



Organization & Performance Solutions

Quick & Integrated Cost-out: A Faster Road to Sustainable Cost Reduction

Achieving significant and sustainable cost reduction is notoriously difficult. Old ways of working are hard to jolt, and those attempting to remove costs face a litany of impediments that have accumulated over time, like barnacles on a ship.

The standard solution for fixing a “cost problem” is to form a cost-reduction project that goes through a sequential process comprising diagnostic, mobilization and, ultimately, delivery. Such projects typically begin with a corporate-centric team that undertakes an extensive and analytical diagnostic effort that focuses on financial performance. These diagnostics are usually measured in months rather than weeks and end with a lengthy document that provides a financial, and often rather academic, evidence base for why cost reductions can be achieved. Decision-makers can then impose this work on those, “in the line,” and so begins the back-and-forth of defending and attacking the diagnostic. Once this battle is over, the effort falters into the delivery stage, with the “losers” of the battle expected to enthusiastically drive delivery. By this point, significant time has usually passed and key personnel can become disenfranchised. It is little wonder that such cost-reduction efforts fail more often than not.

There is another way. Rather than a corporate-centric project that sequentially plods through diagnostic, mobilization and delivery, L.E.K. Consulting prefers to take a faster and broader campaign that integrates these efforts. We call this Quick & Integrated Cost-out (QIC). (See Figure 1.)

Here is how it works: We execute a program that is rapid and broadly engages with the organization while balancing financial perspectives and operational perspectives on how the business works in practice and therefore what changes need to be made in order to realize cost efficiencies. Keeping these dual perspectives at the center of the program, and engaging early with those that will actually drive the change, ultimately produces realistic recommendations for what changes need to be made in order to realize cost reduction.

Such an approach is applicable to all types and sizes of organizations. It is particularly valuable for midmarket corporations that have neither the capacity nor the tolerance for a large-scale and centrally led project.

Cost full potential: Do just enough to discover the opportunities and set targets

There is merit in amassing a fact base on each of the categories of costs, their drivers and their trajectory over time. However, the trick is to do just enough of this analysis as is needed to identify the key areas of opportunity and allow the setting of targets. This is challenging, as more analysis and investigation can always be done to provide greater confidence. However, at some point, the effort expended and the lost momentum outweighed the gains.

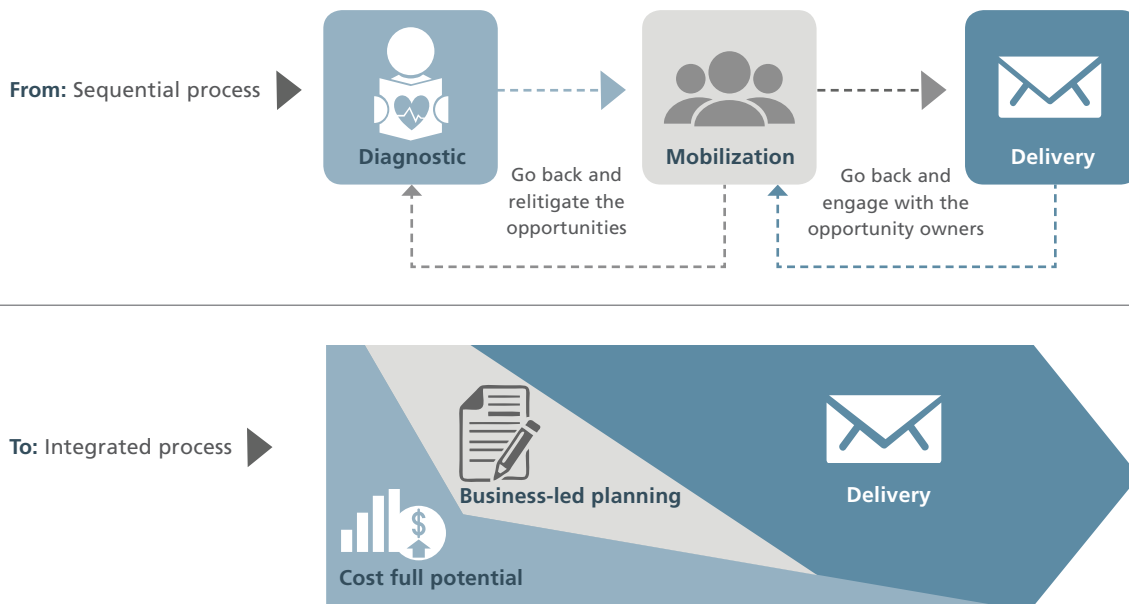
Setting targets, in aggregate and at the level of key areas of opportunity, is critical. Targets are necessary to provide focus and to stretch the organization — a “best endeavors” effort, which lacks targets, rarely enables a cost-reduction campaign to achieve its full potential. The initial diagnostic also will inform an organizational narrative that enables staff engagement via a simple yet clear rationale on the need for change, the context for this change, and the benefits for staff (at all levels) and other stakeholders.

Business-led planning: Prioritize the effort and support the business to define the specific actions required

Once the basic fact base is complete and targets have been set, the effort immediately moves into a series of initiative development sessions. The purpose of these sessions is to generate a long list of preliminary ideas on how the cost targets will be achieved, moving from broad areas of opportunity to specific initiatives that can be pursued.

In our experience, it is best to engage early and broadly across the organization and to reach those team members who will ultimately be responsible for delivery. Doing so not only allows for

Figure 1
Quick & Integrated Cost-out



the generation of an array of preliminary cost-reduction initiatives, but it also eases the effort's migration from diagnostic to delivery, as those responsible for delivery have a voice in determining how to reduce costs and what form the delivery will take.

