Enterprise Cost Reduction
A template for crafting a Cost Reduction Program
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Here’s a refresher on the basic structure for getting initiatives of this type done:

**Re-examine Strategy**

Before designing a cost reduction programme, make sure your overall business strategy is still relevant within the current environment. Traditionally, a company bases its strategy on its best prediction of what events could affect its business, and when. But in a fast-changing business environment, you need an approach that doesn't require you to pretend to have a clear picture of the future. One way to do this is to define a range of scenarios of what the future may hold. Then, develop the best strategy to respond to each scenario. Initiatives that make sense only for certain scenarios become your “contingent strategies.”

Core initiatives will go forward regardless. As for contingent initiatives, be prepared to carry them out if their scenarios become reality. For example, you might forge a strategic alliance with a Chinese company to give you the option to expand your presence in the Chinese market if conditions warrant it.

Once you formulate the core and contingent strategies, your cost reduction program will have to be just as flexible.

**Establish the Cost Base**

A cost reduction programme is only as good as the data it’s based on. You need detailed cost data to identify which factors are driving business costs, as well as to justify cost reductions. The next step, therefore, is to figure your current cost baseline. The cost baseline indicates the costs you'd incur if you took on no new cost reduction initiatives. With a cost baseline, you can measure the effect of your cost reduction programme by comparing actual costs to the expenses that would have occurred without it.

Start by updating the current years budget to reflect any new efforts, such as staff changes or the introduction of new products. This is a good time to cancel anything that can't be resourced or no longer supports your strategy. Next, analyse your costs and headcount by business line, function, and location. Clearly state any rules for allocating centralised functions or shared services to individual lines of business.

While you're doing this, try to figure out how your business came to have the cost structure it does. It probably is a product of many leadership regimes and acquisitions. Understanding the history can help you identify promising areas for cost reduction. For example, a large U.S. commercial bank was able to reduce mortgage processing costs by 30 percent once it changed a handful of archaic rules that were no longer relevant.

**Compare performance with best practices**

Assess how each areas performance compares to that of best-practice organisations. If there's a gap, determine how much you'd need to improve in order to close it. At the end of this project, you should have a decent sized list of potential cost reduction initiatives.
Set Cost Reduction Targets
As you set your cost reduction goals, consider what you can accomplish and also what investors expect. There’s no one way to establish these targets. Try looking at them from several perspectives, such as:

• **Competitive View**
  Tally how much you’d need to save in order to become as efficient as the top performers in your industry. Knowing what your peers have achieved can give you an idea of what you can achieve.

• **Operational View**
  Look at each line of business to identify potential cost savings, and then aggregate them across the company.

• **Ease of Implementation**
  How easy is the initiative to do? Are there technical or cultural obstacles?

• **Risk**
  How significant are any implementation risks?

• **Contribution to Strategy**
  How will the initiative affect your strategic goals? Impact on Business Continuity

• **Investor View**
  See how much cost cutting you’d need to support your current share price, assuming revenues stay flat. If you look at cost reduction from all three perspectives, you can triangulate them to set a cost reduction target that’s both achievable and acceptable to investors.

Identify Potential Initiatives
Once you’ve set the strategy, it’s time to decide what action you can take. Here are four ways to do that:

1. **Ask managers and employees what they think.** Conduct interviews, focus groups and workshops at all levels to gather ideas for improved efficiencies.

2. **Find out where the big cost drivers are.** Find out which functions, lines of business and processes have the highest costs for particular expenses, and where activity is.

3. **Compare costs across the organisation.** Compare cost centers to see where costs are high relative to revenues. Compare costs for business units, product groups, delivery channels, geographic locations and customer segments. This way, you can uncover staff and expense discrepancies, although you should take into account the specific

4. **You can also identify manual processes that might be automated.** Initiatives that are common among all the scenarios – the ones that you’ll take on no matter what – constitute your “core strategy”. Investments to improve customer service, for example, are something many companies might choose as part of their core strategy.
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