How to emerge stronger as a workforce after a crisis[Part 1]

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When you review your cost lines threadbare every month, you can eliminate at least 15% of wastage permanently. Yet, research reveals that only 15% of CEOs do so as a matter of routine!

With the COVID-19 crisis looming large, our company — an SME in Asia- recently reviewed our cost lines threadbare. We managed to temporarily park 22% of costs until normalcy returns; identified 28% that can be further reduced if the situation worsens; and as an added bonus, eliminated 15% of wastage permanently!

In Part 1 of this series, we share with you a step wise process to analyse the major cost lines typical for most enterprises. Viz. people; premises & infrastructure; technology; marketing & sales; travel; entertainment; and telecom.

Step 1

- Engage leadership team to analyse all cost lines and discuss possible solutions

Step 2

- Focus on cost drivers that represent 80-90% of costs to run the business.
  1. Use company bank statements, credit card statements all accounting systems
  2. Examine auto debits in detail
  3. Look at payroll and benefits
  4. Examine cost patterns for the last 12 months
- Understand which costs are disproportionately growing compared to the revenue lines by business or product.
  1. Analyse costs vs revenue trajectory
  2. Ask the question *"have the costs grown at the same pace as revenue? Are they higher or lower?"*
- Review the costs of all support functions in greater depth
  1. Identify support cost silos that exist between businesses/products
  2. Ask the question *"can they be hubbed?"*

Step 3

- Identify immediate costs that can be saved from all of the above. Divide into:

1. Stop now
2. Stop permanently

- Set cost reduction targets based on *Severity of impact on business ratings — high, medium, low*

Step 4

- Sign off and Communicate the decisions across the team

Step 5

- Set up / change process of approvals across the company

Why it works...

In a business as usual scenario most *CEOs believe some costs do not exist, or more accurately should not exist*, because there are processes and people to manage them, but in reality they do. Here's a list of typical expense cutting hotspots

- ***Technology infrastructure:***

- ***Technology resources***:

Take a closer look at all outsourced services, resources from vendor partners, internal resources who can be redeployed for product development or improvements.

- ***Telecommunication costs:***

Hang on! Technology has actually brought a dramatic reduction in our personal telecom bills. So, have the company's bills reduced too? Now is the time to cast a critical eye on the details in the bills! Watch out for Data plan creep, mobile usage reimbursements, use of direct calls vs internet calls; review the number of people who need to be given company mobiles.

- ***Travel, stay and entertainment***:

This cost line could represent almost 30% of a company's costs. They should be *zero* now during COVID. More importantly, rethink and prepare for new ways of working. Take advantage of the paradigm shift in work culture. Do you really have to travel to meet people or clients or events? Which ones are really essential? Do open up this expense tab and look at policy change for the future. There is potential for a more permanent reduction

- ***Premises***:

Consolidate premises costs

1. Evaluate *seat utilisation* rate (normally ~1.3-1.5 per seat);
2. Hand over premises not required based on potential new ways of working arrangements;
3. Explore the possibility of working in shifts permanently

- ***Benefits:***

Many employee benefit policies do not get reviewed once activated. Review the policies and ROI on benefits. By simply changing the nature of benefits, and withdrawing those that don't provide any real benefit, it is possible to generate real savings without affecting employee morale.

- ***Marketing and sales***:

Often the least tampered with of all costs because of the fear of impact on revenue. But, a change in tactic may be more relevant for the moment, cost less and prepare you for the upturn. So, take a peep, don't be shy, the possibilities may surprise you!

- ***People:***

Trust the assumption that in a downturn people would rather have the safety of a job, than be laid off. Besides, when you are back on the upturn you need to be prepared to go full steam ahead. Some best practices that we have observed in Asia are:

1. Stop promotions and increments for 6 months
2. Reduce pay starting at the top with lower reductions at lower levels
3. Consider paying 50% of salary for next few months and then ramp up after
4. If you must lay off people, you still have to bear the costs of notice pay and redundancy. Agree to pay in installments every month. It helps in financial planning.

At a point of crisis all enterprises embark on a cost reconciliation exercise to survive. However, every crisis changes the way work is done, *what is relevant and important, and provides opportunity not merely to survive but thrive!*

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