



# Navigating Through Turbulence: A Survey of Strategies, Priorities and Mindsets for Companies Cutting Costs in a Downturn

A Survey Conducted by Wilson Perumal & Company, Inc.

July 2009

WilsonPerumal





## Cost-Cutting Continues, but Portfolio Decisions Deferred

The current recession officially started in December 2007. The pain of that recession has been relentless, with endless reports of bankruptcies, bailouts, and layoffs. Unemployment has doubled in two years, from 4.5% in May 2007 to 9.4% in May 2009. And a vast number of firms have seen demand for their goods and services fall away, while the associated costs remained. We wanted to know how companies are meeting these cost-related challenges. What strategies are they pursuing, if anything, besides reducing headcount, salary and benefits? What other actions are prevalent in this business environment? And what are the cost reduction targets and primary means for attaining them?

To ascertain the answers to these questions and more, Wilson Perumal & Company conducted a Cost Reduction Survey in May of 2009. Surveys were sent to over 100 companies, large and small, across all industries to obtain a diverse response set:

- 42% of the respondents were C-Level or senior level officers, and 46% manager or director level
- The respondents' functional role was across the board with the majority in Corporate, Marketing and Sales, and Operations
- Industries ranged from Energy to Professional Services to Retailing to Food & Tobacco
- 34% of respondents work in companies with revenues of \$5B and above, 6% from \$1-\$5B, and 60% from companies \$1B and below

### No Recovery Until 2010 Means Cost Reduction Remains a Priority

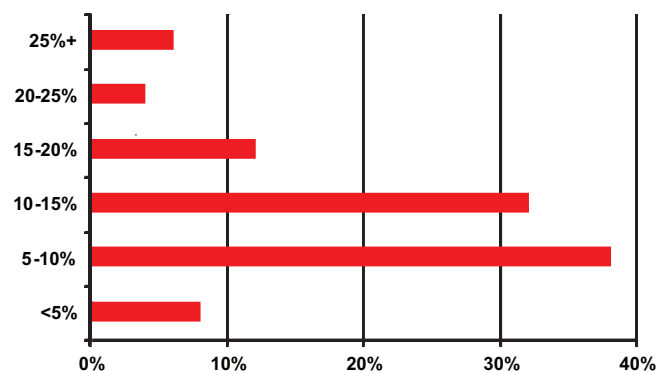
It was no surprise to us that more than 70% characterized cost reduction as "one of our highest priorities" with close to 60% reporting that the initiatives were now owned by the C-suite. Nonetheless, the qualitative commentary behind the numbers was sobering: This is the "most intense cost focus in the history of the company" reported one executive. "Cost management has become our top priority," reported another, "with cut-backs on everything." A third reported, "Time is short."

The unwavering focus reflects perceptions around how long this downturn will last. In fact, 60% said they believe that the economy would not start to recover until 2010 or

later (with 13% declaring it too soon to tell). This is more pessimistic than the consensus view of many economists, but in line with what many global business leaders are signaling. The CEO of BT recently declared, echoing the views of other CEOs at the recent Davos conference, "I'm a second half of 2010 man. I think we're going to have a tough few quarters coming up."

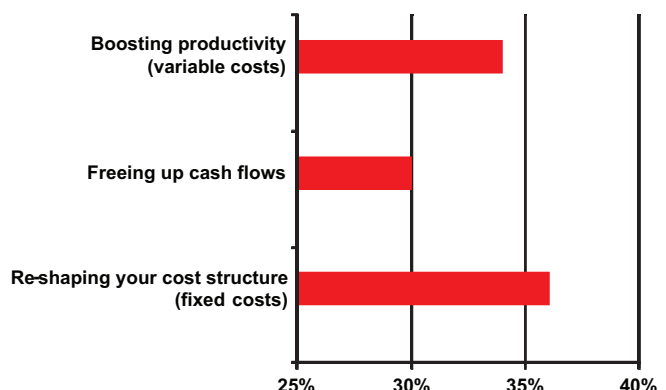
Companies have been reducing costs more than a year now, but still have further to cut, with a third looking for 5-10% cuts, and another third looking for 10-15%.

### What is your organization's annual current cost reduction target for 2009?



Further, the most commonly cited goal for cost-reduction efforts was fundamentally reshaping cost structures, and attacking fixed costs.

