

DELIVERING ON THE COST REDUCTION CHALLENGE

Like weeds, costs need continual attention and a periodic blitzkrieg. No matter how tightly they are controlled, when the business fortunes change or are challenged in some way, the infamous 'Cost Reduction Programme' has to be dusted off and re-mobilised. For some organisations it's a necessary, predictable and cathartic cleansing process, but for others it can be fraught with difficulties and confusion, and end up not delivering what was required.

To give you the best chance of success, cost reduction programmes need proper preparation. Hopefully these guidelines will help.

AVOID THE COMMON BEAR-TRAPS

Being unclear on why you're doing this and what targets you need to hit

To succeed, you need to mobilise widely across the organisation and people won't get behind you if you are unclear. With a specific target, people can see if you're talking about a tactical short-term tightening of the belt, or a disruptive transformation. People need to know.

No leadership from the top; trying to delegate to others

There is little sense in announcing shop-floor redundancies on the same day you confirm bonus increases for the senior leadership team. Leading from the top takes clear sponsorship and active involvement, walking the talk along with everyone else.

Limited understanding around the real cost drivers within the business

Often the trees can conceal the forest. You certainly need detailed data, but you need insights from the people who understand that data if you are to be really successful.

There are 'good costs' and there are 'bad costs', and getting under the skin of these is fundamental.

No holistic approach to finding, assessing and signing-off savings opportunities

To achieve a cost saving of £1M per annum, you need to find a potential cost saving of much more because some savings will prove impossible to achieve. So cast your net wide, don't dismiss any idea, and use a 'Star Chamber' process for reviewing and maturing those ideas that make the most sense.

Too much central control

Whilst you need an element of central control, too much can create bureaucracy and frustration. The team that is excited by their suggestion for how to save £100K per annum will quickly become less excited when they are faced with check-lists, spreadsheets, pro-forma and submissions. Keep it simple.

Too little central co-ordination

This is the opposite of too much central control. You need an overall owner of the work, you need an over-arching plan and you need a single version of the truth. Without these you have chaos, double-counting and worst of all, conflicting initiatives that work against each other.

Ignoring delivery constraints – less might be more

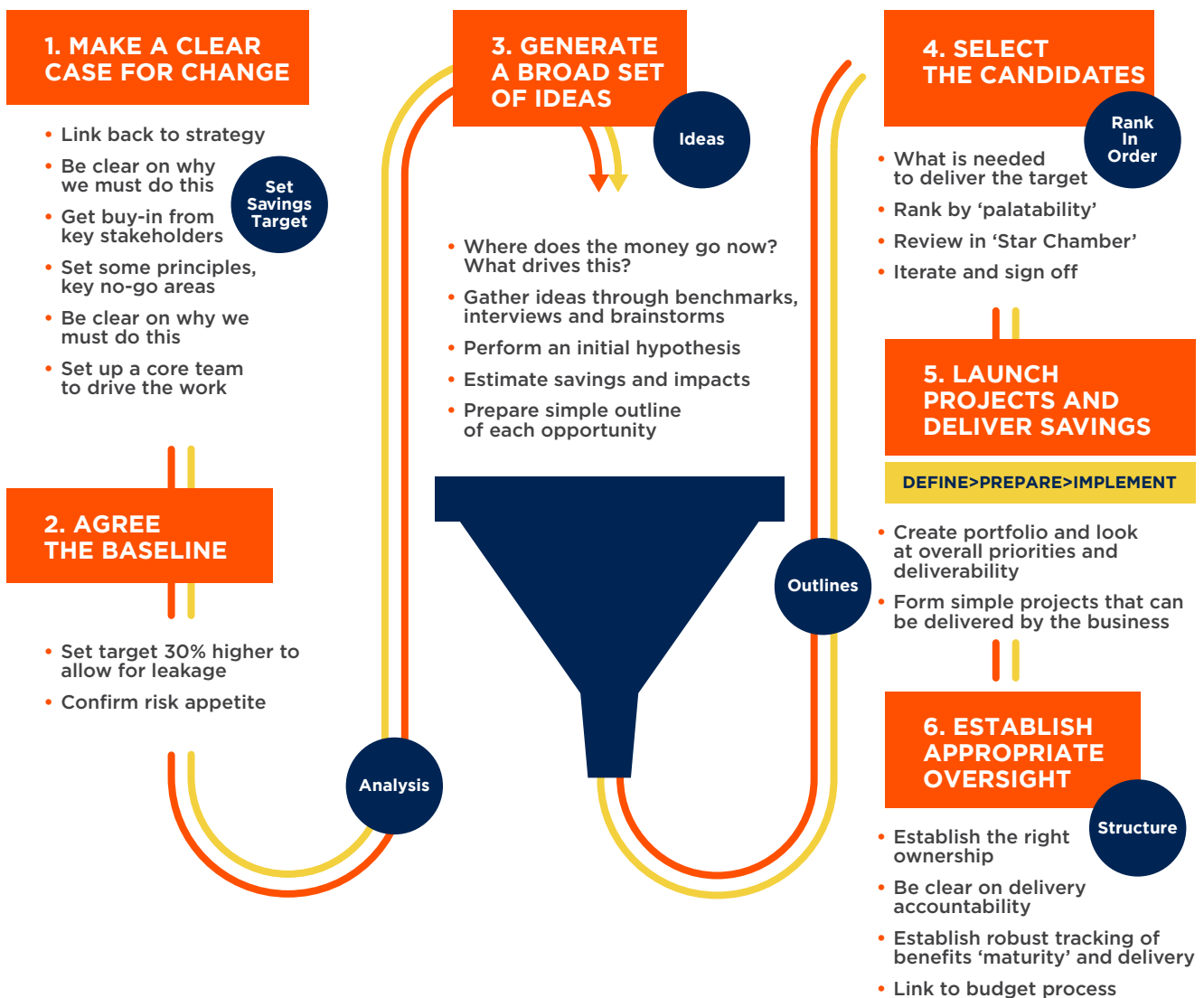
Focus on some early changes that deliver something tangible and are achievable within the available capacity of the organisation. Better to have 10 initiatives sprinting forward than 50 initiatives getting in each other's way.

