



Launching a Cost Reduction Program

**Building the burning
platform for change**

Performance Improvement:
cost reduction

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Building the burning platform for change

Cost reduction programs cause obvious, significant angst in an organisation. The uncertainty and ongoing distraction of such a program can drive an organisation to “seize-up” as it works through options and deploys changes that ultimately have a direct impact on individuals.

One critical stage to get right is the introduction of the program to the business, and the early phases of program launch. This article suggests some ways that organisations can increase the likelihood of success of this launch phase.

So – why are we doing this again?

Experience shows consistently that a clear story, backed by evidence and communicated by senior management, creates a strong foundation for a change program.

Management should invest time and effort up-front to clarify the need for a cost reduction effort, including a sound understanding of the existing cost base, the likely trends and major cost drivers in the business, the likely trajectory of revenues over the coming 2-3 years, and comparisons with other similar businesses.

Translating the rationale into an effective, clear message

Having the evidence is one thing – crafting an effective message for the frontline is another. The people that run the business on a day to day basis are highly wary of “management speak” and misleading terminology. They want an open understanding of what is happening in the business, and why, and they want to hear it from their boss.

What Managers Need To Know Before Starting a Cost Reduction Program

- What are the strategic drivers for the cost reduction effort?
- What does our existing cost base look like?
- Where is this headed? What are the trends?
- Where are revenues headed? What are the trends?
- What are the costs that are critical to revenue and/or service?
- How might external factors impact our performance?
- How does our cost performance today compare to other businesses?
- How does our profitability compare to other businesses?
- How sensitive is our cost trajectory to different factors?

Identifying project value in business cases

For example, a large scale Australian retailer was seeking to deploy a significant cost-reduction program over a period of 12 months. The business had clearly identified that the cost of doing business was significantly higher than its competitors, and that they would be punished by both shareholders and the broader marketplace as a result.

The CEO and Chairman got behind the program to better manage costs, particularly in a highly competitive, cost-driven environment.

A major early step was to have both the CEO and Chairman present to staff on the rationale for the program. They presented an effective and compelling case, and continued a good culture of open, honest dialogue.

They highlighted the reality that without change, the business would not prosper, but may indeed begin to shrink.

Fact-based evidence was used to illustrate the current situation facing the business, making real the challenge at hand. From that point forward, there was a noticeable increase in the buy-in across the staff involved in the project.

Using a blend of internal and external resources on the project

A critical ingredient in a successful cost reduction team is a group of change agents that are employees, and peers of the people that will need to adopt the changes.

These “change agents” bring a number of powerful benefits to the project.

- Firstly, they know the business and can quickly identify opportunities for improvement that may have been overlooked in the past.

- Secondly, they have the respect of their peers in the business, and will pave the way for improved communication and co-operation as a result
- Finally, they can take carriage of the delivery of the opportunities after they have been developed into a project.

In selecting this group, individuals who are willing to take on difficult assignments are at a premium – as are those who are open to interrogating “sacred cows” in the business.

Maintaining a high degree of ownership via these change agents can be the different between success and failure – identifying initiatives for change is challenging, but delivery is even tougher, and maintaining an effective implementation team is critical to success.

External consultants can still deliver value – by providing the internal team with approaches, project management support, benchmarks, and fresh ideas for the program.

Being clear about scope

Senior Executives can wield significant influence over the success of a major cost reduction program by carefully managing scope. This means thinking through the objectives of the program, and identifying specific work streams for the team to deliver.

Having a clear idea of the original areas of opportunity (including knowing where the larger costs are to attack and drive down) is a great starting point.

It might also be that some specific areas are off limits for the team – for example, recently commenced major projects, some areas of IT, or areas that contribute directly to revenue streams.

Some things to consider in deciding whether an area should be in or out of scope include:

- Does that work-stream conflict with pre-existing strategic priorities in the business?
- Do we have the people, resource, capability, and general horsepower to implement change in this area?

Communicating openly

As the cost-reduction effort builds, ongoing feedback to the rest of the organisation is critical.

This can take the form of a regular communication update, which maintains an open dialogue with staff, without speaking in more detail than is possible at any point in time.

In one recent example, a hospital network established a website to provide ongoing updates to staff and other key stakeholders on the progress of a major change initiative. There are any number of web/blog technologies available today that can be used to implement a change project of this nature.

Empowering the front line through an open dialogue

Listening to staff is an absolutely critical facet of any cost reduction program. Staff will have a broad range of concerns and equally, significant value to add by contributing directly to the set of cost reduction projects at hand.

In fact, the most successful cost reduction projects empower the frontline – allowing them to implement projects that will remove issues that might affect their ongoing efficiency, or indeed prevent them from providing the levels of customer service they desire.

Many senior managers fail to listen carefully to their staff. They often go straight to the perceived “low hanging fruit”, without engaging first with the most valuable asset in the business.

Our overall, broader approach to cost reduction

These thoughts provide a brief introduction only to some of the things to think about when launching a cost reduction program. The exhibit below shows SPP’s broader approach to cost reduction. Future articles (and updates to this note) will provide ongoing food for thought on the difficult issue of introduction, and running, a successful performance improvement project.

About SPP

Strategic Project Partners is a generalist, strategy consulting firm. We support General Managers on difficult strategic and operational challenges.

Established in 2005, SPP has delivered successful outcomes for a broad range of commercial and Government sector clients. As a result, we have strong relationships with many businesses, from Top 50 listed companies through to small enterprises.

When we deliver our projects, whether it's a strategic study or the implementation of large-scale change, we focus on:

- Strong project management
- Clarity of outcome
- An obsessive focus on project benefits
- Robust, fact based analysis
- Simple communication
- Bringing experience to bear

About the author



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Phil has a broad range of experience in general management consulting, as well as in Banking and Insurance. Phil started SPP with the aim of bringing good strategy and general management practice to businesses with a minimum of fuss, and maximum impact.



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Aaron has a Bachelor of Commerce from the University of Melbourne and joined the team at SPP as an analyst. Aaron has a particular interest in analytical modelling and has a qualification through the Chartered Financial Analyst program at CFA institute. He has worked with clients in the Financial, Biotechnology & Logistics Industries.

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