### What is the primary goal of your cost reduction efforts?





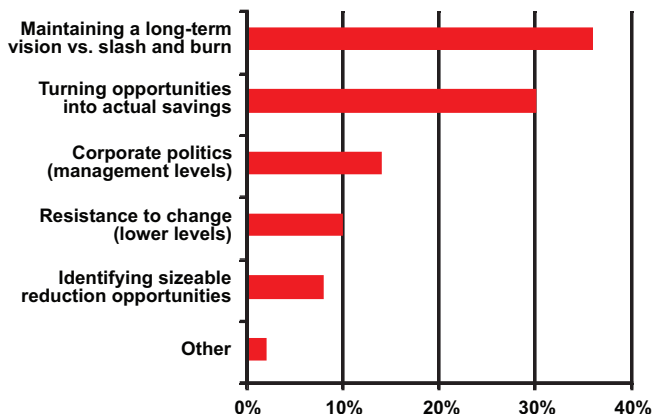
## The Challenges of Cost Reduction

Given the need for sustained and increased focus on significant cost-reduction targets (10-15%), many companies, while seeing progress, nonetheless see room for improvement in their cost reduction approaches: a full 60% of respondents characterized cost reduction efforts to date as being somewhat successful.

They cited specific challenges, the top two being:

1. Maintaining a long-term vision vs. slash and burn
2. Turning opportunities into actual savings

### What aspect of cost reductions do you find the most difficult?



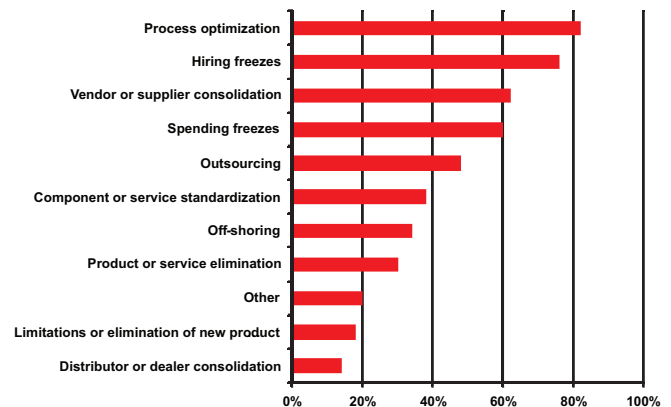
In our view, at the heart of both these challenges is the issue of accurately gauging the cause-and-effect of costs in the system. The basic issue is that costs are output measures; to radically impact costs means attacking the inputs. So for example, many efforts to reduce product complexity costs are driven and owned by operations, but many of the major decisions that impact complexity reside upstream. Hence, it is not uncommon for companies to work hard to identify and develop cost-saving opportunities, only for them to evaporate due to an incomplete understanding of what is really driving the costs. Likewise, without a holistic understanding of the linkages inside the company, companies can end up cutting too shallow in some areas and too deep in others – areas that are critical to longer-term strategies.

## What Companies are Doing to Cut Costs – and What They are Not Doing

The stalwarts of cost reduction are again at the top of the list: The most popular cost reduction tool was “process optimization,” with 82% of respondents checking that

approach. 76% of respondents reported hiring freezes, 62% reported vendor or supplier consolidation and 60% reported spending freezes.

### What cost levers is the organization pulling to achieve its objectives?



Undoubtedly, process optimization is a valuable lever that can generate large savings. But given the magnitude of cost targets (10-15%), and the focus on reshaping cost structures, the fact that only 30% reported product or service elimination as a key lever for cost reduction means that many companies are deferring product line decisions. (Also under-leveraged is Component and Service Standardization, another strategy for impacting complexity).

This, in short, is an untapped opportunity.

We suggest that there are two reasons why companies should consider reviewing the complexity of their portfolio: (1) even if the goal is to reduce cost through improved processes, we have found that the variety of items going through a process can be the single largest driver of process performance, and (2) contracting revenue concentrates product complexity with devastating impact on costs and margins.

There are many reasons why companies would defer the tougher product line decisions. For one, these can be difficult decisions, particularly when companies are unclear about what to cut and what to keep. Also, some companies will be tempted to delay in the hopes of “keeping options open”. This, though, is a costly strategy as we have found that bloated product and service portfolios can be the single biggest determinant of cost-competitiveness.



