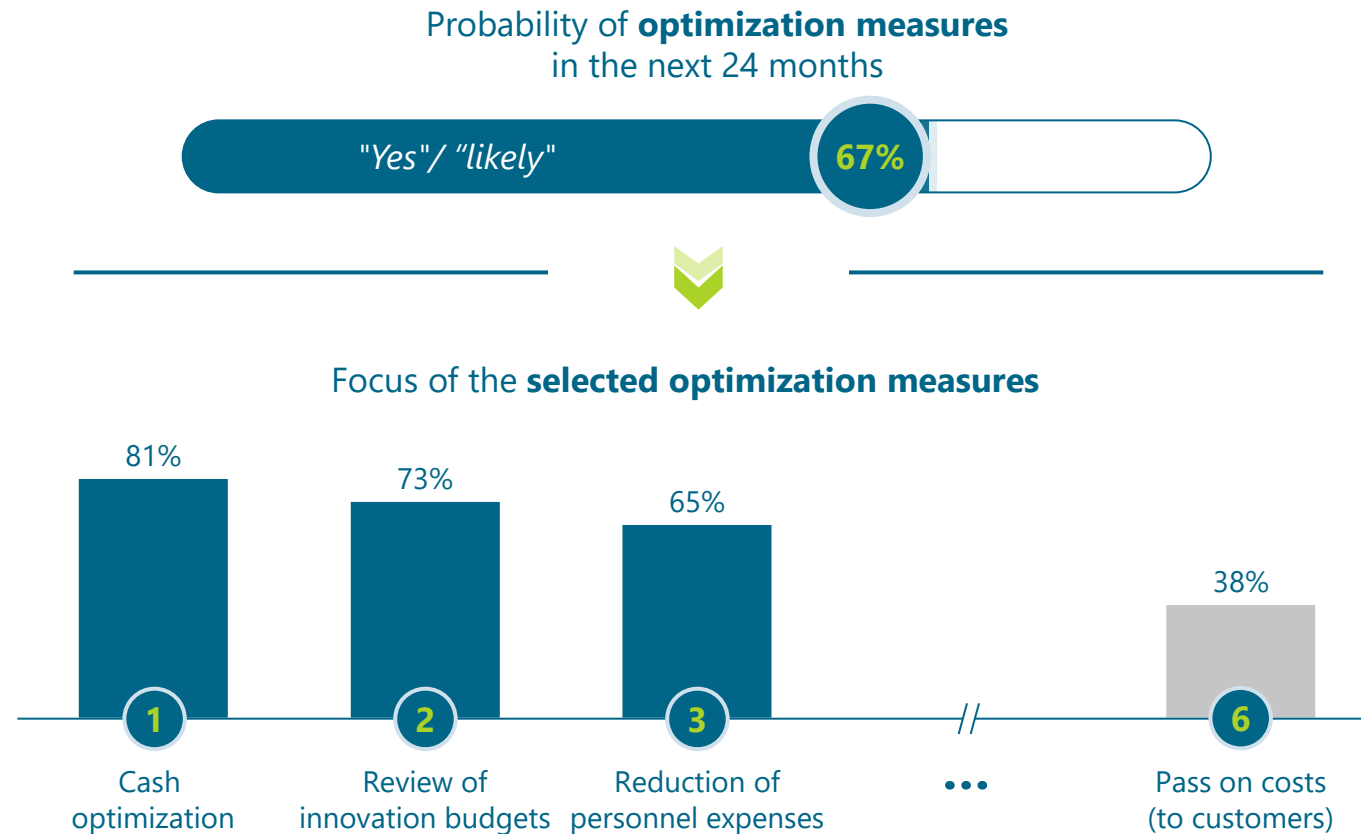
- The majority (68%) of the companies surveyed confirm an increased **attention of the management** to cost development and **increased monitoring of costs** (62%)
- Almost half of the companies recognize **changes in the cost structure**
- For 38% of companies, personnel expenses have risen the most since 2020 – even more companies expect an additional significant increase in the next 24 months
- While the **costs of goods** have increased for many enterprises in the past, further sharp increases are anticipated by **fewer companies**

Way forward | Cost optimization measures

Two thirds of the companies surveyed will respond to the anticipated cost development with optimization programs – the main objectives are to improve cash flow, reduce expenses for innovation, and reduce personnel expenditure

