



Cost Optimization : Key to sustainability in changing business environment

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The perspective

The entire world today is reeling under the threat and aftermath of unprecedented COVID 19 pandemic which is a Global Humanitarian Challenge. This has had a huge and significant impact on the businesses all over the world across sectors. The disruption to normal business models from the supply lines is likely to have long-lasting repercussions. This crisis has impacted every brand and organization across the globe. Given such a scenario, companies will need to operate differently to effectively manage the crisis. COVID-19 is changing the way we live, work and use technology. As the world adjusts to its new normal, this calls for a need to rethink strategies to drive resilience and emerge from this crisis stronger. Post COVID 19 business will have a new normal and the companies would need to look for strategic cost optimization initiatives and programs to ensure revival and sustainability.

As the world continues to combat COVID-19, having cost optimization strategies for navigating remediation is essential. The common reaction to the economic downturn tends to be reducing costs across the board. However, cutting costs without clear segmentation during an economic downturn is not the recipe for success. Cost adjustments

do need to be made, but the goal should be to strike the right balance between targeted, sustainable and smart spending to fuel your organization for growth. Initiate cost adjustments to streamline and simplify business operations. Concentrate your spending on areas of the business that drives the greatest value and differentiation.

What is Cost Optimization

In this rapidly changing global business and humanity environment — cost is a true strategic differentiator. One of the most impactful ways to enhance your business is to reduce the costs of operations. Reducing costs allows you to apply the savings to actions that enhance your core competencies and the pursuit of your business growth goals. Cost optimization is a business-focused, continuous discipline to drive cost rationalization based on total cost management approach for maximizing business value. This includes - Standardizing, simplifying and rationalizing processes , procedures and services, Automating and digitalizing business operations to continually explore new opportunities for bringing about sustainable value creation in the enterprise. cost optimization initiative will improve such criteria as cost optimization initiative will improve such criteria as: Business processes.

Productivity. Time-to-market. Unlike cost cutting, cost optimization isn't a one-time, immediate activity. Instead, it provides a long-term solution for your Business.

Determine Cost Optimization Approach

Several options exist for optimization, including reduction of costs, reduction of demand, and a balance of short- and long-term initiatives. Some categories of optimization functions include:

- Instituting emergency cost reductions.
- Applying selective cost reductions.
- Preserving costs and business value.
- Increasing costs for added business value

Levels of Strategic Cost Optimization :

To bring more clarity to the optimization decision-making process, companies should identify: the potential financial benefit; business impact; business risk; time requirement of candidate cost optimization projects. In terms of impact, the effectiveness of the cost optimization initiative is partly contingent on whether business leaders and their staff are capable of changing and adapting to new approaches and processes.

- Level 1 (Reduce): Cut costs and prioritize spend. Companies tend to prioritize cost optimization initiatives by simply considering short-term cash savings. While cash savings are important, prioritizing cost optimization initiatives with only short-term goals in mind can cause unanticipated problems

- Level 2 (Optimize): Remove waste and increase efficiency. Cost-cutting can have unforeseen negative consequences. The focus should be on eliminating excess waste while increasing the efficiency of current systems. Speed-to-market, quality and utilization have become exceedingly important. Suitable metrics to measure performance should be implemented
- Level 3 (Rationalize): Seek business relevance, flexibility and agility. It is imperative to focus on business goals and ensure that performance metrics should be closely tied to business metrics so that their alignment can be measured appropriately. Some of the metrics that could help with the measurement of an organization's business agility include addition of new customers /users, ability to meet current and future functional needs and reduction in time to market of new products and services
- Level 4 (Transform): Invest more to optimize more. As economic conditions improve, companies can focus their cost optimization efforts on implementing long-term business and process improvements, enabling business growth and innovation, and repositioning the business to sustain a competitive advantage

Approaches for Sustainable Cost optimization

Cost optimization initiatives and actions should be considered in line with the strategic sustainable goals for an organization. The following approaches would provide an optimum launch pad for attempting to initiate and sustain cost optimization:

