

## Developing a Cost Reduction Strategy

Almost all businesses are feeling enormous pressure to reduce their costs. Most organizations harvested the low hanging fruit long ago but the need to lower costs further is as strong today, if not stronger. The challenge is to remove organizational fat without cutting into the muscle of the business. In other words, cutting too deep or in the wrong areas can have negative implications for the business in both the short and long term. Therefore, it is imperative to have a well-defined cost reduction strategy.

Cost reduction must not cause a decrease in the company's ability to meet its customers needs today or its ability to react to changes in the business environment in the future. As a cost reduction specialist, my goal is to reduce costs for my clients without reducing the quality of the product or service that is being purchased. In fact, we can often improve the quality while reducing the cost at the same time. The savings opportunity in many overhead cost areas can range anywhere from 15% to 40%. However, if you want to maximize the potential savings then you must have cost reduction strategy. Your strategy will ensure that this process is logical and disciplined so that you avoid the significant potential risks of imprudent cuts.

Here are 6 steps to developing a well-defined cost reduction strategy:

1. **Establish a cost reduction committee** – this group should draw its members from across the organization and have the direct and active support of the senior management team.
2. **Develop a cost reduction framework** – the committee needs a methodology to evaluate cost reduction alternatives to ensure that they are in sync with the culture of the organization and that they will have the greatest impact on the bottom line.
3. **Make the process inclusive** – all stakeholders should provide input. Some of the best ideas for cost reduction will come from your line workers.
4. **Ask your suppliers for ideas** – your existing suppliers can be a great source of ideas for process and other improvements that can have a significant impact on your costs.
5. **Prioritize your initiatives** – implement the easier ideas first; this gets some measurable results on the bottom line quickly and helps develop commitment to the process.
6. **Communicate and reward** – let your people know how the company has been successful as a result of their cost reduction efforts and share the rewards with those who have contributed.

In the past, cost reduction used to be only one of many options to achieve a company's strategic mission, however, now it is an imperative to stay in business. With a disciplined approach, you can achieve your objectives without negatively



impacting your ability to react to changes in the business environment and grow your business to the next level.

*Stephen Machin is a cost management specialist with ERA Canada, specializing in helping companies that want to reduce their overhead costs. [smachin@eracanada.com](mailto:smachin@eracanada.com) / 905.862.0179*

Copyright of Stephen Machin, 2007.