



Checkmate News

Winning Approaches for Cost and Resource Productivity

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In this issue of CheckMate we are focusing on the key survival skill in business today... cost reduction. We are offering our readers some important tips that could well make a significant difference in whether or not today's companies successfully emerge from the recession.

First, any cost reduction activity is important and results immediately drop directly to the bottom line. So such programs should be maximized and completed quickly in most companies... not just prioritized and completed in sequence as resources and time permit, which is often the case in many companies.. Being too busy to save money makes no sense! Get the resources and skills necessary to complete as many cost reduction projects as possible in the next few months. Paladin Associates can provide additional bandwidth to complete projects quickly.

Secondly, we offer a number of hard-earned tips that executives should be considering as they supervise cost reduction programs in their companies.

We continue to wish everyone the best of luck in weathering these difficult times, and offer our assistance and expertise wherever we can help.

Best Regards,

Donald J. Hoepfner, Executive Partner
djhoepfner@paladinassociatesinc.com

Robert S. Matthews, Executive Partner
rsmathews@paladinassociatesinc.com

Don't Just PRIORITIZE Savings; MAXIMIZE them.

Patrick J. Horgan, Partner, Paladin Associates Inc.

In a recession, improving profitability through revenue growth becomes much harder, if not impossible. In most markets, there are simply fewer buyers, buying less. So the best way to improve profitability is through cost reduction. In fact, in a recession, cost reduction is an essential survival skill for most companies.

Nonetheless, Paladin feels that many companies are still not approaching cost-reduction programs aggressively enough. They frequently don't have enough experienced resources applied to such programs. So they often PRIORITIZE a few cost reduction projects. They often take the position that they

can only do so much with available resources, so they want to work on items with the best payback. Usually, such prioritization makes good business sense; it is often advisable to identify key opportunities and focus on them, rather than getting bogged down with too many objectives.

But this is not necessarily true when it comes to cost reduction. For most companies, there are very few, if any, issues that are more important. Cost reduction savings drop to the bottom line immediately. The more you get and the faster you get it, the more profitable you become and the more flexibility you have in operations and other functions. It makes no sense to be too busy to reduce costs!!

So companies should be trying to MAXIMIZE their savings. Rather than trying to figure out what cost projects they can tackle with current resources, leaving many unaddressed, they should be trying to figure out how to marshal the additional resources to go after all the savings they can... as fast as they can.

Companies should consider redeploying resources or creating cost reduction task forces and identifying company-wide cost reduction leadership. And they should consider seeking outside help to provide required skills and resources to attack all spend categories. External cost reduction consultants can provide additional analysis, expertise, objectivity, and bandwidth without permanently expanding payroll or benefits. They can help a company dig out and IMPLEMENT *all* the available savings FAST, instead of just *some* savings, slow. And the cash flow savings from completing more projects faster can more than pay the fees for the temporary 'hired help'. And paying 'performance fees' rather than fixed or daily fees, ensures that fees paid are directly proportional to savings realized which ensures a healthy ROI and reduces the company's risk.

Does your company have people who are too busy to save? If so, that needs fixing! ■

What Every Executive Should Know About Cost-Reduction

Patrick J. Horgan, Partner, Paladin Associates Inc.

We have pointed out several times in this Newsletter the critical importance of cost reduction... particularly in these times... and the imperative to do it properly. Cost reduction is not an optional exercise, but a survival requirement for most companies. Nonetheless we see many companies who are not aggressively reducing costs, or who are just whacking away at it without experience or appropriate resources. And most companies have many managers, even top executives, who have never done this before.

Paladin's associates have been cost-reducing in good times and bad, continuously, for over 30 years. We know what works and what doesn't. Here are some key thoughts distilled from many careers-worth of effective cost reduction:

Costs Are Everywhere

It seems to be a law of nature that organizations tend to generate waste, and the larger they get, the more bureaucracy, redundancy, and waste they generate. This is a never-ending phenomenon. It is probably also a truism that EVERY company can significantly reduce costs and become more efficient. One of the things that GE learned in the '80s and '90s was that unnecessary costs lurk everywhere, in

every function, and need to be constantly and aggressively attacked on a continuing basis. There should be no business functions and no areas that escape attention.

Each Function is Different

Reducing costs is different in each business function... a one-size-fits-all approach is doomed from the start. Financial people are about as good at cost-reducing Sales as Sales people are at Accounting. A good balance of cost-reduction methodology and experience, and functional expertise is required to do it right.

