

Successful Cost Reduction

ADVISORY

Whilst companies should be focussed on long-term strategies for their business, there are short term steps that could help see them through this time of upheaval.

Cost reduction does not top the boardroom agenda when times are good. But, as conditions quickly tighten, companies will be looking towards rapid cost reduction to deliver fast, sustainable cost reductions to improve operational performance and increase stakeholder confidence.

Kenny McKay, who leads KPMG LLP's Cost Reduction service nationally, gives his 'Top Tips' for maximising the benefits from Cost Reduction programmes:

1) To succeed, cost reduction programmes need to be aligned with the company's strategic goals.

If they are not, the commitment and endorsement of senior stakeholders won't be secured and key opportunities could be missed. If the board's principal strategy is to grow sales through expansion in the Far East, a proposal to close the new Manila office is not likely to be well received.

2) A targeted and focused approach is key.

Identify and tackle material, controllable and poorly controlled costs first. Don't get side tracked into other areas. I recently saw a management team spend a significant amount of time debating how they might reduce their property rental costs despite the fact that the relevant lease didn't include an exercisable break clause and included upward only rent reviews. Whilst a material cost, in this case the rent was effectively uncontrollable and the time would have been better spent looking at other, controllable, material cost areas.

3) Cost Reduction programmes are resource hungry.

Ensure that programmes have appropriate, dedicated resource allocated to them in order to prevent under delivery and 'initiative fatigue'.

We regularly see in-house cost reduction programmes under deliver due to staff being pulled back to the 'day job'.

4) Costs are driven by both unit costs and volumes used.

Both elements need to be addressed. Be sure that any price cuts achieved from suppliers are not offset by volume or quality changes. A management team I worked with recently had negotiated a five percent price reduction from their facilities management provider. However, it became clear that the new contract also included more 'flexible' job approval and sign off processes which enabled the provider to increase the volume of work carried out and more than offset the price reduction.

5) Successful Cost Reduction invariably requires behavioural change. This requires communication with, and the proactive involvement of, management teams and staff. Cost savings forced upon staff rarely deliver the benefits they could and often result in good quality 'initiatives from the floor' not being captured.

6) Identified savings are often not secured. Make sure that any cost savings are properly documented and don't become absorbed by other areas of spend. I have seen a duplicate order for £25,000 of printers cancelled, only to be spent the following day on an unnecessary computer server upgrade.

7) Don't be afraid to bring in specialists for technical areas. A tax or property review will normally identify additional savings that may have been missed by management. Further, professional firms will often work on a contingent or success fee basis for such projects.

8) Cost Reduction programmes are often emotive. Where management teams are split, an objective assessment of cost saving opportunities can help build consensus and increase the chances of getting initiatives to stick.

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Designed and produced by KPMG LLP (UK)'s Design Services

Publication name: Cost Reduction Article amended

Publication number: RRD-133106

Publication date: March 2009