FOCUS OF OPTIMIZATION MEASURES

COMMENT

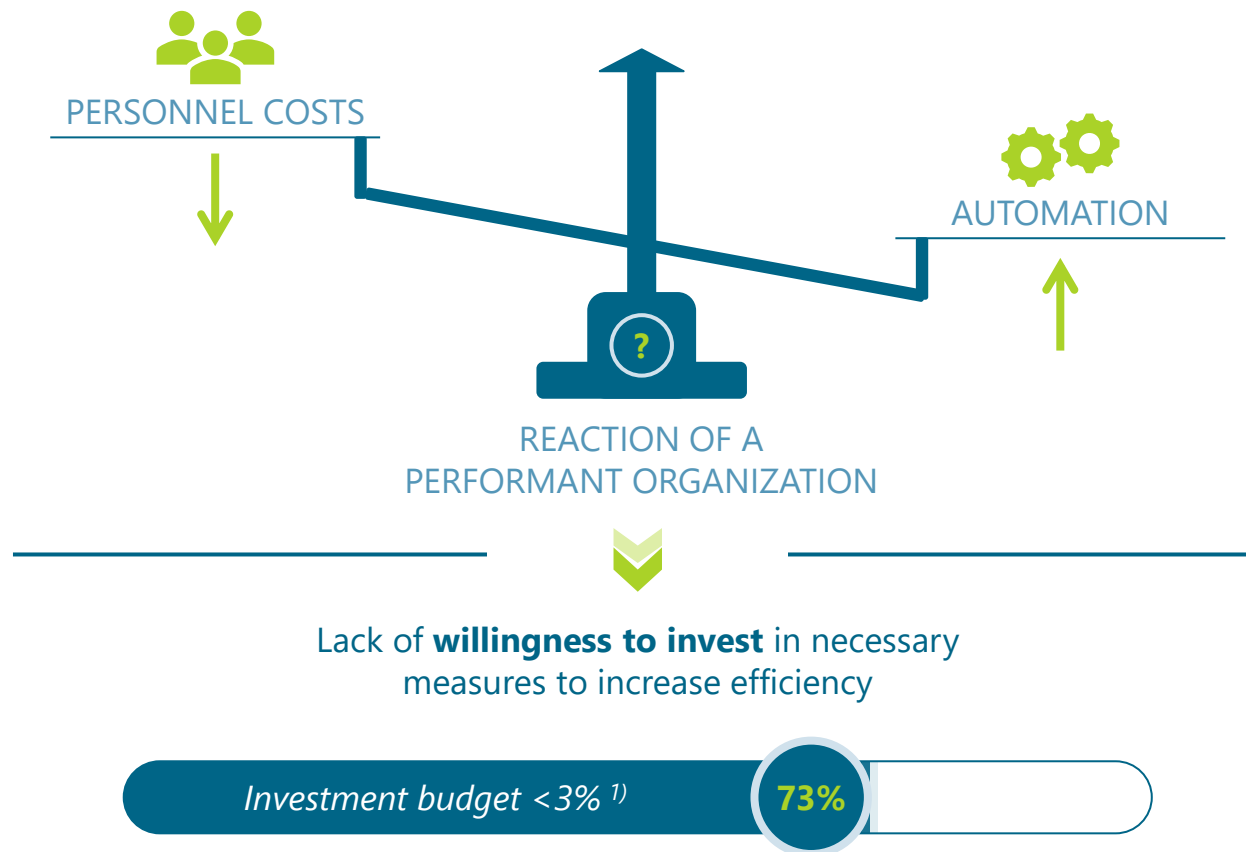


- **Awareness** of anticipated cost challenges until 2025 appears to be **existing**
- The majority of respondents (67%) has already decided on **optimization measures** or consider them likely
- In addition to **cash optimization** (81%), the preferred levers are the review/ reduction of **innovation budgets** (73%) and the reduction of **personnel expenditure** (65%)
- Remarkably enough, a renewed **passing on of the cost increase** to the customer (e.g. through price increases) is predominantly (62%) **no longer regarded as feasible**. The **tolerance limit on the customer side seems to have been reached**

Way forward | Personnel expenses vs. investments in the future

The willingness to invest in automation projects is low over the next 24 months – the question of how to close the performance gap resulting from reduced personnel expenses remains unanswered

