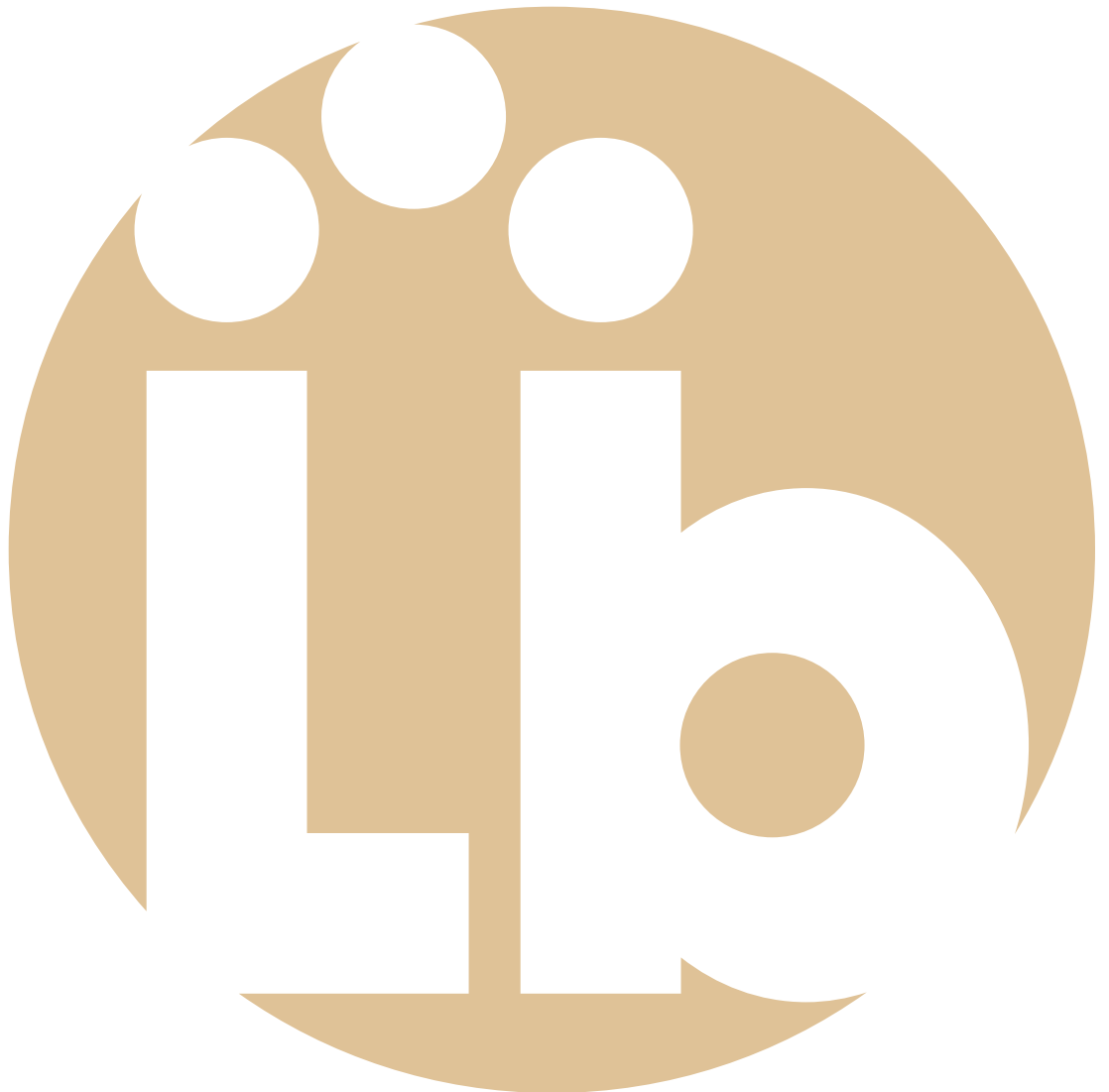




A Better Way to Cut Costs

by Robin Schofield



Executive Summary

Businesses and non-profits are looking hard at their costs as the current recession bites.

However, organizations are often imposing a blanket squeeze on budgets across all their activities—irrespective of a business unit's strategic importance, performance, or net contribution to cash flow.

This is a mistake.

Instead, business and non-profit leaders should seize the opportunity to radically reshape their business portfolios and get ready for tomorrow's challenges as well as better meet today's needs.

Linksbridge offers ideas for how to do this and five strategies for making change stick.

After all, it can be rare for boards and management teams to be focused on an urgent issue. Executives should take advantage.

Tough Times

The recession has battered businesses with steep falls in consumer demand, simultaneous pressure on margins, and drying up of credit at the same time as cash flow and payment terms are tightening.

