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Selling, General & Administration (SG&A) Cost Reduction Focus

A Systematic Approach: The Opportunity
Assessment and the Business Case
for Improvements

Sustainable Enterprise Cost Reduction

What's their secret?

Top performers focus on three primary objectives:

- Reassigning staff from transactional to more value-added work, such as planning, decision support and business performance management
- Lowering indirect expenses, such as procurement and travel, companywide
- Creating a flexible cost structure

Top performers focus across all SG&A functions and business units, and not just functions like HR and finance, because making improvements ad hoc or in silos doesn't make a broad enough impact. They've also determined where key processes add value. Multiple improvement levers that match the business strategy can be leveraged across a set of SG&A functions, often including shared services centers, process reengineering, strategic sourcing, controllable expense reductions, ERP implementations, and quality and process management.

How can you follow the top performers' lead to create a lean yet flexible SG&A cost structure?

In our experience, there are six steps that consistently lead to lasting business results:

01

Use a systematic approach for improvement

04

Eliminate unnecessary work

02

Look to the company's business model and corporate strategy for direction

05

Focus aggressively on controllable expenses

03

Distribute work based on the type of business value it generates

06

Create the environment and structure necessary to implement change through a comprehensive communications and change leadership process

A Systematic Approach: The Opportunity Assessment and the Business Case for Improvements

No enterprise cost reduction or enterprise transformation effort is complete without some consideration of selling, general, and administrative (SG&A) expenses. Because SG&A touches every part of the enterprise, finding a way to lower SG&A costs goes a long way toward cutting overall spend. A number of high-performing companies in recent years have taken SG&A cost control to heart, consistently decreasing SG&A as a percentage of revenue at an average rate of 1% per year over the past decade. These companies know that SG&A is important. They know that scalability of SG&A is important. They know that the sustainability of SG&A is important. And they know that the approach yields significant cost reductions. Depending on their dedication to change, executives can decrease SG&A costs up to 40%.

Companies often tackle SG&A cost reductions by implementing across-the-board cuts without fully understanding the potential impact on their business. To attain growth, cost reductions and restructuring must be based on an opportunity assessment and a high-level business case for savings and improvement opportunities. To reduce costs systematically, first establish a baseline of performance – the company's starting point – to determine the size of the improvement opportunity and to measure whether improvements are actually realised.

Next, identify opportunities for improvement by scrutinising how key work processes deliver value and how well leading practices are currently employed. Once you understand where you are and where you want to go, define specific short- and long-term improvement initiatives, including changes in organisation, process and technology. Finally, develop an implementation plan to institute the changes, with clear accountabilities and measures of success.

A Systematic Approach to SG&A



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