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Selling, General & Administration (SG&A)

Cost Reduction Focus

Re-engineer Inefficient Processes and
Eliminate Unnecessary Work

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Another major component of building a scalable SG&A base is to eliminate processes that don't add value and streamline those that do as much as possible. The following questions can help determine whether an activity adds value:

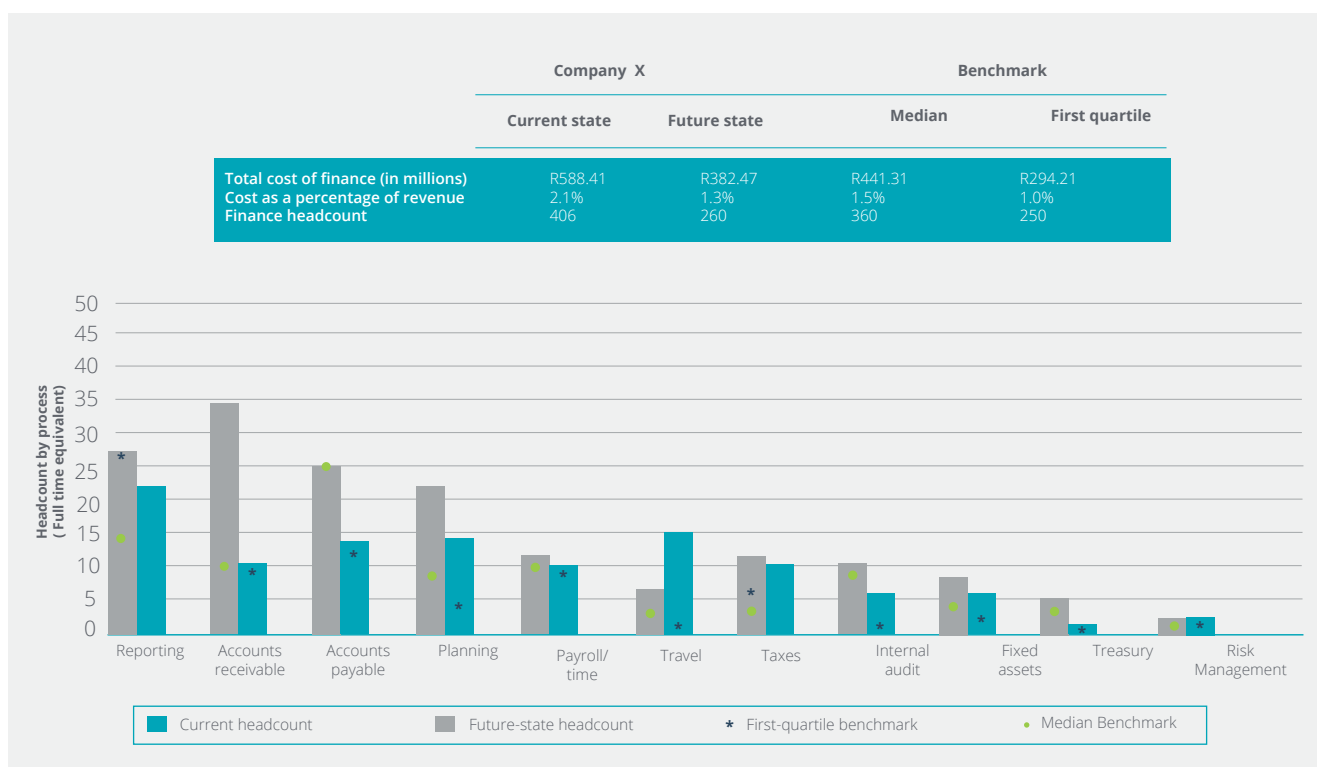
- Could this activity be eliminated if some prior activity were done differently?
- Could this activity be eliminated without compromising the quality of our product or service?
- Is this activity required by a customer, and will that customer pay for it?

Re-engineering processes is not only about reducing costs, but reducing the time it takes to perform, improving service delivery and increasing quality. When all these components are in balance, shareholder value results as does customer satisfaction. Work that cannot be eliminated may be a candidate for re-engineering. For example, technology offers many opportunities for streamlining or even replacing labor-intensive activities.

Identifying Opportunities and Areas of Focus Through Process Analysis and Benchmarks

Benchmarking can provide valuable insights into any re-engineering effort, especially when the results show there's noticeable room for improvement. For example, when a technology company compared its finance organisation with median and top-quartile benchmarks, it found that its total finance costs ran at R40 million but that the median benchmark's costs were R 30 million- 1.5% of revenue as opposed to 2.1%.

