

Strategic vs. Non-Strategic Costs

All costs incurred by any business can be categorized as either a strategic cost or a non-strategic cost.

Strategic costs are defined as any cost that directly bring in business and improves the bottom line. The sales team is a strategic cost but the finance department is not. Marketing is strategic, but the legal department is non-strategic.

Non-Strategic costs are all other costs. That is, they may be necessary to run the business but do not directly contribute to the bottom line. Most administrative costs fall into this category: clerical support, managers, accountants, lawyers, rent, computers.

A particular type of cost may be non-strategic for one company but is a strategic cost for another. For example, telecommunication expenses are a non-strategic cost for most companies, however, if your business is running call centres for your clients then having the most effective telecommunication infrastructure can be your competitive advantage and directly impact your bottom line.

The reason for accurately classifying all of your costs is quite simple but very important. **Your goal is to outspend your competition on your strategic costs and to minimize your non-strategic costs.** Implementing this simple concept will do more to achieve your goal of maximizing profits than all of the flavour of the month business theories combined. However, it must be implemented with steadfast determination and dedication. Even though it is common sense, the fact that over 90% of business managers don't practice it creates a huge competitive advantage for those that do.

Outspending your competition on strategic costs takes business acumen. You must be able to identify which of your costs are truly strategic and then which of those costs will generate the largest return on the investment that you make.

Going back to the call centre example, let's say you have identified 3 strategic costs: your telecommunication costs, the sales team, and the call operators. Your investment choices are to upgrade your hardware infrastructure to handle calls more efficiently, improve the sales function to acquire more customers, or upgrade the training of your call operators so they can handle more calls in the same amount of time. If your infrastructure is maxed out then it is of no value in obtaining more clients or upgrading the skills of your operators, if you have the capacity but the callers are spending more than a couple on minutes on hold then the obvious choice is to invest in training. The result of this process may indicate that investing in all 3 areas at different levels will generate the biggest return, which is the art of excellent management.

The second part of the equation is to cut your non-strategic costs wherever possible. This requires you to be wary of every cost and to assume that it can be eliminated unless it is demonstrated that it is necessary. Don't be afraid to eliminate reports that you don't think add value, if they are necessary, you will hear about it soon enough and it can be reinstated. It has been estimated that well over 50% of the

reports produced in large companies would not even be missed if they were no longer produced.

The burden of proof should be on justifying that a particular cost needs to be incurred at all not just in reducing them. If you don't have the resources to invest in your strategic costs right away then start with eliminating and reducing the non-strategic costs. This will free up the cash to invest in the strategic programs that you have identified. It will take longer to see the results on your bottom line, but it will be worth the wait.

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