Without fail, these opening initiative development sessions will flush out activities that are burdensome and costly (e.g., excessive reporting, bureaucratic delegations of authority, double handling) and that are relatively easy to stop or fix. Once apparent, these issues require minimal further investigation, and they represent an ideal opportunity to move immediately into delivery rather than hold such solutions in reserve for a formal progression into a delivery phase.

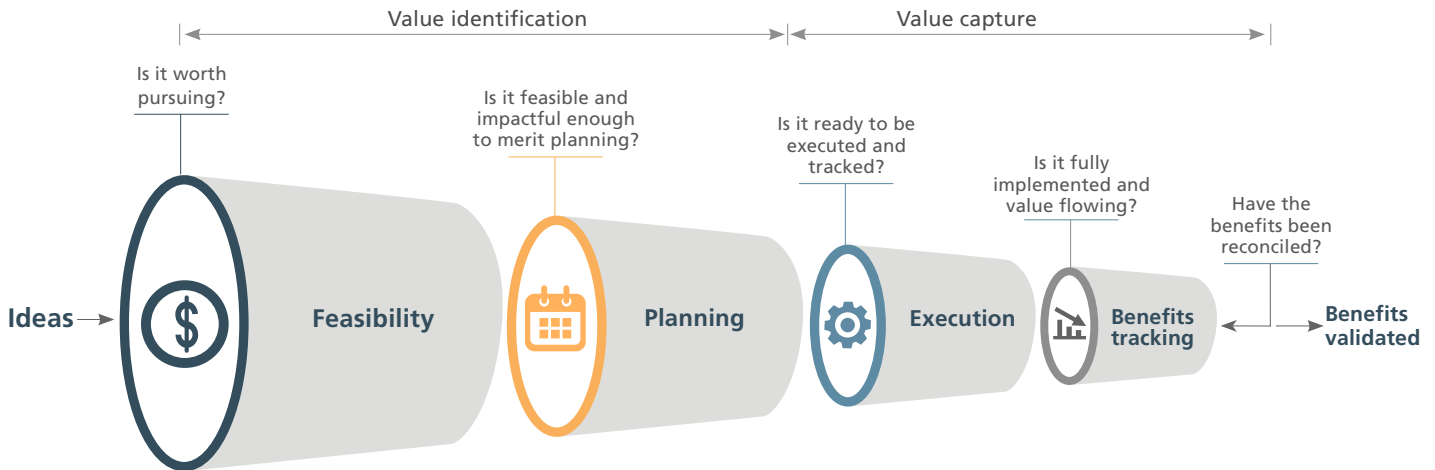
Beyond the immediate execution opportunities, a quick-fire prioritization of the "long list" of initiatives is a valuable way to move forward, ensuring a focus on opportunities that offer the best combination of magnitude of impact and speed to impact. However, we advise not being overly aggressive in de-prioritizing initiatives. Instead, we favor concurrently seeking strategic and tactical improvements, as small ideas can be collectively valuable; in our experience, they can represent as much as a third of the

total potential savings. Moreover, if the cost-reduction effort is democratized across the organization, a large number of initiatives can be pursued in parallel, as the distribution of the effort minimizes the classic dilemma of a bottleneck, which can occur when all projects must go through a few key people.

Initiatives should be formally assigned to individuals ("initiative owners"). These initiative owners will then be responsible for deepening the investigation of their initiatives (if required) and, most important, for progressively developing plans that define the specific actions needed to execute the initiatives and ultimately to realize the value. To aid with this, an initiative "pipeline" is a useful tool (see Figure 2). Initiatives formally move through the stages of the pipeline based on the depth and rigor of supporting analysis and plans.

Spinning off initiatives to "owners" and moving them into and through the pipeline should be an iterative effort. As a given initiative arises, it should have a natural owner who undertakes the challenge of getting it through the Feasibility and Planning stages of the pipeline and into the Execution stage. This discipline enables leaders to efficiently support initiative owners, ensuring

Figure 2
Initiative pipeline



all appropriate considerations have been considered, while holding them accountable for progressing through the pipeline. This process forms the basis of continual renewal of the pipeline as initiatives are progressed.

While the Planning stage contains no hard stop, it can broadly be considered a success when all initiatives are at the Execution stage. At this point, one can be confident in the cost reductions to the portfolio of initiatives and in the organization's ability to execute them.

Delivery: Progressively achieve results

Once the organization has developed a pipeline of Execution initiatives, then the task ahead is to (simply) execute the plans that are in place. Clearly, this is where the majority of work is done, and for most programs the effort can take years to complete. Ideally, a portfolio of initiatives will move through the pipeline at differing speeds so results will regularly grow over time. It is crucial that the program diligently maintain focus, to prevent initiatives from stalling in the Execution stage and also to track and validate the benefits over time, thus ensuring that results genuinely reach the bottom line.

Finally, within the context of the overall change narrative, the organization should be challenged to refill the pipeline as execution of priority initiatives is completed.

Conclusion

More often than not, organizations' sequential and centrally led efforts to achieve significant, sustainable cost reduction end in failure, bogged down by a time-consuming diagnostic process and debate over the achievability of what the diagnostic suggests. By the time team members mobilize their resources to deliver on the agreed-upon cost reduction steps, they have disengaged and the initial momentum has been lost. We advocate for a more agile, integrated approach that takes both financial and operational issues into account and involves team members from across the organization. Using the QIC method, organizations can rapidly kick-start a cost-reduction effort and quickly get onto the path of results rather than prognosis.

Contact

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