9 Tips For Surviving In Tough Times

Getting though the recession requires businesses to focus on costs, writes Ernest Glad...

When the economy is good, few businesses concern themselves with cost cutting or cost management, but when the tide turns, costs become the major focus.

The problem is most organizations then do not know where to start and may do more harm than good – cutting capacity, capability and often create so much instability that the business falters.

So how should cost cutting be done effectively?

1. Identify Poor Performers

Most organisations deal with a large number of products and customers and that is where to start: focus on those that are costing money (or destroying value). Cull them, re-price them, change the service levels, change the marketing or the distribution. Whatever it takes, try not to have loss-making products or customers.

The problem is that most organisations do not know their profitable from their unprofitable products or customers. A good costing or customer profitability system will immediately show these up and offer plenty of opportunities to rectify the situation.

2. Identify Expensive Processes

Review the cost of performing activities such as placing orders, servicing customer complaints, delivering products, and determine your cost-per-unit of doing the work. Benchmark this against previous periods (costs tend to creep up) or against other organisations and restructure activities to bring costs down. Identify non-value-adding activities and cull these. Most activity-based costing systems facilitate this.

3. Identify Low Productivity

Low productivity eats into profits. Review staff, branch and business unit outputs. Get rid of staffs that do not perform – they may drag your business down if you keep them too long. Question whether some jobs should be done at all.

4. Identify Capacity Waste

As outputs fall, capacity waste increases. Many organizations are locked into high fixed costs structures due to leases, long term contracts and prior commitments. Calculate the cost of capacity waste and consider bringing in new business at a lower price – it may be more economical than you think!

Obviously this requires good insight into fixed and variable cost structures and some simple models may need to be run to determine product costs at different capacity levels. Consider selling unnecessary assets, or assets that cannot be used fully, and outsource this service. This may also conserve cash-flow.

5. Identify Quality Issues

Poor quality is a big hidden cost and may surface in the form of customer returns, low loyalty, expensive reverse logistics processes and rework. Start identifying the effects of poor quality and even spend money to improve quality. Remember the saying: "quality is free," it may be true for your business.

6. Review Distribution Channels

Supply chain costs are normally part of the costs below "the margin" and not subject to the same level of scrutiny as other direct costs. Calculate the supply chain costs per customer and determine you "cost-to-serve" all for customers – this will quickly point out expensive channels or even expensive customers.

7. Review Spending

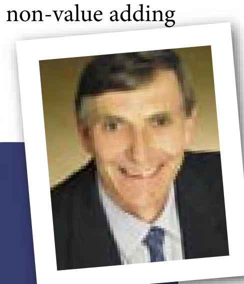
A good spend analysis must be done in these tight times. Understand what is bought from whom, in what quantities, and at what prices. Although this is basic business intelligence, few organisations gather this information. Renegotiate contracts, find cheaper suppliers, and cancel unnecessary spending.

8. Consider Outsourcing

Consider outsourcing some non-core activities such as transport or warehousing, and even call centre operations. This may change a high fixed cost structure into a variable cost and make it easier to control outputs. But do an impact analysis before making decisions.

9. Avoid Meaningless Cuts

Importantly, the message here is not about cutting staff, or advertising, or cancelling the water cooler, or other meaningless cost cutting exercises. It is about taking out non-value adding activities and restructuring the business around areas where profits can be made. i



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