Process Analysis and Benchmarking: Identifying Opportunities and Areas of Focus



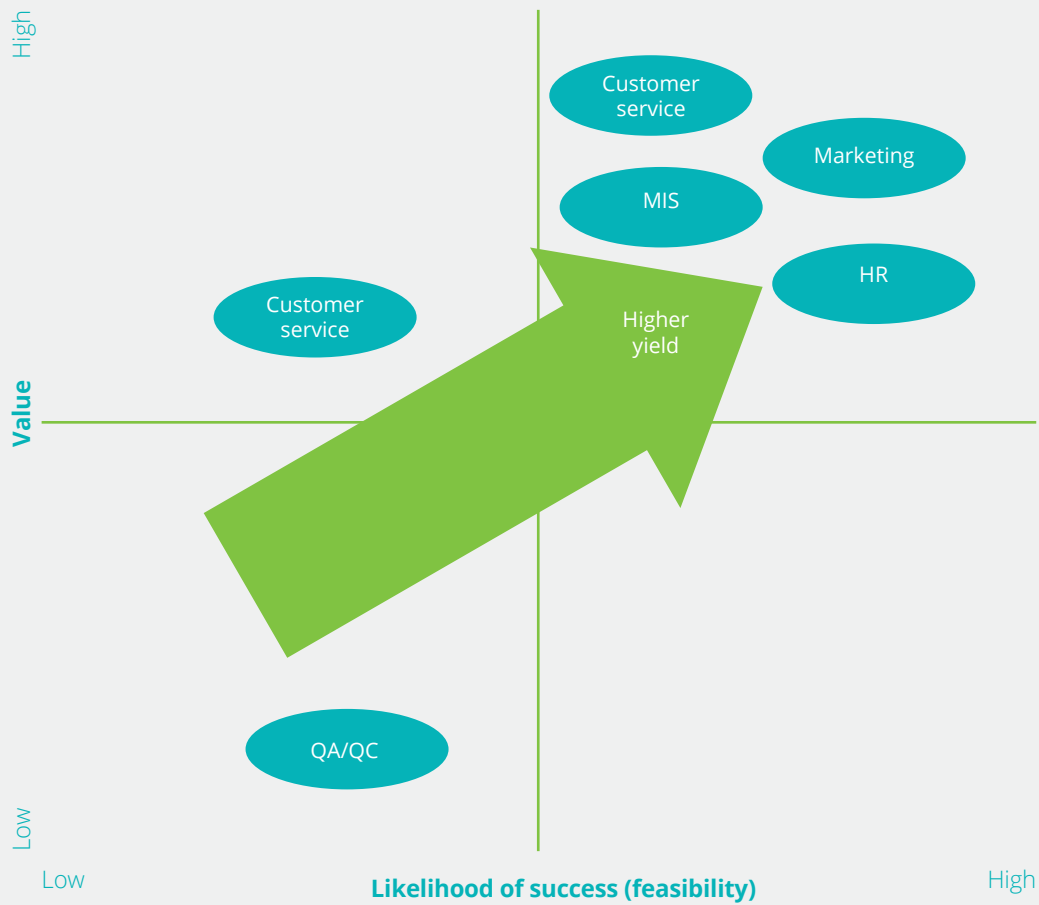
Analysing Processes for Cost-Reduction Value and Feasibility

Because not all areas can be re-engineered, we suggest that companies prioritise them based on two dimensions: value and likelihood of success (feasibility). Value is the ability to meet the objectives, both quantitative and qualitative, whereas likelihood of success includes ease of implementation and ability to overcome organisational and change management issues. The processes to tackle first are the ones that fall into the high-value/highest likelihood- of-success portion of the matrix.

As shown in the process prioritisation matrix below, the company's finance, Human relations, Management Information System and marketing areas fell into the high value/ highest-success quadrant. On the opposite side was Quality Assurance or Quality Control because headcount was so low that it was not a good candidate for immediate process re-engineering. Following a detailed process analysis and proper planning, processes and functions were re-engineered and a supporting process structure was defined.

A Process Prioritisation Matrix for a Consumer Business Company Assists in Evaluating Competing Criteria

Then processes and functions can be re-engineered and a supporting process structure defined



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