

COST CUTTING VS. SUSTAINABLE COST REDUCTION

Most cost cutting initiatives are not sustainable - all they bring is temporary financial relief. The overall result is to postpone the inevitable and make the operation or business less capable of competing in an advancing market. The only sustainable way to reduce cost permanently is to reduce Waste.

Sustainable Cost Reduction is the targeted use of Lean methods to remove Waste from the biggest cost drivers. While this is logical in theory, in practice things look quite different during a crisis - the need for change is urgent, but there are few or no resources available to implement any improvements.

By combining different Lean methods, costs can be continually reduced over time. The Sustainable Cost Reduction approach quickly identifies and quantifies potentials while building a sustainable plan that leads to Continuous Improvement.

A CRISIS IS AN OPPORTUNITY, NOT A CATASTROPHE.

There is no greater motivation to change than a crisis. Success stories such as Toyota and Porsche were born in crises. A crisis should be viewed as a gift.

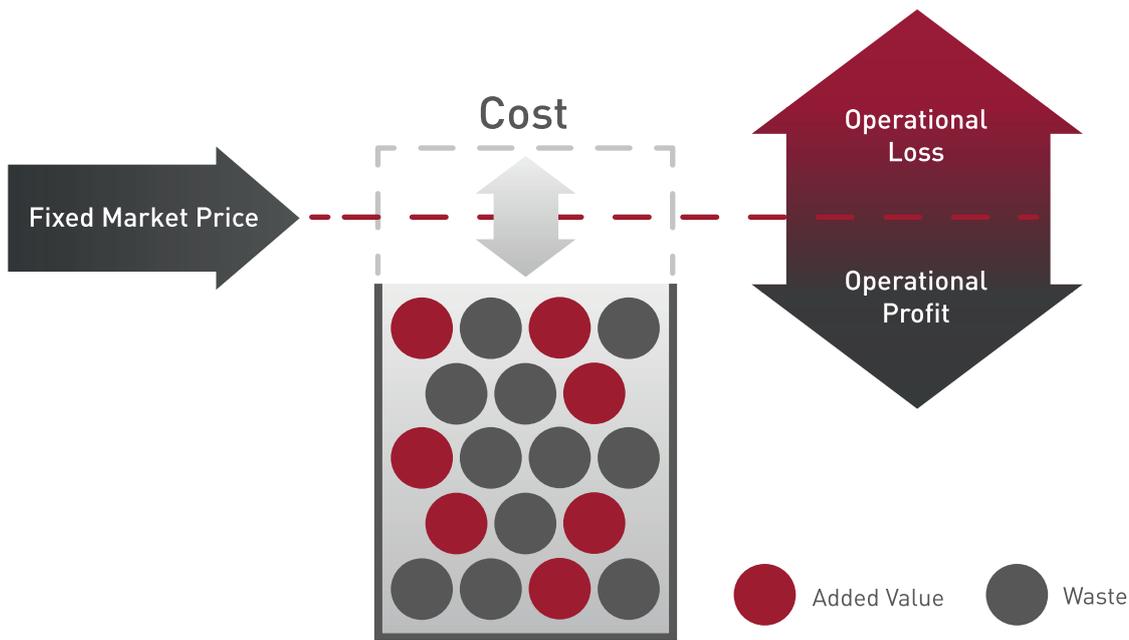
ASIDE FROM THE LACK OF RESOURCES - INCLUDING CASH - TO IMPLEMENT ANY IMPROVEMENT, THE STARTING POINT DURING A CRISIS IS ALSO UNCLEAR:

- The biggest cost drivers may be difficult to differentiate and quantify
- Wastes may not be clearly identified, making them difficult to remove
- The speed or ease with which changes can be made is not known

FURTHERMORE, RAISING PRICES IS NOT AN OPTION – THE FOCUS HAS TO BE ON COST:

- **Fact:** Customers / markets set prices – in a crisis these come down
- **Fact:** Cost is the only real lever to increase profitability
- **Fact:** Waste drives unnecessary cost. Waste is any product, activity or resource that does not add Value from the customer's perspective

The only sustainable way to reduce cost permanently is to reduce Waste.



Sustainable Cost Reduction is the targeted use of Lean methods to remove Waste from the biggest cost drivers.

Each market is different and each company's needs are different. It is therefore logical that no single tool or method is guaranteed to solve every company's issues. To reduce cost sustainably, Waste must be removed. To reduce cost effectively, Waste must be reduced from the biggest cost drivers.

TO THESE ENDS, PROVEN WORLD CLASS LEAN METHODS ARE APPLIED TO:

- Reduce Product Cost
- Reduce Working Capital
- Increase Asset Utilisation

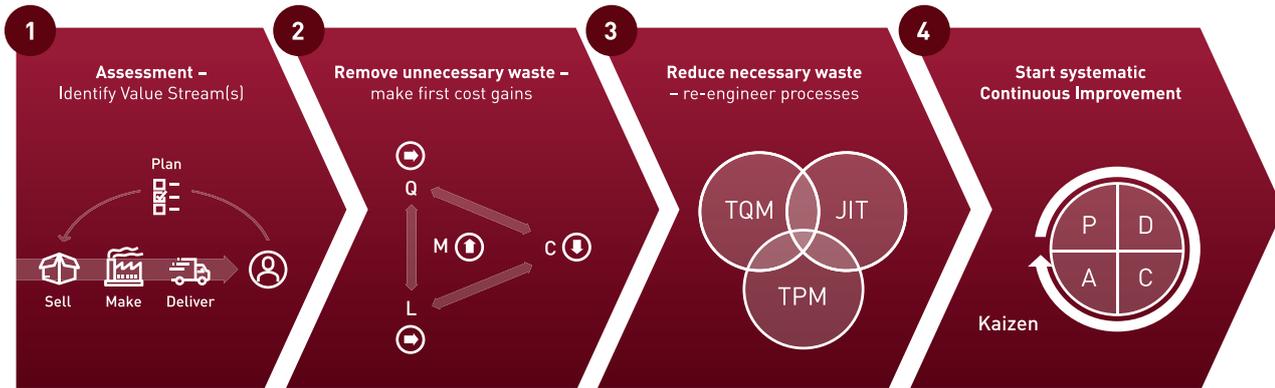
The implementation of these methods needs to be delivered through a Lean transformation plan with the correct starting point and the ultimate goal of instilling Systematic Continuous Improvement.

