



Tackling the Covid-19 economic downturn through cost management

How cutting the right kinds of costs can have a positive impact on your business

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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

Cost management and protecting the bottom line can mean the same thing if handled correctly. This is even more true for companies facing loss of revenue in times of economic uncertainty.

However, we know costs don't fall in line with revenue.

In difficult times leaders and their financial team normally turn to the big items to find savings. This usually includes reducing headcount, closing offices, cutting marketing budgets, inventory and moving to cheaper premises, to name a few.

These types of large cost cuttings can often feel like a 'Let's See if it Works' School of Management strategy of 'slash and burn'. But it doesn't have to.

These strategies often ignore the 'smaller costs', such as telecommunications, insurance, IT, print, freight and cleaning and waste. As a result, many companies are significantly overpaying on products and services that tend to stay hidden or under the radar. What we have found over 25 years helping through 18,000 projects worldwide is that overspending in these areas is significant. In isolation they are small cost, in aggregation they may be 10% or even 20% of a company expenditure. Cutting these costs lifts profits, improve productivity and importantly, save jobs.

And the resulting savings significantly add to the bottom line when hundreds of thousands, or millions, of expenditure dollars are involved.

We have learnt the reasons for these missed opportunities 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.

So, how do businesses conduct a cost management program?

The three most common ways are:

- In house
- Outsource
- Combination of both.

For companies who can not tick all the boxes in the checklist, 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?

Checklist: Are you managing your 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.

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, do they have the category and industry knowledge?
- 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 said, 'If all companies paid serious attention and less lip service to cost management, then we'd all be in better shape'.

Your COVID-19 Resources hub

This CA ANZ dedicated hub is regularly updated to ensure members are equipped to navigate the serious long-term economic and business impacts from this pandemic, including the latest updates on available government packages, guides for your practice or business and support to maintain your mental health and wellbeing.

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