## Conclusion

The vast majority of companies have put cost reduction as their primary agenda item, and they are attacking it with many levers: process optimization, layoffs, spending freezes, vendor consolidation, outsourcing, and more. With companies projecting a tough time through to 2010, they are continuing to pursue aggressive cost reduction targets. However, it appears that many companies are still delaying or denying the tough product line decisions, a potentially costly mistake given the “new normal” of consumer buying patterns that will likely exist long after this recession. This is the next opportunity.

These are typically difficult decisions to make because they require an understanding of strategic priorities and operational impacts. Yet, within a company’s complex portfolio of offerings lies the opportunity to cut costs smartly, positioning a company for future growth. In fact, the degree to which companies can

examine which parts of their business align or support customer preference (not yesterday’s preference, but tomorrow’s) and deal effectively with those parts that do not (the liabilities), will effectively determine their trajectory into the future. The implication is that while many companies may have nibbled at this issue in the past, addressing it squarely head-on is now a requirement.

For more information on the survey, contact:

*Brian Hefner*

*Wilson Perumal & Company, Inc.*

*Email: bhefner@wilsonperumal.com*

*Phone: 972.778.8245*

<sup>i</sup> The Wall Street Journal, April 15, 2009, *Jobless rate hits 8.5%*

<sup>ii</sup> US Dept of Labor statistics

<sup>iii</sup> USA Today, Majority of economists expect a slow recovery this year

<sup>iv</sup> CNN.com, poll of pundits at Davos

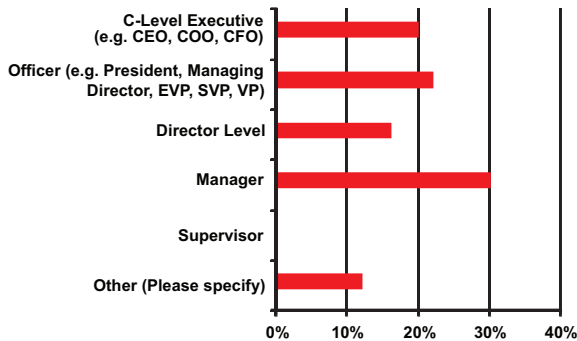
*WilsonPerumal is a strategy and operations consultancy that helps companies compete in a complex world. We partner with our clients to help them re-invigorate their Market Focus, Strategy Clarity and Operational & Organizational Alignment in order to dominate their competition. We bring a unique point of view, one that is grounded in rich experience, distinctive thinking and a deep understanding of the issues challenging companies today.*

*We combine strategy expertise with a deep heritage in operations and Lean thinking to develop complete solutions for our clients. While many firms help clients with the individual pieces of their business, we are unique in our focus on integrating and aligning the pieces for whole-firm performance.*

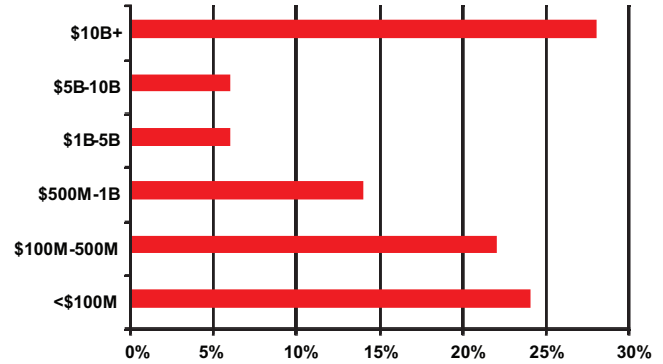
*WilsonPerumal partners have led major transformations and key initiatives in clients across a diverse set of industries and segments, including Retail, Consumer Goods, Industrial Goods, Technology, Financial Services, the Federal Government and the US Military.*



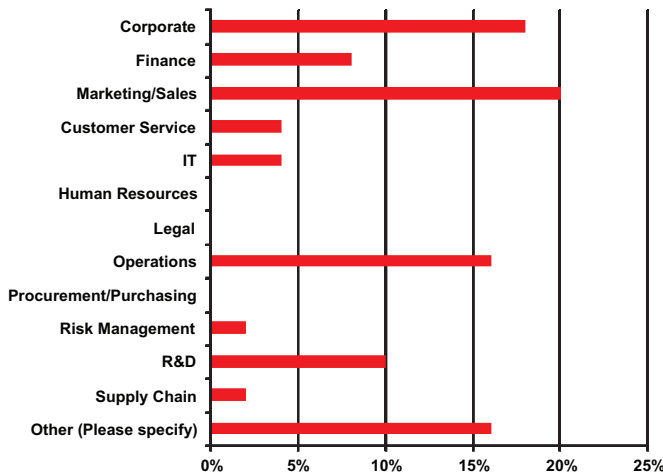
**Question 1: What is your position in the organization?**



