Cost-cutting hints can strengthen your company

Almost everyone is hurting in the current economy. But some firms will not only survive but prosper.

Cost-cutting professionals have some methods they suggest for helping lo make the tough budget-trimming decisions so you can stay afloat and strengthen your business. Rebecca A. Morgan. president of Fulcrum Consulting Works Inc. in Cleveland, recommends a three-part approach to cutting costs.

For starters, she says that managers should ask themselves why they are paying more attention to cutting costs now than during other periods. Can your company afford to operate "fat" sometimes and not others?

Why do customers buy from you and not the competition? Managers need to make sure they nurture those strengths while trying to find cheaper ways to handle less critical parts of the business.

How? First, "most companies seek to reduce costs by hitting the easy items first – travel and entertainment, hiring freezes, employee layoffs or reduced time scheduled," she says. Unfortunately, a lot of muscle, rather than fat, is often cut, too.

For example, Morgan explains, when industry sales are down, it can be a great time to increase market share by getting sales and marketing folks closer to the customers that your competitors are ignoring as they reduce their sales and marketing expenses. You may need to spend the money differently, but cutting back on sales and marketing in a down market is no way to increase market share.

Second, many companies take the option of laying off part of their work force. And direct labor usually goes first. This approach may be easy, but the negative impact can be significant and long lasting.

"Again," Morgan says, "we often cut muscle rather than fat." She says that's a shortsighted approach because when business comes back, companies will hire again, meaning they have made only a temporary change in costs without changing the basic cost structure.

"If you have bad employees, don't wait for a downturn to get rid of them. If you have good ones, keep them even in the tough times so they are with you when you need them most," she says. "Rather than cutting the easy expenses, look at your real long-term structural costs that you don't need to incur."

Thus, Morgan advises companies to take "extra" workers and have them focus full time on problem solving to eliminate or greatly reduce long-term costs like scrap and rework.

"Address costs that are harder to get to but will always be there if you don't actively work to eliminate them," she says.

"Have them look at why inventories need to be so high or why queue time is so significant. Look at how to change the process to reduce absenteeism, accidents or the other physical problems costing you money."

Finally, Morgan warns that "across-the-board budget reductions may seem fair, but they are rarely good business." Instead, she recommends looking at which business processes are working and which are not and making long-term structural improvements to your operations. These steps will reduce costs for the long run, not just for the current downturn.