

Securing Financial Results

As we come towards the last quarter of the year, many managers are thinking about achieving the year-end results or even putting the final touches to next years budget. For many it is a challenge to achieve the targets set by management, board or shareholders.

Usually at the beginning of the fiscal year everybody is upbeat and reaching the target, while definitely a challenge, it's one, which we will manage.

Most finance people start to get nervous after the first 6-10 weeks, when they begin to see the month-end results, and realize that not everything is going according to plan.

Possibly the best way to approach the issue of financial targets is to consider a plan of attack, in advance of the new fiscal year. As well as sales and growth targets, you will also need to take a systematic and structured approach to cost savings achievement.

Here it is important to distinguish between temporary savings and permanent savings. Temporary savings are cost points which can be influenced immediately and give quick temporary or bridging relief. These include layoffs, short-term working, terminate temporary staff contracts, travel restrictions etc.

Through temporary savings, you can jump your immediate hurdles (i.e. target, budget etc.), however, the problem is that these costs often return to haunt you. Management, board and shareholders see you have successfully reached your current target, and set the target for next year ON-TOP. Meaning you have to achieve next year's additional target PLUS cover any of this years "cost reductions" which reappear (i.e. temporary staff are reinstated).

Permanent savings are sustainable cost improvements, which improve the overall health and productivity of the enterprise. Permanent savings can be found in all functions of the organization. This includes personnel, sales, R&D, administration, supply chain, manufacturing and IT. Some examples of permanent savings can be lean accounting, employee productivity improvements, supplier suggestion programs, target costing, Design-

to-cost, and even out-sourcing of non- core activities. There are of course very many possibilities, and these are usually organization specific.

In order to achieve the financial targets, particularly in the medium to long term, we recommend focusing energies on the permanent savings. This means taking this structured and systematic approach to finding and implementing these permanent cost improvement measures or activities. However, the process is not simple and needs both focus and attention.

Research shows that such activities need to be managed with care. On average enterprises traditionally seek cost savings of only 2 percent of sales. Unfortunately, most enterprises implementing cost improvement activities make fundamental mistakes and achieve on average less than 60 percent of the expected savings. In total, only 8 percent of initiatives reach their targets.

By a systematic approach, we mean implementing a cost improvement activity or program in your organization. This is structured and focused. It is also ever revolving. Meaning that as cost improvement measures are achieved, new measures can be added. This leads to long-term continuous improvement throughout the organization.

Here are some tips, which may improve these results:

- Most ideas for improvement come from within. Use the ideas of your workforce. They understand the business, and know where the opportunities lie. External coaches can effectively support the measure gathering process. Use consultants only where you really need specialist advice & knowledge.
- Implement one cost improvement program across the organization. Setting a target and allowing the individual departments/units to do their own thing is not as productive as one well-managed and structured program.
- Management needs to remain focused and committed throughout the program. Losing patience or focus, damages the initiative and its importance in the eyes of the staff and workforce.
- Monitor the activities during regular reviews and meetings. Implement corrective action, when you notice measures is slipping.

- If you set targets, ensure that they are achievable. Unachievable targets lead to frustration and ambivalence in the organization.

Most important of all, ensure that the background, reasons and goals of the program are communicated and understood by the workforce. Communicate in clear language and try not to couch uncomfortable topics in difficult to understand terminology. The organization must drive the program, and its support is critical.

A cost improvement program can be up and running within a few weeks. As long as it is correctly developed, the ground rules are agreed and it is kept focused, there is no reason why a very high success rate cannot be achieved.

If you are interested, we have a standard cost improvement program, which can be rapidly implemented in most enterprises (max 4 weeks). It includes everything you need. Additionally, if you require help with the implementation, we can send you the experts and coaches necessary to get your own team rapidly up-to-speed. Just let us know what you need or let us answer any questions, which you may have. Info@cost-improvement.com.

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.