

Cut costs without losing competitiveness

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How should the issue of costs be addressed, not just to survive the financial crisis, but to ensure the company's future competitiveness? With companies, a change in culture is essential.

Ninety percent of business leaders say they have paid more attention to costs since the financial crisis took hold. Some have asked every department for an across-the-board 10 percent cut in costs. Others have laid off one person in each department, regardless of its size or how important its projects were to the company's competitiveness.

But as IESE professors [Alberto Fernández](#) and [Manuel Velilla](#) explain, such strategies lump all costs into the same basket so as to reduce them together, jeopardizing the firm's ability to compete.

Change habits

The authors cite a study by McKinsey reporting that 79 percent of businesses polled had cut costs, but only 53 percent felt that these measures had helped.

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The authors liken it to a person who is overweight: a change of habits is better than a miracle diet. With companies, a change in culture is essential. Austerity, efficiency and effectiveness in spending should become the rule, not a special short-term project.

In order to encourage this change, the authors stress:

- *Leadership*. Leaders should set an example and practice what they preach. For instance, the leader should stop traveling business class if he or she has asked employees to travel tourist class.
- *Creativity and innovation*. Avoid inertia: The fact that some processes have always been done a certain way does not mean it is the most efficient way.
- *Analysis and planning*. Start with a thorough study of activities that generate costs, and think in terms of goals that are realistic, ambitious and consistent with the company's strategy.
- *Follow-Up*. In order to incorporate changes into the organization's culture, it is essential to analyze whether the intended goals are being achieved and, if not, make the necessary adjustments.

Establish criteria for cutting costs

The authors discuss some criteria that should guide cost-cutting in 10 possible areas. To avoid redundancy among personnel, it might be necessary to let some employees go - or maybe not. Sometimes it can be more costly to lose vital talent than the salary of the person or people in question. If it is an issue of retaining talent, the company can redefine areas of responsibility or assign employees tasks that used to be outsourced.

In purchasing and logistics, it might be necessary to centralize decision making on buying, seek alternative suppliers or reduce the number of references.

In other areas, the solutions can be quite simple. For example, a company can save on travel expenses by purchasing airline tickets in advance.

At the same time, it is important to establish clear rules and tell employees about new policies. The authors explain that the simple act of explaining changes often produces the desired effect: Employees are more aware of the expenses they incur while travelling, and start to take steps to adjust to the new rules.

Unpaid debts are particularly important. During an economic crisis, there is a domino effect: Companies do not pay their suppliers because the companies themselves are not getting paid by their clients. The authors explain that the possibility of an invoice not getting paid is directly proportional to the time elapsed since it came due. For customers who run the risk of being late with payments, one simple solution is to shorten payment periods, offering

discounts for early payment or payment plans.

The most important recommendation to apply to all possible areas of cost-cutting is not to overdo it. In order to cut costs successfully, it is not enough to have saved between 5 percent and 20 percent, for example, if along the way the company has lost competitiveness. In other words, don't throw the baby out with the bath water!

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