

ACCELERATE YOUR PERFORMANCE



Companies that are positive about cost management and see it as more than simply making savings are the ones that will be in pole position to take advantage of economic recovery, says IAN WYLIE

Whether the spectre of austerity continues to cast a chill or UK plc shifts through the gears into speedy recovery, strategic cost management will be a game-changer in many industry sectors for the next five to 10 years.

Chief executives and finance directors don't need a crystal ball to tell them revenues will be tougher to earn and margins will be challenged from hungry competitors.

Yet, organisations that excel at managing their cost base will be best placed to convert savings into accelerated performance. Rather than knee-jerk cost-cutting, smarter organisations are learning to embed sustainable cost efficiency as they accelerate into the economic recovery.

The discipline of cost management has evolved a great deal since the dark days of short-term cost-cutting, which often left organisations in a worse state than they had been in before. Within organisations that have tighter cost controls, the recession-fuelled cost-cutting exercises of recent years have offered a valuable opportunity to identify and execute cost efficiencies that should prove resilient in the face of growth, and deliver them higher margins and greater competitive advantage.

Yet in other organisations, chief executives and finance directors are finding that many of the costs taken out during the recession are already starting to flood back into their business at an incredible pace. In fact, according to a KPMG survey, more than 95% of cost reductions achieved during the recession are expected to return in the short term – that equates to more than £90bn of costs across UK firms.

So what differentiates those organisations that manage costs proactively and strategically from those that seem always on the back foot?

According to recent research from Deloitte, some organisations fall into the trap of focusing cost management on the same business areas every year even if they don't deliver the savings they once did. Many, for example, have been stripping away layers of staff to reduce costs – with the result that experienced people with years of knowledge have been lost.

But to help us understand how well cost management is understood and implemented, we decided to conduct our own research via a survey of *Management Today* readers in association with Auditel. Through an online poll at managementtoday.com, the leaders of more than 100 organisations, in both private and public sectors, answered a series of questions that have helped us paint the following picture of priorities in the realm of cost management.

THE RESULTS

While chief executives and finance directors often talk about managing costs strategically, our research suggests that both a lack of understanding among employees and organisational politics can act as significant barriers to effective implementation.

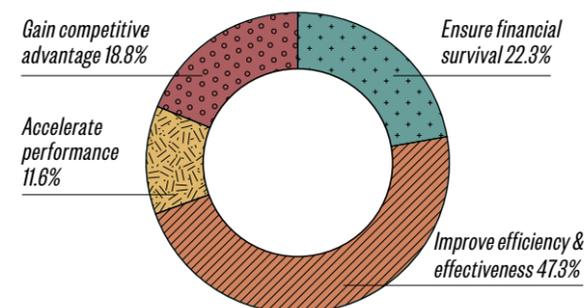
Cost management goals

Almost half of respondents consider efficiency improvements and effectiveness to be the point of cost management measures. Almost a quarter view them as a means to simply ensuring financial survival. However, a third consider cost management measures in more positive terms, stating that for them, the main purpose is to accelerate performance or gain a competitive advantage over their rivals.

Travel, transport and logistics have been the most common areas of focus for previous cost management efforts, followed by human resources – an area of concentration for half of our survey respondents. Telecoms – fixed and mobile – are the next most likely area to come under cost management scrutiny.

However, it's managing the cost of human resources that respondents say is the biggest challenge facing their organisations. Property and premises costs are not far behind, with travel, transport, logistics and IT infrastructure also considered significant cost management challenges.

WHAT DO YOU CONSIDER TO BE THE MAIN PURPOSE OF COST MANAGEMENT?



Conversation points

Given the depth of the recent recession, it's hardly surprising that talk of cost management has been commonplace at every level of the organisational hierarchy. It's on the boardroom agenda of 82% of respondents, and a conversation topic on the shopfloor of 53% of organisations.

But how directed is that talk? Only 30% of survey respondents were able, in their opinion, to describe the cost management measures in their organisations as very strategic.

When respondents were asked to name the main approach to cost management at their organisation, by far the most common answer was identifying wastage and efficiency improvements. Streamlining the organisation is the second most popular approach, followed by process improvements.

However, it seems that organisations have experience of using a variety of cost management methods, from researching suppliers and benchmarking current expenditure to competitive tendering and service level agreements.