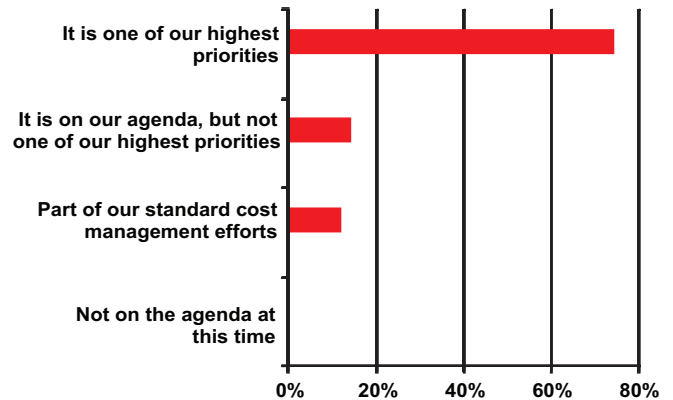
**Question 4: What is your company's total global revenue?**



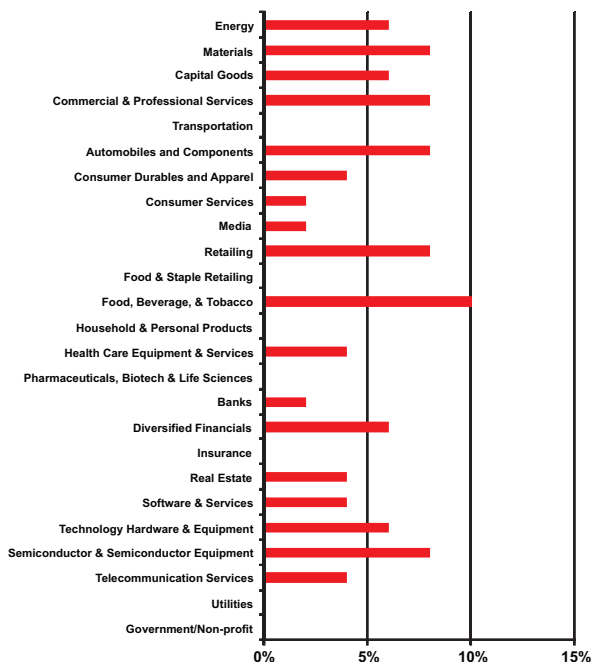
**Question 2: What is your main functional role?**



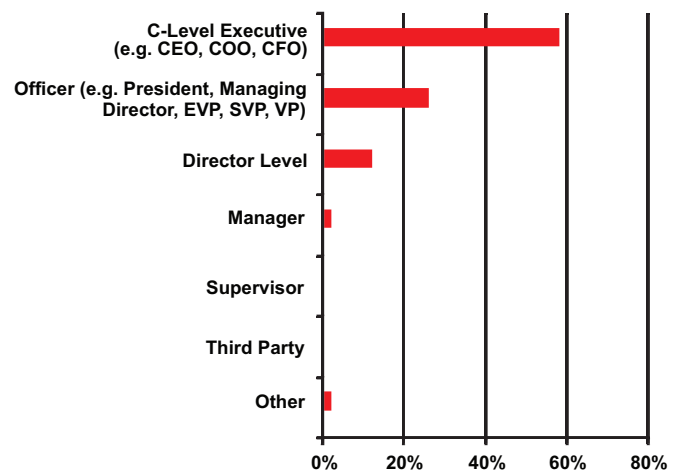
**Question 5: Where is cost reduction on your corporate agenda?**