- Set ambitious targets and obtain top management buy-in : Perform a high level, cost due diligence across functions, divisions, activities and peers, to set a cost optimization target, and then stick with it and communicate the same across all hierarchical levels within the organization.
- Plan which areas to optimize by using pragmatic methodologies: Follow a structured and systematic approach to identify key areas for improvement and potential quick wins. One pragmatic and rational approach is to develop a profitability tree mapping the key cost drivers and identifying the areas to focus on. Moreover, it's important not to get locked into a "one size fits all" approach, where costs are cut equally across the board, as this may hinder the company's ability to achieve long-term savings
- Align the organization and implement a cost performance culture :To ensure cost optimization targets are met its important to involve all levels of the organization, particularly "operational" teams that have key insights on where and how to optimize costs.
- Ensure delivery through a robust performance management and communication : Cost optimization initiatives and targets should be tracked and monitored on continuous basis
- Sorting the good costs from the bad : The key to realizing this opportunity is making sure that maximum resources are targeted at the drivers of profitable growth (good costs), while freeing up and minimizing bad costs
- Leverage technology : to automate certain types of work processes to reduce labor costs. The ability to automate workflows that run across numerous platforms to decrease manual, repetitive tasks is valuable in every industry
- Improving data management :Use enterprise information management to treat information as a company wide asset. This means people from across the enterprise will have access to data, and will be able to share and use that data to create business value through better and faster decisions.
- Improving inventory management :Inventory is a challenge for business leaders since it exists paradoxically as both a supply operating lever and balance sheet financial asset. However, since inventory is a working capital asset, reducing inventory will contribute directly to the bottom line.
- Re looking at suppliers and vendors : One of the best ways to reduce costs without rocking the boat, so to speak, is to let each of your vendors know that you're going to be price shopping their products or services. Vendors know that the cost to replace a lost client is much higher than the discount they may need to provide to keep you around. You'll likely find that your vendors are willing to reduce the costs of their products or service to maintain their account with your business.You may also find that some of your vendors are willing to upgrade your service, giving you more for your current price.

- **Improving business efficiency through analytics :** Don't underestimate the value of analytics beyond conventional business intelligence. Not only can advanced analytics save businesses, reduce customer churn and make equipment safer, utilizing the provided information to gain even single-digit percentage improvements in areas like customer retention or marketing responses can have a big impact on the business.
- **Business process outsourcing :** Managing business process outsourcing (BPO) for companies is challenging, particularly when services are not contracted with a strategic business service or partnership in mind. Focus on business outcomes, such as customer satisfaction, to impactfully manage BPO services. Outsource non-core operations to reduce its cost base and focus on core business
- **Reduce Employee Turnover :** The impact of regular employee turnover is greater than most businesses realize. The cost of hiring and training new employees is considerable. Not to mention, the decrease in productivity that occurs each time a new team member has to be integrated and brought up to speed on your systems. Boosting employee retention is such an important issues that we have a full guide on the subject. Be sure not to miss it!
- **Go Green :** This tactic may seem straightforward enough, but countless companies around the world are still wasting natural resources and their budgets every month. Going paperless reduces

costs and typically makes for more efficient business systems and record-keeping. Installing energy efficient lighting, shutting down unused workstations and machinery, and programming thermostats can all reduce utility costs significantly.

- **Continuous improvement culture :** Enterprises sometimes become trapped by the attitude of “this is what we’ve always done,” which can create waste. Business leaders need to work collaboratively with employees all across the organization to identify and remove this waste, which is typically in the form of reworks or delays due to issues further up the line, to focus on lean improvement efforts.
- **Set direction and show leadership:** Be bold, be brave and be creative – use technology, innovation and new ways of working to radically optimize the cost base. Deliver cost optimization as a strategic, business transformation program.

Conclusion

Organizations should approach cost optimization as an expansive effort that can have both immediate and long-term significance for business performance. To truly serve the enterprise, cost optimization demands a mix of improvements that touch every part of the enterprise. The survival and success of your business depends on a transformation in your competitive capabilities and underlying cost base. The only way to make this work is to think strategically and think big from the outset – be radical, don't tinker.