



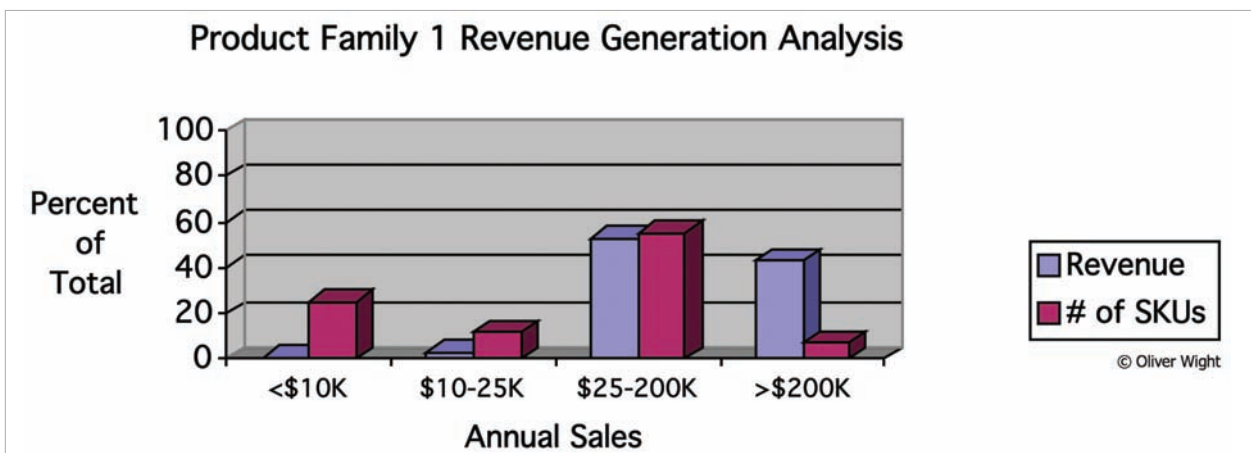
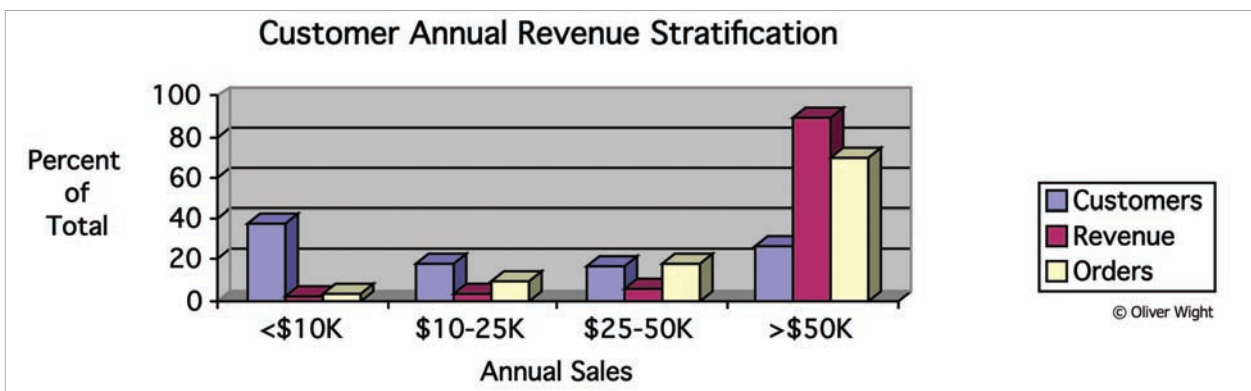
Cost Driver	Costs Driven
Number of Products	Catalogs and Sales Collateral Inventory Investment Warehouse Material Handling Returns / Warranty
Number of Customer	Customer Service Sales Shipping Accounts Receivable Credit Management
Number of Suppliers	Purchasing Shipping Accounts Payable Quality
Number of Promotions	Advertising Catalog / Pricing Management Printing
Number of Facilities	Inventory Investment Shipping Middle Management
Number of Orders	Customer Service Logistics
Number of Executives	Salaries Travel Staff Stove Piping

the function and if it is worth the cost of producing those requirements. For example, if your accounting function requires a great deal of human intervention and adjustment, if it takes days or even weeks to close the books, and if cost accounting information doesn't lead to effective business understanding and improvement,

the greatest impediment to growth, once the economy begins to revive and recover, is the inability of infrastructure processes and systems to accommodate the stress of increased volumes and expansion into new markets and customers. The message is: Fix it now or limit your opportunity in the upturn.

that the economics of maintaining a large product offering for an unlimited customer base were not sustainable in an economic downturn. Several strategies and tactics were then developed and alternative scenarios proposed with the full financial impacts included for each.

The company already had agreed to



the function and process needs to be changed or repaired.

The message here is that before instituting wholesale cuts in cost drivers to eliminate work and, therefore, costs, it is totally legitimate to challenge the performance of the process expending the costs.

This makes the best kind of sense when looking to the future. The

An Oliver Wight client engagement is presented as a representative example. A business analysis was initially conducted in anticipation of the need for a significant labor reduction. The findings presented to management led to executive action that reduced the workload in conjunction with the workforce reduction.

Specifically, the analysis revealed

several assumptions for planning that included:

- A determination that the economic downturn would last at least a year and current expenditures were not affordable.
- 25 percent of the customer base would not survive the economic downturn.
- 20 percent of the competitors serving their markets would not survive the economic downturn.

• 30 percent of the suppliers would not survive the economic downturn. Among the alternatives investigated and proposed were:

- Eliminating customers.
- Eliminating products from the offering.
- Raising prices on low-volume products.
- Instituting rewards for consolidating orders.
- Limiting certain customers to website ordering and customer service.

The solution that was implemented was a blend of these alternatives. The major impact was significant reduction in the product offering together with a managed disengagement from those

customers who were considered both an economic risk and low-volume consumers. The amount of work eliminated allowed for workforce reductions without management just telling everyone they were going to have to work harder and longer in these tough times.

The downsizing was unpopular. However, the purposeful and courageous activity of company management made the remaining workforce more confident that there was a plan in place for survival; that it was actively being managed by the senior executive team; and that they were concerned for the financial health of the company and the remaining employees.

**Conclusion**

In an economic downturn, many products, customers, suppliers, and internal processes that were once sustainable need to be re-evaluated. Your own internal assessments may have determined that some of them will not survive a bad economy. Taking action to reduce work may be possible with a relatively small impact to the top line and a big one to the bottom line.

In the next article in this four-part series about effectively managing in an economic downturn, we will discuss the strategies and methodologies to advance the business in a down market. ■

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April 7, 2009  
Chicago, IL


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