Many non-profits are also hard hit as fundraising struggles to meet previous years' levels and economic hardship means demand for their services increases.

Not surprisingly, organizations are looking hard at how to cut costs to stay in business.

Some find themselves facing deeper problems where they have run deficits during the good times, expecting continuously improving economic conditions to make up these debts in the future.

Weak Response

In an attempt to reduce costs quickly, many organizations are imposing a blanket squeeze across all their business activities.

This is a relatively easy executive decision because it promises quick results, impacts every business unit broadly the same, and causes least immediate resistance from the management team and staff members because no one feels singled out.

Nevertheless, Linksbridge's experience is that blanket cost reductions usually disappoint.

Firstly, they rarely deliver required savings as every business unit can mount a campaign against its individual cuts, pointing to reasons why it should cut less.

Secondly, managers feel little responsibility for implementing reductions and may take the view—perhaps as they do with other management initiatives—that “this too shall pass”, if they hold out long enough.

Most importantly, however, organizations that carry out a blanket budget

squeeze are failing to consider the strategic importance, relative performance, and cash-generating qualities of their different areas of business activity.

A Better Way

Instead, organizations should critically examine which activities are central to the organization's future business or mission, and which activities are not.

They should look at which units are performing best and which units have greatest room for improvement.

Critically, when credit is in such short supply, they also need to look at which activities are net contributors of cash to the organization, and which draw on funds.

This analysis provides executives with a clear imperative, shown in Exhibit 1 (*below*), to:

- Manage their portfolio of activities for cash.
- Invest more resources in strategically important or cash-generating activities that are performing well.
- Redeploy higher performing resources from non-core to strategically more important or cash-generating activities.

- Take urgent steps to fix strategically important or cash-generating activities that are underperforming.
- Use the opportunity for change to cut or divest non-core and non-cash generating activities that are failing.

Depending on the organization, this can be done at the level of individual business units, products or activities. It is more important that the points of measurement are meaningful in the context of the company's strategy and actual operations than they align to the current organizational structure.

Importantly, however, segmenting the portfolio and implementing changes should not be a long process. Indeed, the faster executives can act, the more money the organization will save as cost reductions have a longer period to accrue. Swift action also reduces the risk that investors or a parent organization will take decision-making out of the executive team's hands.

Where data for decision making is lacking, the executive team should

Exhibit 1: Relative Importance and Performance of Business Activities

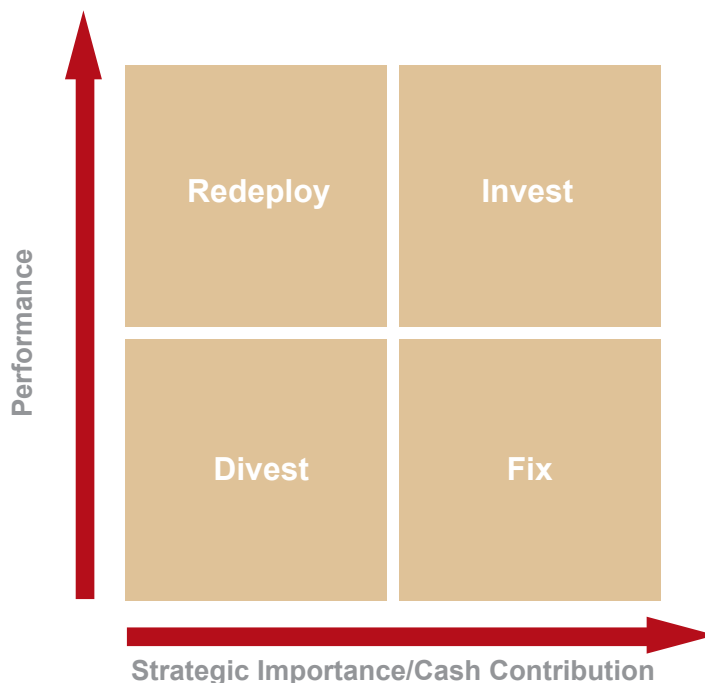
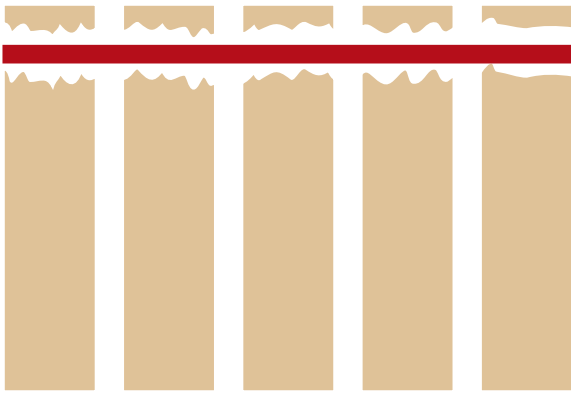
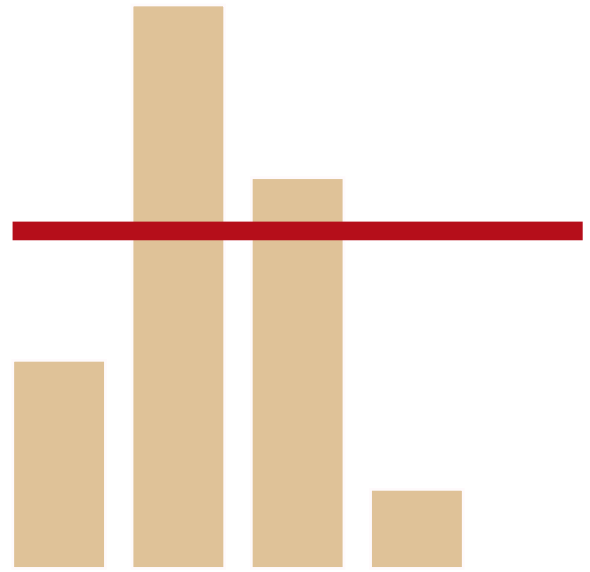


