

Financial Transparency: Critical for Successful Cost Reduction!

In order to ensure the success of a cost improvement program, it is critical that the quality of financial data being used to establish the targets and measure the successes is available, consistent and accurate.

In global businesses, this can be difficult to achieve. Multiple financial reporting systems, complex organizational structures and various methods of accounting can create confusion in the cost improvement program.

Data quality can be further “degraded” by the use of off-system methods of cost analysis. Particularly the practice by controllers or business unit managers of taking downloads from the financial systems and reorganizing this information in spreadsheets. This subjective approach while perhaps working for individual units, can also lead to widespread confusion across the organization.

Some organizations are fortunate to possess this cross-organization, cross-cost transparency; however, these are the exception rather than the rule. Often the establishment of cost improvement targets is followed by the complaint: “I don’t have the financial information which I need”

There are of course many ways to address this issue. Firstly, costs types (in focus) should be CATEGORIZED. This means they should be clearly defined, commonized and indeed granulated to the lowest reasonable denominator. Real benefits can be achieved through internal benchmarking and best practice sharing when there is cost transparency.

High-level categories like “overhead”, “manufacturing” or “material management” are far too general, and reduce the transparency of improvement opportunities. Sub-categories like “laptop lease cost”, “vehicle costs per driver”, “utility costs per unit produced”, “labour costs by location” and “annual supplier reviews” make the setting of targets and the tracking of improvements far more accountable.

Secondly, the baseline should be clear from the overall organizational perspective. Where data is inconsistent and chopped-up in different ways by different units, we recommend also using a standardized cost capture template for the various sub-categories in focus.

This strips costs to their bare essentials, removing any padding such as overhead allocations. It allows the comparison of costs across various units, and deviations (positive or negative) can be clearly identified and shown. Over time, these categories can establish themselves as standard cost items in the financial systems.

At Cost Improvement Consultants, we have defined both standard categories, and cost capture templates as part of our standard cost improvement program. Additionally, QuantumLeap, our software application is designed to track these cost improvement activities and follow the deviations from the baseline.

About Cost Improvement

Our focus is continuous cost improvement – Our speciality is structuring cost savings programs – Our value proposition is target achievement.

We work with customers who recognize the need to implement a cost savings, cost improvement or turnaround program, and see the benefits of managing the cost saving activities under one project or program. We bring the structure – Our customers bring the savings ideas – although we can help here too, if requested.

Cost Improvement Consultants has its roots in the global Automotive Industry. Each partner has at least 15 years of hands-on operational experience. We represent many industry sectors and business functions. We understand the importance of working in a pragmatic, no-nonsense spirit with our client's team.

As an international team, we understand the challenges faced by cross-cultural and matrixed organizations, and can therefore operate effectively both nationally or internationally.

Over the years, we have seen a lot of cost-improvement activities. Some were good, but many were only marginally successful. This experience together with the events of the

Financial Crisis, gave us the drive to set-up the practice, with the vision of establishing a far higher standard in the area of cost-improvement.

We hope you share our vision, and look forward to working together.