Target Areas

Purchased Goods and Services – the company's Supply Chain – is always a target-rich environment for cost reduction, particularly in recessionary times... purchases and prices should be continuously renegotiated for key expense areas such as raw materials, office supplies, transportation, travel & living, energy. Often indirect expenses escape attention because individually they are not significant... but in aggregate they can represent a lot of money, and they are typically under-managed and ripe for competition and reduction.

Organization Structure – "*Cost Has Feet*" is an old GE expression, and it's true. One of the key ways companies can reduce costs is to rationalize their manpower... over time, in every organization, inefficiencies tend to develop. It takes rigorous discipline and periodic if not continuous effort to review the appropriate level of manpower and skill sets. Companies should be striving to minimize organizational layers, maximize managerial spans of control, eliminating redundancies, clearing out non-performers, and generally right-sizing at all times. Frankly, many executives do not even like to think about these issues let alone address them... and often times they are done in an unprofessional and suboptimal way. But this work is essential to long-term corporate health.

Marketing & Sales is an area that frequently escapes professional cost management... often top executives fear letting the bean counters frustrate the creative types, perhaps shutting down the "growth engine", or angering customers. But this is also an area where LOTS of money gets spent - often very inefficiently. In reality, Marketing & Sales usually can and always should be effectively cost-reduced AND improved simultaneously. Often, Marketing & Sales Management personnel are NOT experienced in cost-reduction. They may need help. Strategic Misalignment can seriously waste money. Media Efficiency is critical. Sales Performance is the measure of growth and sales productivity, yet most companies have a high percentage of sales people under quota. Sales Compensation is almost always an area of controversy and waste. Sales Expenses are notoriously difficult to reign in. Customer Service issues can cost a company more than just money!

IT & Telecom are also notoriously high-cost areas that are often difficult to forecast and cost reduce – and another area that top management is frequently shy about tackling... particularly if top management is financially, but not technically-oriented. Today's IT environment must provide efficient technology and scalable infrastructure ... but at an affordable cost. Most IT and Telecom professionals are very technically oriented and can 'make magic happen' with equipment and networks, but some lack competitive pricing knowledge or the skills to obtain good prices for ever changing technology. Telecom expense management requires regular supplier benchmarking and/or competition, using the correct Carrier, selecting the correct Plan, and regularly reviewing Invoicing for errors.

Transportation costs is an area often managed by Logistics specialists who know how to move items from A to B on time and without damage, but who may lack the knowledge and skills to obtain truly competitive rates from Carriers.

Manufacturing is a high cost area that requires continuous process review and possible reengineering, including consideration of Outsourcing and even Off-Shore Outsourcing.

Human Resources is another high-expense area where non-financial HR personnel often make large financial decisions without rigorous procurement procedures. Significant items like Insurance, Worker's Comp, Benefits, Health & Pharmacy Benefits, Regulatory Compliance, and Temporary Workers can have a major financial impact on company performance, and can typically be competed and cost-reduced substantially.

Cost Reduction Should Improve Operations, Not Devastate Them

A significant lesson from GE's Jack Welch years was that effective cost reduction shouldn't disable a company... on the contrary it should enable the company. It should revise, update, simplify and renew a company. It should MOTIVATE a company. It converts waste into productive investment, and it keeps people on their toes, and in the game. A culture of Continuous Improvement, Process Reviews, Simplification, and Cost Reduction is a good thing... a Darwinian survival of the fittest thing that definitely works over time. But in the absence of a mature "Cost Culture", these activities are still important... we would argue they are essential... and there is no time like the present to get started or to accelerate.

Not Everyone Will be On Board

Many executives do not understand that not everyone in their company sees cost-reduction as a good thing. Not everyone will work to identify and address unnecessary costs. Not everyone can even RECOGNIZE unnecessary costs. Many employees, even many managers and executives, are just not interested in cost reduction. One often hears that they are "too busy" to work on cost-reduction projects. (This is almost too silly to even discuss.) It's like the ineffective manager who is too slammed to fill an open position for an assistant ... talk about having the cart before the horse!

Frankly, many corporate managers are involved in hierarchical "power trips" or politics. Their culture may be inadvertently providing status for large staffs, large budgets, or large egos ... such that cost-reduction seems contradictory to self-interest.

Occasionally, one will see "pocket vetoes", where executives profess interest in cost-reduction measures, but do not pursue them aggressively, or even discourage them in practice. This is particularly dangerous in that others may be misled into thinking something is happening, when in reality it is not!