USE A SIMPLE APPROACH - ONE THAT WORKS

With the bear-traps in mind, you now need an approach or plan that takes them into account. Any workable approach probably has a similar flow to the that in the illustration below. We use this approach as the basis for

all cost reduction programmes because it works. Adapt it to suit your own organisation, culture and situation, but try to make sure that the key steps are still clearly in evidence.

Cost Reduction Programmes - An Approach



HOW TO USE IT

The information in the diagram above leads into the next few pages to ensure you can keep your eye on key areas to deliver successful cost reductions...



NOW KEEP YOUR EYES ON THESE THINGS

With a decent approach and plan, and awareness of the possible bear-traps that such programmes can fall into, you now need to keep a watchful eye on a small number of key things. These come from the experience of those who have delivered successful cost reductions.

Agree on some fundamentals on the approach to the cost reduction

Where the cost savings are significant, Board-level engagement is needed to make sure that the fundamental agreements and understanding is in place.

- Are we talking tactical or transformational changes?
- What areas of the organisation should we be focusing on? What areas should be 'left alone'?

- What products and services do our customers value and therefore, we will we continue to major on?
- Are we prepared to re-structure ourselves? At what level and to what degree?
- Are there any sacred cows that must be retained? Are there areas that cannot be changed?

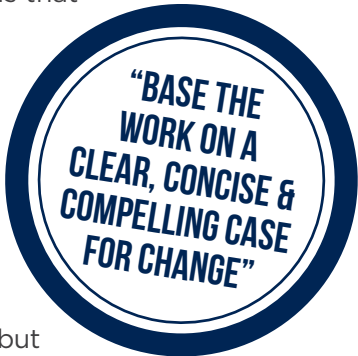
Mobilise the team for success

- Base the work on a clear, concise and compelling case for change
- Establish and sustain active Board sponsorship. Keep decision-making at this level and resist the desire to delegate
- Involve the management teams in the business areas in leading the work in their areas
- Establish an overall programme that works 'with' these business areas. Do not allow the programme to 'do it to the business areas'
- Have strong representation from the support functions such as HR, Finance, Property and Procurement

Base your target on what is 'affordable' in your market

Ask yourself a few simple, but difficult questions.

- Which are the products and services your customers really value?
- What price do they need to be at, to sustain and profitably grow your share of the market in the future?
- What return do your investors expect?
- What does this mean for the size of your cost base?



- How big is the gap versus your current cost base?
- What therefore is the savings target you need to achieve?

These may be difficult questions to answer but whatever you can agree upon will really help your cost reduction programme get off to a solid start. There is absolutely no point in setting a target that is far too high or far too low. Try to get it 'broadly right'.

Absolutely nail the baseline

- Have a single yardstick against which all progress will be measured
- Quickly establish, by business unit, the financial numbers, headcount and other key metrics
- Validate the baseline and progress through a credible finance lead with active sponsorship by CFO
- Don't underestimate the effort and rigour required to build and obtain buy-in across the business to the baseline
- Get the baseline signed off as soon as possible to avoid it continuing to haunt you. It will be an increasing distraction from the focus of identifying and delivering real cost savings
- Set initial stretch targets for each business unit – to be revised once review of potential options has taken place

Have a workable approach to developing and maturing cost reduction options

- Brainstorming can work well, if you get the right people involved. Assume a zero cost base and challenge any and all activity
- Capture potential options and conduct a rough assessment around:

- Scale of benefit
- Ease or likelihood of realisation
- Impact on current business performance and future capability
- Rank in terms of acceptability

- Feed ideas into a 'Star Chamber' or review panel, with the appropriate business leader validating the thinking and being challenged on robustness of thinking and 'have you been radical enough?'
- Periodically look at the feasibility of original targets. Some business areas might need to find more savings if other cannot
- Develop preferred options into simple business cases, with a further round of review panels to confirm which to be taken forward to implementation

Track the savings carefully

- Savings plans should normally be baked into future budgets of the business units. Don't do this if there is a significant risk that the savings are not capable of being realised
- Use standard and simple initiative tracking to assure progress. Keep the tracking commensurate with the importance of the initiative being tracked

IN CONCLUSION

Cost reduction programmes will always be necessary and they are usually fraught with difficulties. People are 'people' and they will often see the need for savings, but 'not in my area'. If prepared well, structured well and executed well, you can deliver the cost savings you need, in the right way. Good luck!



Interested in finding out more? Please contact

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