GERMAN COMPANIES' WILLINGNESS TO INVEST



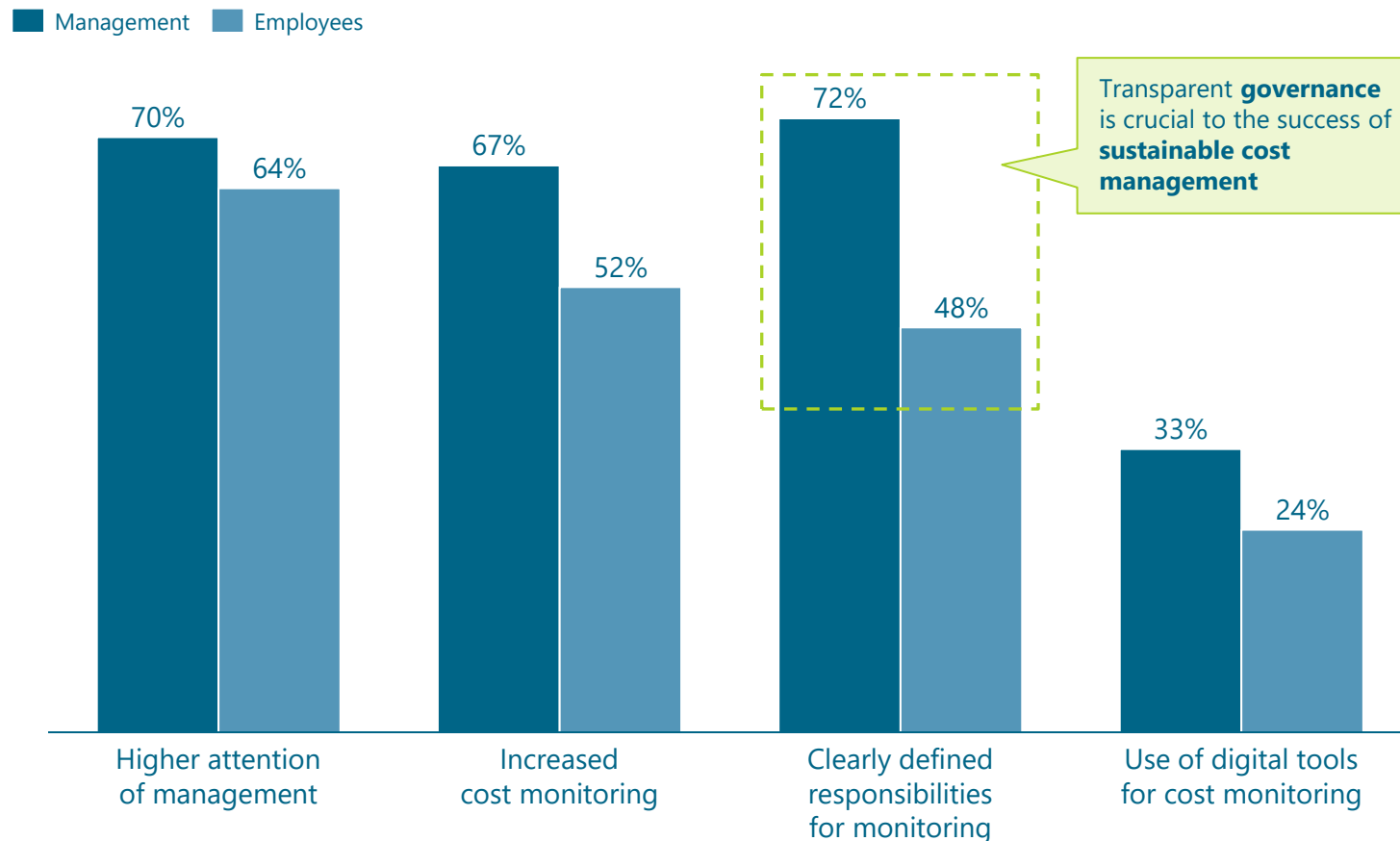
COMMENT

- Despite the pressing **shortage of skilled workers**, study participants are planning to reduce **personnel costs in response to the anticipated** cost increase
- To ensure sustainable **competitiveness, efficiency measures** must be taken in response, e.g. process automation
- However, 73% of respondents state that the **budget for such automation projects** will be **<3% of expected sales**
- When it comes to optimization measures, it appears that companies tend to **act reactively** and rather short-sighted instead of focusing on a **future-orientated approach**

Way forward | Creation of efficient structures

The opinion on dealing with cost changes differs between management and employees – clearly defined governance and an efficient organizational set-up are necessary for sustainable cost management

PERCEPTION OF COST MANAGEMENT



COMMENT

- **Management rates** both, the company's own attention to cost development and the monitoring of costs as **stronger developed**
- The question regarding clearly defined **responsibilities for cost monitoring** is answered very differently by executives and employees – the results suggest a **need for action in most companies** to create transparent governance and efficient structures
- In addition, very few employees have access to digital tools for **simplification, standardization, and professionalization of cost monitoring**; in addition **data protection is of concern**

About Fortlane Partners



ADVISORY FOR STRATEGY, M&A AND TRANSFORMATION

Fortlane Partners is a leading European advisory firm specializing in strategy, M&A, and transformation.

With an integrated advisory approach, Fortlane Partners combines management consulting and corporate finance expertise to help businesses successfully shape their future.

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