Fear is also a major enemy of cost reduction. Many people fear that cost reduction activities will personally affect them negatively ... they fear what in depth independent analysis may turn up; they fear being blamed and criticized; they fear organizational impact; they fear possibly being laid-off; they fear change in general.

But perhaps the biggest obstacle to cost-reduction is simply inaction. One thing is for sure: It won't happen by itself!

Low Hanging Fruit First

So, if you don't already have an aggressive cost-reduction program in place, what are the best next steps? Rome wasn't built in a day, but you have to start somewhere. Of course, the best way is to look for low hanging fruit... do what is easiest, fastest, least expensive, and/or most rewarding first. Then expand. Don't quit until you have gone over everything. Then start again. By the time you come back around for round two, there will likely be another whole generation of bureaucracy and waste that has sprung up again.

Start in Procurement

Paladin generally recommends starting this process by establishing a Strategic Sourcing Initiative. Start with Spend Analytics that analyzes Accounts Payable and Procurement records to classify all purchased goods and services into Commodity or Spend Categories. Once classified, Category Management Teams should analyze the spend and develop appropriate Sourcing Projects to reduce the purchase prices while maintaining or improving quality and service from Suppliers. Cost reducing purchased goods and services typically means that most reductions come from suppliers, thus they have the least initial internal impact or disruption. Such reductions are generally not controversial to others in your company... (However, they might be if it means shaking up an entrenched "sacred cow"; but that can be effectively managed and is usually a good thing.) Procurement-related savings can usually be implemented relatively quickly, with straightforward methodologies. Such a program allows your company to learn and build momentum, organizational skill & confidence. Then move on to other areas that may be somewhat more complicated.

Stay the Course

Cost reduction programs must typically be driven, at least initially. They do not come naturally to most corporate citizens, not everyone is on board, and many people do not have the necessary experience. Plus there may be some tough calls along the way. Determination and continuous effort will pay off, however, and eventually the ship will turn and profitability will improve. I have personally asked many organizations that have been through very difficult cost-reduction programs and down-sizings if they would want to go back to the way things "used to be done before". The answer is always "no".

Get Professional Help

Cost-reduction is a specialized skill. It does not come naturally to most people. Experience counts in this game, and, perhaps most importantly, it saves time and insures that you realize the cost reduction earlier. In most cases, most employees and most managers have very little experience in a continuous-improvement/ cost-reduction environment. They need help and support to change the way they think and behave. And remember, not everyone will be on board! Moreover, external objectivity and impartiality is extremely valuable in this area, particularly in the early stages. Some cost-reduction consultants, such as Paladin Associates will work for a percentage of savings... which means, if they don't help you find actual savings, you pay them no fees! Such a 'performance fee' arrangement provides a high ROI and reduces the risk of using such 'hired help'!

Be Involved

Another old GE saying: "What gets reviewed gets managed: what gets managed gets done." Cost reduction projects should be high on the executive agenda... they should be regularly and formally reviewed by TOP management. People should be rewarded and perhaps formally compensated for significant cost reduction. People should not be blamed for finding waste, even in their own areas.

The company that makes cost-reduction a center-piece for management focus is a competitive company, and a more successful company. ■

Do you believe that your organization has a cost reduction opportunity? If so, don't hesitate to contact us. In less than a few weeks, Paladin can provide a comprehensive assessment of the types of savings opportunities that your company might be missing out on. Since we are willing to work on either a contingency or gain-share basis, there is no cost or risk to your organization. Contact us today:

Donald J. Hoepfner
Paladin Associates
Risk Free Cost Reductions
Phone: 770-853-9940; Fax: 770-448-9619
E-Mail: DJHoepfner@PaladinAssociatesInc.com
Website: www.PaladinAssociatesInc.com

About ■ Paladin Associates, Inc.

With over 600 years of collective financial and operating experience, Paladin Associates executives bring a unique perspective to productivity and profitability improvement. Founded by former GE executives with extensive experience working with middle market organizations, Paladin delivers hard dollar cost savings to companies of all sizes. Clients have nothing to lose in our relationships— if a company fails to realize savings or value creation, they pay nothing. In addition to providing world-class consulting and advisory capabilities in the Strategic Sourcing and eSourcing areas, Paladin also offers services in Telecommunications Sourcing, Financial Management, Marketing & Sales Productivity, IT Management, HR Productivity, Manufacturing Efficiency, Energy and Utilities Management, Mergers & Acquisitions Support, and Interim C-level Management. For more complete information visit us on the web: www.PaladinAssociatesInc.com

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