**Question 3: What is your primary Industry?**

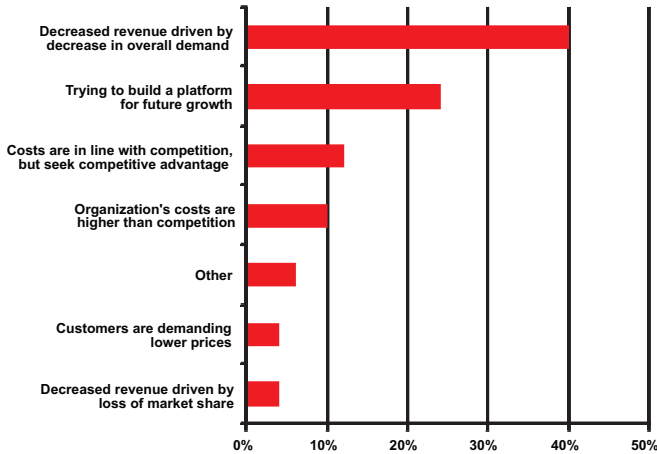


**Question 6: Who in the organization is the primary owner of the cost reduction effort?**

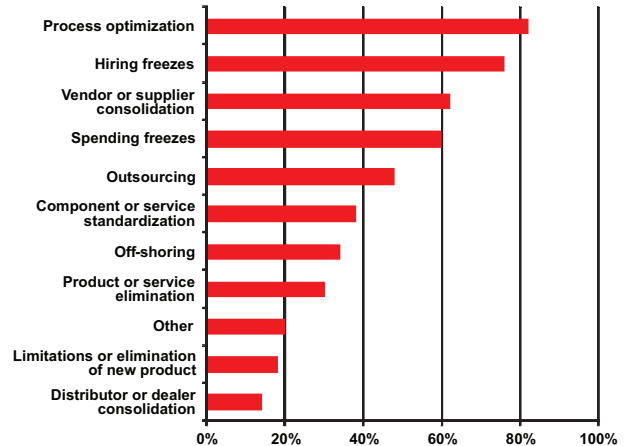




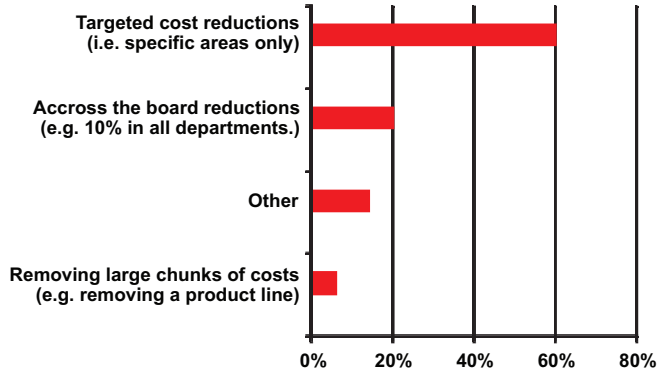
**Question 7: Which of the following is the primary driver of your cost reduction effort?**



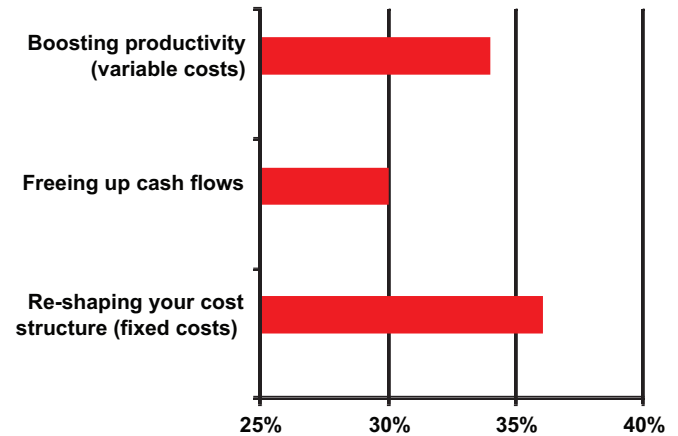
**Question 10: What cost levers is the organization pulling to achieve its objectives? (Select all that apply)**



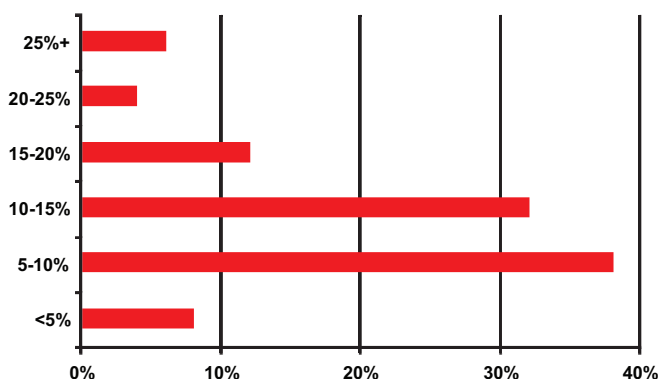
**Question 8: Which of the following would best describe the company's general approach to cost reduction?**



