Three deadly sins of cost savings by Vantage Agora

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Over the last weekend some of us in VA Consulting team were having a discussion about cost cuttings. We quickly came to the realization that we have seen literally type of cost savings known and started listing the good and bad. The result of that list is this article. We are confident that you can find this useful in your cost savings efforts:

Mistake 1: ROI and not just cost: In most cases we have seen people look at only the cost side of an initiative (Most of the time it is not their fault and it is because they are incentivized to behave that way by upper management) leading to some great initiatives being cut off. For example, a company shut down operations in a city because they figured it will save them money. They did not even do a cost benefit analysis to see how much sales this center would cater. Leading to catastrophic downward spiraling of the company fortunes. The irony is that upper management took fat bonuses as they met their KRA for cost savings the previous year!

Learning: Always look at the Return on Investment (ROI) and NOT just on cost.

Mistake 2: Move highly skilled operational domain knowledge workers into customer facing roles: Following up on Mistake 1 most upper management look at reducing people as cost savings. Then they turn around and hire people with different skill to grow the business in the next quarter. Yes, there are times when people have to be let go but more often than not the cost of letting go and rehiring is more than retraining most of the people than letting them go. For example if you need 10 sales people instead of 20 operations people because you have moved operations offshore, go ahead and retrain the people in operations than trying to hire new people. You will be surprised how many good people you will get out of this effort. Instead, if you look at how much you have saved by just the offshoring activity and fire

all the people in your internal operations it will end of costing you more.

Learning: Make sure that you look the complete game plan over a period of at least six months before making cost cuts. You might end up losing your best people if you are not careful and not have anyone to grow the company.

Mistake 3: Look for hidden costs in calculating cost and cost savings: Calculating cost can be a tricky issue. Most companies calculate cost by saying that they are more efficient than anyone else in the industry and that their internal costs are the lowest in the industry. Literally every

company that we have worked with and worked at has claimed this. The reality is that they all fit into the normal curve and have the same cost structure as the industry. The biggest reason why most people think that their organization internal cost is the lowest is because they don't consider some of the hidden cost of operations. The commonly excluded costs are:

1. Management overhead to manage the initiatives
2. Hiring and firing costs
3. Infrastructure cost (Especially IT and communication)
4. Learning

5. Operation efficiency improvements (Huge latent cost here)

6. Sales support costs

Learning: Look at the industry averages and your internal costs with items listed added to your costs.

What we have provided to you is information and learning in working with several customers like you. While all of want to think of ourselves to be special the fundamentals of business are the same for everyone. They are very simple. If you look at the just the short run or only part of the picture it will come back and hurt you. If you need more information on how to improve the efficiency of your organization, please feel free to contact us.

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As a founder of Vantage Agora, Harsha has been instrumental in the growth of the company since its inception.Harsha has over 20+ years of experience in consulting, running and helping companies and their supply chains worldwide. His work with many companies, has made him a turnaround expert. Harsha has four worldwide patents in the area of supply chain management.

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