

Cost

leverage

by Dave Hunt

These are tough times, revenues are down and costs are under pressure. Some hope the economy will bounce back, most analysts suggest things will be at best flat for at least two years. Organisations are realigning their strategy, activity, structures and spend to this new reality. It's uncomfortable but necessary. Ripping costs out does not work, it requires a considered approach; organisations should focus on the ABCD of cost leverage.

Costs; from control to leverage

In growth times we focus on driving revenue growth and controlling costs to deliver profit growth. When revenue is constrained we must increase our leverage of our costs to deliver profits. In the recent good times our strategies, activities, structures and spend have grown as we have sought to exploit new channels, markets and styles of business. Growth is organic, but as revenue lines contract, the infrastructure that exploits them must be realigned; consolidation is about structure and leverage.

A = Activities; cut the fat not the muscle

Times have changed and every business needs to realign its activities. Many organisations have already cut significant costs through pulling back; cutting spending, making redundancies and moving employees to nine day fortnights. Naturally and understandably much of this has been seeking to protect jobs. Cost leverage requires realignment; if the activity is not

relevant in the current environment then reducing the spend by 10 or 20 percent means you are wasting the remaining 80 or 90 percent. Instead reinvest this in the activities which are driving your business, activities which may be new or underfunded.

B = Bi-products; take another look at the bathwater

Markets are changing, some have disappeared others are being created. What was previously an unused bi-product or a distraction may now be a viable and valuable opportunity. As margins contract bi-products may be the difference. One of our clients has turned a previously complementary service they provided to customers into their largest revenue line. Equally now is the time to offset costs. Another of our clients with a strong and proven training program recently agreed to sell this to partners as a means of offsetting their cost. Every business also has markets they would not previously serve as they were not viable, now is the time to re-evaluate them.

C = Cut underperformers; raise the bar

Whilst realigning the activities to our new world we must also ensure every line of expense is performing to expectations. Many organisations take time to consider initiatives but relatively few evaluate whether they deliver against their business case. Now is the time to address the underperformers. This applies to every line of expense, and especially people. The war on talent

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is over, the job market is rich with talented individuals. Scarcity of talent has inflated remuneration and lead to a reluctance to replace underperformers. Now is the time to re-evaluate your talent pool. Invest in your most talented, replace the underperforming. In the need to deliver and with talent shortages organisations may have built teams around ineffective people. We have worked with organisations who have replaced three people with one high performer and seen an uplift in output, before the added advantages of less overhead in on-costs, management, meetings and so on. We have also seen large pools of spend removed with no impact on performance, as it was simply redundant.

D = Driver management; *address the cause*

Every cost is driven by a small number of key levers. A client had a large print budget, the procurement team had placed this with a single supplier and negotiated good rates, and delivered almost 5 per cent in savings. More than 20 per cent in additional savings were delivered by examining what was printed, how, when and where it was printed. Significant savings were realised by eliminating items which were no longer needed, converting several documents to print on demand locally, reducing the number of colours that were being used, ensuring the appropriate paper stock was being used and better forecasting the need for print runs. Printing is a good example, as we have grown we have added new

brochures, catalogues, letters and statements. These now offer great potential for review and greater leverage. Every cost item needs to be reviewed at the overall and driver level; what is driving the cost and how can we better manage that?

The ABCD approach is a proven framework that delivers greater cost leverage. By using this process straterjee's team has helped organisations deliver greater than 40 per cent cost reductions whilst maintaining and growing revenue. The approach is applied across Strategy, Structure, Spend, Process, Performance and Behaviours.

There are five simple rules:

1. **Be realistic;** only a candid realistic view will help
2. **Be proactive;** wait and see will not work
3. **Include everything;** be prepared to change everything, every element and your overall focus
4. **Include everyone;** make sure everyone owns the answer so they are champions for delivering it
5. **Be clear and write it down;** there needs to be a single version of the truth

It is time for organisations to increase the leverage on their costs. This needs to be done in a careful considered manner. The ABCD approach provides a proven framework for delivering a sustainable model with leading cost leverage.

Dave Hunt is the Managing Director of Straterjee. Straterjee is a team of General Managers who are proven in delivering leading business results. Starterjee has offices in Sydney, Melbourne and Brisbane.

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April 2009