

Six Steps to Deploying a Cost-Containment Strategy

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Offer the same information to intelligent people having similar values and they will come to roughly the same conclusions. Prove this to yourself by giving each person in a group two identical highway maps. Have them plan individual journeys beginning in the same city but finishing wherever they choose, highlighting their route without discussion. Though they begin in the same place they end up all over the map.

Next, specify the city of origin and the destination. Have them highlight the most direct route. Notice they will choose nearly the identical course.

The essence of leadership is to help people understand where they are, their destination and why they should make the trip. If allowed to find their own solutions, they own the outcomes.

Cost-containment is frequently a journey equated with layoffs rather than innovation. Done correctly, freed-up capital is redeployed more profitably: stimulating growth. Management's role is to assess the situation, give direction and set targets then provide a forum for those closest to the issues to find a better way.

There is a route for this pilgrimage:

Step #1: Set Financial Targets by Department

Assume management wishes to reduce indirect costs as a percentage of sales. At current revenues the five-year target is \$100 million in savings. The first step is to assign targets by department.

Forecast the budget for each department over a 3-5 year period based on a high, low and mid-point each year. Calculate savings based on reductions of 5%, 10%, 15% and 20%. Pick a target. Management has now established the current state and the destination by department. (By converting these targets to a percentage of sales they can be adjusted for revenues.)

Step #2: Identify Savings Targets & Improvements by Process by Department

Accurate cost data supports better decisions and creates incentives to partner in solutions. If the company is using Activity Based Costing (ABC) they will know how much time and money is spent on a given process by department. If not using ABC they should strongly consider doing so. Tracking the flow of costs from the P/L to department, to the activities performed within that department, to the high-level processes, to those who consume the outputs is an education in itself.

Using the best information available assemble a cross-functional team for the targeted process. Take the total cost of that process and calculate the savings based on reductions of 5%, 10%, 15% and 20%. Pick an efficiency goal. Using cost data and tools such as Lean Six Sigma and Value Stream

Mapping create savings targets for that process by department. These process goals should add up to the department's savings goal (identified in Step #1).

Management has set the destination but left the route finding to those doing the driving. We now have savings goals by department and process. The cross-functional review prevents cost-shifting from one department to another and is usually required for breakthrough results and larger wins.

Step #3: Create a Project Roadmap by Department

A roadmap of initiatives will emerge. Categorize these as short-term (1-3 months), medium-term (3-6 months) and long-term (6 months or greater). Schedule their implementation based on impact, cost, difficulty, readiness and whether they are milestones for strategic initiatives.

With this roadmap each department can build business cases and implement what they can on their own. For more complex initiatives they can enroll the support of the Program Management Office (PMO), IT, and other stakeholders.

The roadmap process creates alignment and prioritization. While there will be tradeoffs and hard conversations, the business is constructively wrestling with the issues.

Step #4: Establish Change Governance

Change Management occurs at the executive, functional and project level. This cannot be ignored.

The Executive Team – There must be a guiding coalition of executives representing various business units. This team is headed by an executive sponsor, preferably the CEO. The guiding coalition provides strategic direction. As with the original example, this includes the current state, the reason for change, and the destination. The executive team owns the savings roadmap (described in Step #3) and enforces compliance.

Functional Steering Teams - At the operational layer cross-functional teams are usually required for collaborative solutions. They identify problems, vet options, and interface with the Executive Team to recommend the best alternative.

Functional Steering Teams commission project teams. They do the blocking and tackling within their business units to ensure solutions are driven.

Assuming there is a Project Management Organization (PMO), they will work with departments and Functional Steering Teams to manage the project roadmap, provide analytical support and coordinate project teams.

Project Teams – Project teams are commissioned to accomplish specific tasks such as developing recommendations or implementing solutions. They report to the Functional Steering Teams who ensure they have the resources and political cover to be effective.

Project teams are excellent proving grounds for “up-and-comers.” Emerging leaders are given responsibility, bracketed by help, and can be mentored. They gain recognition, feedback, and valuable experience.

Step #5: Pilot Success then Scale and Replicate

There will be a proving stage to establish credibility and build momentum. Departments should select 1-2 pilot projects from the project roadmap. Good pilots are quick wins and have three criteria: 1) There is a 10:1 financial return, 2) They resolve an organizational pain point felt by all and 3) They create competitive advantage (to prevent short-term thinking).

The pilot projects test and build the effectiveness of teams and leaders as they overcome obstructionists and obstacles. Using the governance model described above, continue following the project roadmap to achieve the goals while building the organizational discipline for continuous improvement.

Step #6 (and Summary): Decide Who Owns Performance

It goes without saying that this approach requires strong leadership. One senior executive must take personal ownership of the process, the project roadmap, forming and governing the various teams, and achieving the targets. This person OWNS performance. Choose this “Performance Champion” wisely! Now get the right people in a room and pass out the maps.