Exhibit 2: Two Approaches to Cost Cutting

A. Weaker Management Slices Across Business Units to Impose Cost Savings



B. Stronger Management Takes the Opportunity to Reshape the Organization for Higher Performance



carry out forced ranking rather than delay action. It should also make a note to invest at the earliest opportunity in performance measures that will allow it to have the necessary data available in the future.

Furthermore, organizations that see this recession as a restoring of the normal business cycle (with repeated periodic downturns in the future), will

schedule this kind of portfolio review on regular basis as part of a strategic planning cycle that has real teeth.

The end result that this better way to cut costs yields is very different to a blanket budget squeeze, as illustrated in Exhibit 2 (*above*).

Five Strategies for Making Change Stick

Beyond deciding what portfolio strategy to implement, Linksbridge finds that executive leaders can employ a number of strategies to make change stick.

These are:

1. Be decisive—cut once, cut hard, and cut quickly. Remaining staff members then have a clear view forward without worrying about further incremental cuts.
2. Think positively—consider which investments you can announce within a month or so of the bad news to show that the organization is moving forward again.
3. Ensure results—cut 20% or more of cost if you want to achieve 15% net savings. Business units will not always make their targets.
4. Factor the expense of change—make sure business units allow realistically for the costs of their budget reduction actions. Management time, staff packages, communications, and restructuring costs must all be included in the change plan.
5. Be strategic—package your changes into a coherent strategy that makes sense in the context of the organization's long term goals as well as the shorter term crunch.

Seize the Moment

Finally, it can be rare that boards and management teams are focused on an urgent need to take action.

Capture the energy generated around the need to improve finances to make other difficult or unpopular decisions.

Actions to consider are:

- Critically review board members' contribution to meetings and specialist committees—replace members where improvement is needed.
- Pull out of prestigious but expensive office locations.
- Put company final salary pensions on a more sound financial footing, e.g. by moving to a contribution-based scheme.
- Tackle excessive staff compensation, particularly individual employees enjoying grossly inflated salaries simply because of long tenure.
- Challenge vested interests over overlapping management duties, e.g. awkward or unclear divisions of responsibilities between members of the C-suite.

About the Author

For more information on this topic, please contact Robin Schofield at robin.schofield@linksbridge.com

Robin Schofield is a principal in the Seattle office. Robin has over fifteen years experience consulting to leading businesses and non-profits on strategy development, business change, and strategic communications. He has industry experience in financial services, product industries, energy, and the public sector. Robin has a MA from Oxford University, is a graduate of the Royal Military Academy at Sandhurst, and is currently a senior visiting research fellow at London University.



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Practical Solutions We partner with organizations to develop and implement breakthrough business strategies that deliver tangible results

Compelling Communication We help executives explain their business plans and inspire commitment to change

About Linksbridge

Linksbridge LLC is a strategic consulting firm serving clients in the private and non-profit sectors.

We help private sector clients set new business directions, develop better internal operating models, and implement strategic change. Frequently, we work with clients through larger consulting firms that seek our expertise.

We help public sector clients develop assistance programs, plan for change, and manage their organizations better.

Our recent clients include one of the world's largest software companies, a U.S. human rights organization, and an international aid and development agency.

Our combining of commercial and non-profit know-how offers surprising insights to clients' problems.

We select our people based on intellect, extensive strategic consulting experience, and character above all.

Linksbridge has offices in Seattle and London, serving clients on five continents.

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