

Global Economic Downturn fact sheet

Cost management

Series 1 – Issue 1

As part of the Institute's ongoing efforts to provide members with guidance and information on key issues affecting the current business environment, the Institute have developed a practical factsheet series, which presents guidance for members written by members.

Are you managing costs?

If you can tick the following boxes, then you are a company that manages its costs well, or at least has the potential to do so.

- Dedicated ongoing time allocated to cost management
- Cost management culture from the Boardroom to the office floor
- Internal expertise in a broad range of cost areas
- Robust systems in place
- The will and resources are in place
- Market knowledge of a wide range of costs.

Trim the Fat Not the Staff

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Cost management and finding extra profit can mean the same thing if handled correctly. This is even more critical for companies facing the increasing cost of doing business in times of economic uncertainty.

In uncertain times managers and their financial staff normally turn to the big items to find savings. This usually includes reducing headcount, closing offices, cutting marketing budgets and moving to cheaper premises. Cost cutting does not necessarily mean using the 'Let's See if it Works School of Management' strategy of slash and burn.

Slash and burn and many other similar strategies ignore the 'smaller costs', such as telecommunications, insurance, recruitment, print, freight and travel. As a result, many companies are significantly overpaying on their products and services. Cost management consultants, Expense Reduction Analysts experience, from over 10,000 completed projects, is that overspending in these areas averages 20 per cent. Cutting these costs will lift profits, improve productivity and save jobs. The resulting savings significantly add to the bottom line when hundreds of thousands, or millions, of expenditure dollars are involved.

The reasons for this neglect are many and varied, they include cost management, time management and lack of support by colleagues and staff. An executive who chooses to undertake a cost management program alone and without support is going to find themselves out on a limb and needing all the leadership skills they can muster to succeed.

There are a number of ways for a cost management program to be conducted. The three most common are:

- > In house
- > Outsource
- > Combination of both.

For companies who can not tick all the boxes in the break out box, they usually choose an outsourcing approach. To do this there are a number of alternative strategies, including, employing skilled staff, working with suppliers or engaging a consultant.

Before a company embarks on any one of these strategies a cost benefit analysis is a useful exercise. A cost management exercise should not simply involve ticking the cost management program box. You first need to answer this question. Will the savings gained justify the costs involved in obtaining them?

Continued overleaf >

How to keep your costs under control

Companies can ensure that their costs are under control if they:

Do

- ✓ Develop a cost management culture
- ✓ Understand what you are buying
- ✓ Co-ordinate your spending
- ✓ Develop strong relations with your suppliers
- ✓ Challenge suppliers and introduce competitive tension
- ✓ Use a negotiator

Don't

- ✗ Make Cost Management the flavour of the month
- ✗ Be overconfident that your current practices are the best
- ✗ Be complacent
- ✗ Ignore continually comparing your performance against industry benchmarks and your competitors

Cutting costs? – Where do we start

Before embarking on any one outsourcing solution, you will avoid some costly mistakes by following these tips.

Specialist staff

If you choose to engage specialist staff:

1. Test their skill
2. Can they demonstrate results with companies of your size and industry?
3. Is there a synergy with your company?

Existing suppliers

Before embarking on working with existing suppliers examine in detail:

1. Will their self interest be more important than the interest they have in your company's profitability?
2. Is their willingness motivated by a survival instinct, a 'hold at any cost mentality'?
3. Is this the best solution for you?

Consultants

Calling in a consultant is often seen as the most expedient option, but it doesn't always reap the results that you are seeking. Ask any prospective consultant:

1. Can they provide demonstrated savings in working with companies of your size and industry?
2. Do they operate on a fee-for-service or a success fee?
3. Are they completely independent from suppliers?
4. Is the fee paid on delivery of a report or, when you implement the strategy and prove the savings?

Cost management tends to be forgotten in boom times and revived when the economy turns down. Good cost management should span all seasons and all companies. Ensure that your company is good for all seasons by instigating an ongoing cost management program today.

As one leading economist recently said, 'If all companies paid serious attention and less lip service to cost management, then we'd all be in better shape'.

For more information, guidance and tools on the global economic downturn refer to charteredaccountants.com.au/news_issues/global_economic_downturn

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