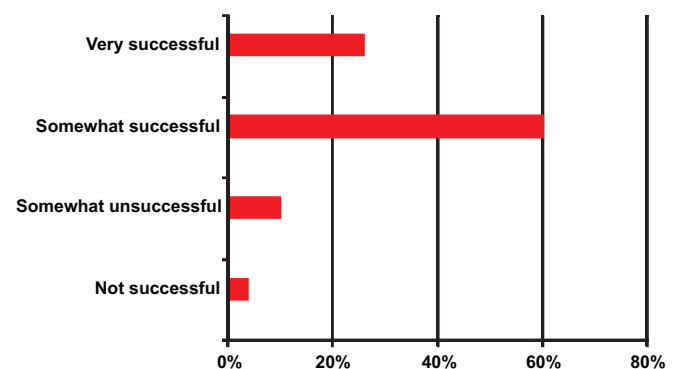
**Question 11: What is the primary goal of your cost reduction efforts?**



**Question 9: What is the organization's annual current cost reduction target for 2009?**

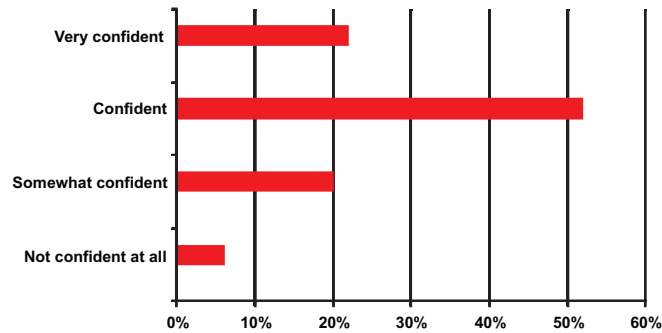


**Question 12: How successful do you feel your cost reduction efforts have been to date?**

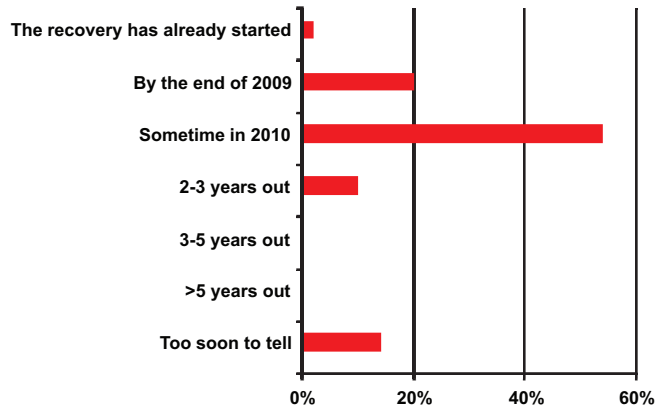




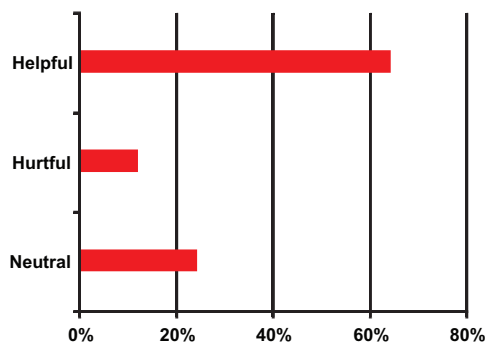
**Question 13: How confident do you feel that the current cost reduction program will realize its stated benefits for the organization?**



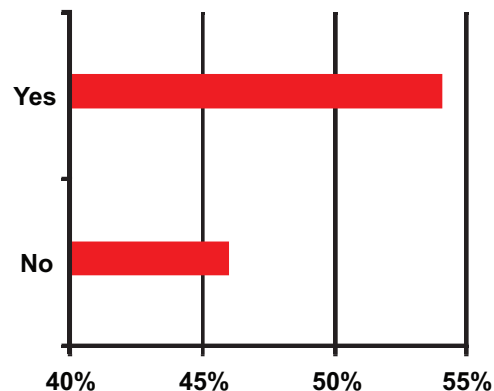
**Question 16: When does your organization believe the economy will begin to recover?**



**Question 14: How aligned do you see your current cost reduction efforts with your long-term corporate goals?**



**Question 17: Has the current economic situation fundamentally changed how the organization manages its costs and operations?**



**Question 15: What aspect of cost reductions do you find the most difficult?**

