

Cost cutting – How to do it Right

Tough times are a good time to implement a permanent cost-control program.

In a tight economy, there is general recognition that "business as usual" won't cut it, and managers need to find ways to get by with less of everything. Often overlooked, however, is the similarity that should exist between management in a cutback and managing a going business in the best of times.

The best cost-cutting program is a program of cost control and work prioritizing which functions equally well in good times and bad. The most difficult of times can give managers the opportunity to install cost-cutting programs with credibility and with the support of those affected.

Deciding which costs to cut is just as important as determining how much to cut. Cutting across the board is *never* the right approach – it's only a question of how much unnecessary damage this does. A better approach is to attack the problem by grouping functions, departments, and projects into one of the following four categories:

- Select areas where cost cutting will not stop recovery or affect critical current programs. Cut these sharply or eliminate them entirely.
- Select activities that must be retained but can be delayed or cut back into an inactive state for four to six months.
- Determine where money can be spent more effectively in areas that can't be cut back.
- Finally, consider investing in new or existing projects that can benefit the cost-control program and be of continuing value in a recovery.

Involving your staff. Cost control will never be accomplished by one person, no matter how dedicated, because costs are not incurred by any one person. For this reason, it's important that the entire staff is aware of the need and rationale for the program. Accordingly, the entire staff should keep the cost-control guidelines in mind in their daily jobs, because that's when the real cost-control decisions are made.

Establish with key subordinates a cost-control goal they can shoot for as a team. Management must provide the parameters, but employees should feel like they helped decide on the specific objectives.

The goals, guidelines and progress should be publicized. Staff memos, the company newsletter, bulletin boards and staff meetings can all be used. The staff must be conditioned by positive reinforcement to think in new ways. Recognition will reduce normal resistance to cost control.

Using the budget. The best single tool for cost control, in good times or bad, is still the budget performance report. It's important the budget is credible and the line items are understood to know which budget items are affected when the company is committed to spending money.

It is necessary to get the details from the accounting department to help understand why the budget or cost objective was exceeded. Manage the budget line by line, not in total. Don't be satisfied with the month's performance simply by staying within the overall department budget, because it could lead to the following common trap:

When an account is under budget due to timing differences, that is, it will actually be spent later than budgeted, the favorable variance may offset and hide another account that has an unfavorable variance due to overspending. Later on, the timing difference catches up and you

have an overall overspent condition. But attention is drawn to the wrong account in the wrong month, long after corrective action should have been taken.

Subordinates should be held accountable for the specific elements of the budget that they control. If they don't have responsibility for separately reported cost centers, find some other ways to get them to relate to budget performance as a cost-control tool.

Computing. This may be one area where some investment of money will pay off in the overall cost-control program. Explore what kinds of reports are currently available that you might not have seen before. Computers and data processing departments are not immune to the adage that reports are created, but never discontinued. However, there may be a wealth of useful information going to someone else's desk drawer. If a report that would benefit the program isn't available, talk to the CIO or MIS manager.

Personnel costs. This continues to be the largest controllable element in most budgets. It is also the most sensitive area in which to reduce costs without harming morale or the company's recovery prospects. It must be tackled, but with some guidelines and priorities in mind.

First, suspend all planned staff additions, including replacements for previously filled positions that have become vacant. Immediately cut back on staff-related costs, possibly including travel, training seminars, etc. These serve not only to reduce costs but they also reinforce the message of cost-control consciousness that you are trying to promote. Exception: training directly related to developing new cost-control methods.

Then review the performance of existing staff and use this opportunity to lay off or terminate the sub-standard performers. Perhaps their performance was not bad enough to discharge them in normal times, but these are not normal times, and everyone recognizes that – especially if your staff awareness program is in place. This provides an opportunity to improve productivity.

Next, the major time-consuming assignments a staff is performing on a daily basis should be looked at. The impact on the company's performance, if each assignment was not done at all for four to six months, should be determined. If its absence can be tolerated, *stop doing it*. It is surprising how many tasks will not need to be reinitiated after that time, because they were based more on habit than need. At the least, the demands on your remaining staff resources during the most difficult period ahead have been reduced.

What is remaining, in terms of staff and workload, should be reviewed and redistributed as necessary, reorienting the organization structure if warranted. Here is an opportunity for investing in fruitful areas. At this point, selective hiring to address high-priority functions that were unassignable can be considered. The staff should now be more productive and the workload more relevant. If cost-control objectives have been communicated downward, employees should know that too. The staff should be more willing to take on these more important tasks in exchange for the ones that were discontinued. Finally, carefully selected promotion and salary increases in return for substantial expansion of responsibility conveys the recognition that so often brings out the best in the top employees. As you can see, regular communication of progress to your employees is critical to this process.

Facilities services. Not only does a cutback require some allocation of time to a cost-control program, but it can also serve as an opportunity to improve the quality of facilities services. Suppliers of a variety of support services who are hungry for business will frequently provide better quality service for the same or less cost than is now being paid simply by opening the service up to competition.

Examples of areas that have been improved at times like this include security guard services and monitored alarm systems. One company unknowingly paid monthly maintenance on a burglar alarm system that hadn't been connected in years. Such services are frequently overlooked because their presence is taken for granted. The key phrase is awareness of opportunity. While a company's normal practice may be to hire temporary help for secretarial and clerical staff on vacation, opportunities exist for doubling coverage and postponing certain non-critical tasks. Frequently, the inconvenience is minor and the vacationer can usually catch up in much less time and net cost than the temporary staff person who is unfamiliar with company procedures.

In dealing with requests for support services, learn to make distinctions between "need" and "nice to have," even if exception to normal company policy is necessary. Most company policies were written in better times, and provisions for trimming the excess were not contemplated. You've got to take the initiative here.

Purchasing. Whether part of a formal procurement system or not, purchasing practices are often the key to significant cost savings. The person controlling the purchasing department should consider establishing an incentive program tied to cost reductions in controllable areas. Such an approach can easily pay for itself many times over. If a purchasing area can be defined where quantity needs are reasonably definable and prices are not subject to uncontrollable fluctuations, it's possible for the company to set goals for cost reduction with bonuses attached to attainment.

The manager who tries this should be sure to set some parameters to prevent overzealous purchasing of a two-year supply to get one more price break. As a general rule, any sole supplier whose business hasn't been rebid in several years is probably overdue for it and may be causing the company lost savings in addition to less attentive service levels.

Closing thoughts. Neither cost control nor productivity can be accomplished meaningfully in an overnight program to save money. Both take time, hard work and persistence in good times and bad. The payoff is the potential for strong and immediate improvement in profits (or reduced losses), a way of managing all resources more professionally and more productively, and a permanent improvement in how an organization deals with hard times.