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Winning Approaches for Cost and Resource Productivity

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Cost Reduction is NOT a No-Brainer

Cost-Reduction Key in Recession

In recessionary times, cost control is not optional – it's a core survival skill. With revenues under pressure, companies must reduce costs to maintain profitability. Most companies have cost-reduction initiatives in such times; those that don't may not be around when things improve.

NOT a No-Brainer

But effective cost-reduction is not as simple as it may appear. Many executives today have not actually managed through an economic downturn - they don't have the personal experience needed to significantly reduce costs in a rapidly deteriorating market environment. Because of this, cost reduction is definitely NOT a no-brainer. If they're improperly conceived, communicated, or implemented, cost-reduction programs have the potential to fail, stifle growth, adversely impact quality and customer satisfaction, damage morale, and perhaps even accelerate a death spiral.

Experience Invaluable

Paladin Associates has extensive cost-reduction experience, including decades of training under Jack Welch at GE, arguably the world champion of corporate cost-reduction. They have managed through many business cycles and learned the hard way what works and what doesn't - observing cost-reduction programs save businesses and successfully position them for the future, as well as mismanaged efforts that failed.

Some Lessons Learned

A cost-sensitive corporate culture is helpful but not absolutely necessary to effectively reduce costs. But experience, planning, good communication, and change management are. Executives must understand that not all employees are enthusiastic about cost control; many don't really care at all, or will even fear or oppose such measures.

Different functions often require different approaches to achieve cost-reductions without damaging performance. For example, Finance people are not ideally suited to cost-reduce Human Relations while Procurement people may not be well-suited to cost reduce Marketing & Sales. Specific functional experience and cost-reduction expertise are important to simultaneously reduce costs and improve functional performance.

In such cases, one size does not fit all!

In most companies, there is a hierarchy of cost-reduction opportunities, ranging from easy to identify "low-hanging fruit" to more complex, time-consuming, and perhaps even emotional process or organizational change. Companies new to cost control should consider tackling the easier projects first to gain experience, demonstrate success, and garner internal support.

How to Get Started

Paladin Associates typically recommends initiating cost-reduction programs in the Procurement arena. Often companies have under invested in procurement, leaving opportunity on the table. Generally, these savings come from extracting concessions from external suppliers, not from internal organization changes, downsizing, or other more difficult actions. Even companies that have done a good job procuring strategic "direct" material often do very little in attacking "indirect" costs like telecom, facilities, energy, transportation and freight, temporary employees, etc. These areas and others require specific expertise, and **Paladin Associates** can help with no-cost procurement assessments, while working for a percentage of savings realized. Translation: **no savings, no fees!**

Then, after realizing savings on purchased goods and services, a company can move on to more complex areas, depending on expenditure levels, complexity, risk, timing and cost. **Paladin** has experts in many functional areas in addition to Sourcing.

Get Started... But Do It Right!

A corporate culture of cost-sensitivity is an asset at any time, but cost-reduction is essential in tough times. Effective cost-reduction programs spell the difference between success and failure during downturns. But it is not intuitive and definitely NOT a no-brainer. This is clearly an area where experience matters and where even the most experienced managers should consider getting an outside opinion on the best course of action.

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