The Four Principles SCR approach quickly identifies and quantifies potentials while building a sustainable plan that leads to Continuous Improvement.

Theoretically, selecting the right Lean methods and applying them seems logical. However, in practice this is not straightforward - particularly during a crisis.

FOUR PRINCIPLES HAS DEVELOPED A FOUR STEP APPROACH THAT ADDRESSES THE TWO MAIN CHALLENGES TO IMPLEMENTATION:

- Where to start?
- How to sustain a Lean implementation programme?



1. ASSESSMENT:

Firstly, through a Value Stream Analysis, the actual Value to the customer is defined and quantified. As a result, though defining the Value, all Waste can be identified and quantified. The focus is on identifying Waste in three areas: cost, processes and people. The organisation’s capability and willingness to change is also assessed. From here, a logical and sustainable Lean transformation plan can be drawn up.

2. COST REDUCTION:

Three immediate areas of improvement are then identified. These may not be the three areas of greatest potential, but will be the main areas where savings can be implemented quickly through targeted workshops.

The focus of these workshops is on removing unnecessary Waste. “Waste” means products, activities or resources that do not add Value to the customer – in other words, their removal will have no negative effect on the quality and delivery of service to the customer. The workshops will also serve as “Lean Lighthouses” to establish early success stories using Lean approach. This is a key enabler for Willingness to Change within the organisation. The outcome is the establishment of both organisational resources and willingness – a foundation of sustainability to embark on Phases 3 and 4.

3. RE-ENGINEERING:

Processes are then re-engineered in sequence to reduce necessary Waste - making the Value Adding activities more efficient. This approach is applied by way of bottom-up process improvements to solve chronic operational problems. Each improvement contributes to an overall Process Vision, whereby processes and organisational structure are optimised across the value stream. Whilst the duration and activities of this phase greatly depend on individual circumstances, it is a prolonged period during which major improvements are designed and piloted in one area before being rolled out in collaboration with the client team.

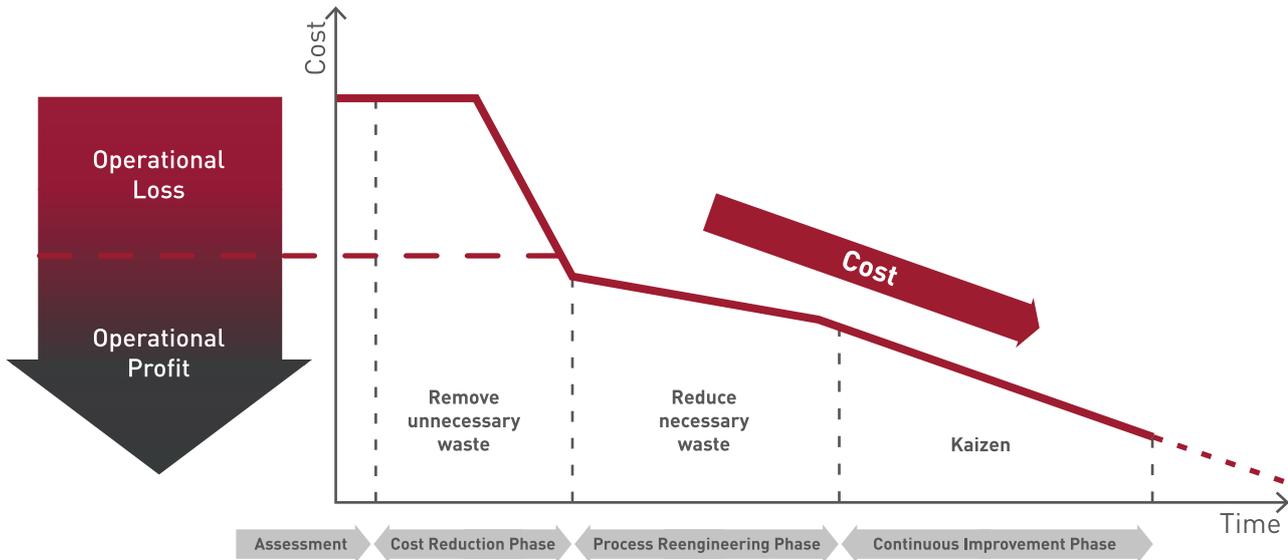
4. CONTINUOUS IMPROVEMENT:

The final phase, this is a beginning rather than an ending - it is the start of Systematic Continuous Improvement. The focus of this phase is on enabling client staff to steadily continue improvements unaided and by themselves. The 8 Success Factors of Lean change are used as a framework, with periodic audits and leadership coaching as necessary. Here, the client team moves into the lead and all processes, training and tools are put in place so that Continuous Improvement becomes systematic.

The final outcome is not only a more profitable operation, but also an organisation capable of Continuous Improvement.

As the organisation becomes more mature and capable, the challenge to find and reduce

or eliminate Waste will become greater. However, at the same time, the organisation will become more capable of doing so. In this way, as Waste is continuously removed, so too are costs continuously reduced.



Should you be interested to know more about our Lean services regarding this topic, then please contact us:

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