Cost management champions

More than two thirds of respondents (67%) say they are currently engaged in a cost management programme. In 60% of organisations, it's the chief executive who champions cost management – alongside the financial director (41%) or financial controller (28%). Rather worryingly, 6% of respondents said no one was championing cost management in their organisations.

In 73% of organisations, cost management measures are undertaken in-house. However, almost a quarter (23%) of organisations choose to bring in external resources to assist their staff in implementing the measures.

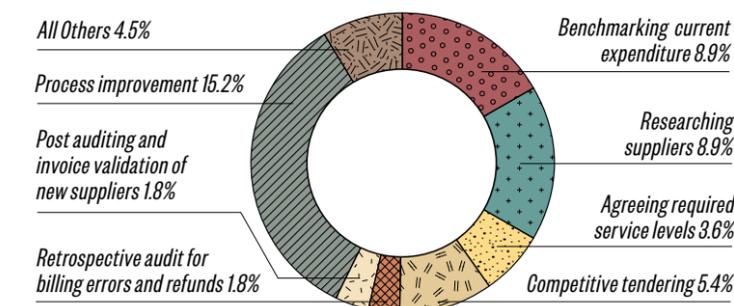
Lack of understanding is, say respondents, the biggest obstacle to cost management in their organisations. But an almost similar proportion admits that organisational politics hampers efforts to bring costs under better control. Close to one in five respondents point the finger at unrealistic goals as the biggest barrier.

A third of respondents say they would seek the advice of a specialist consultant when considering more strategic cost management. Just over 28% would ask a management consulting firm, while the same percentage would seek the services of an accounting firm. **MT**

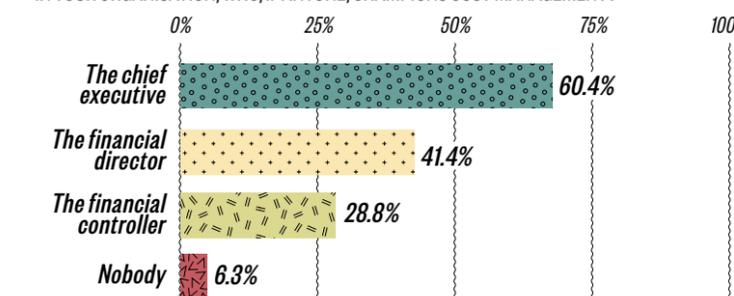
WHAT ARE THE BIGGEST COST MANAGEMENT CHALLENGES FACED BY YOUR ORGANISATION?

	Total Score	Overall Rank
Human resources	798	1
Property and premises costs	718	2
Travel, transport and logistics	627	3
IT Infrastructure	616	4
Finance, banking, insurances, tax	613	5
Capital	597	6
Utilities	499	7
Telecommunications, fixed and wireless	494	8
Facilities management	469	9
Office supplies and services	352	10

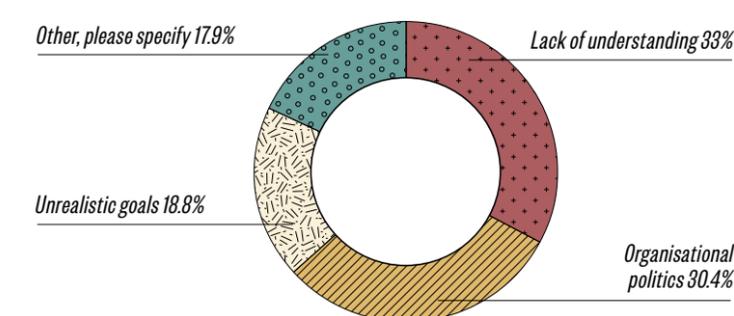
WHAT IS THE MAIN APPROACH ADOPTED BY YOUR ORGANISATION TO COST MANAGEMENT?



IN YOUR ORGANISATION, WHO, IF ANYONE, CHAMPIONS COST MANAGEMENT?



WHAT IS THE BIGGEST BARRIER TO COST MANAGEMENT IN YOUR ORGANISATION?



“IT'S MANAGING THE COST OF HUMAN RESOURCES THAT BUSINESSES SAY IS THE BIGGEST CHALLENGE”