2009

Intelligent cost-cutting

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Source was founded by Fiona Czerniawska and Joy Burnford. Fiona is one of the world's leading experts on the consulting industry. Her books include: *The Intelligent Client* and The Economist book, *Business Consulting: A Guide to How it Works and How to Make it Work*. Joy Burnford has held senior positions at the UK Management Consultancies Association since 2003 and has extensive experience of marketing consulting services.

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Foreword

Downturns are the best times to change and re-shape an organisation. Operational stresses and inefficiencies are more obvious and no one can argue with the rationale for improvement. The changes themselves, though still painful, are often viewed more positively by those involved.

But there is a huge difference between a programme that is aimed at taking a percentage of costs out in every function and one that focuses on cutting specific activities. Across the board cuts have unintended but inevitable consequences. Reducing the number of customer-facing staff may mean you have more complaints to deal with. Indeed, laying people off should always be your last resort, not your first, as it significantly impairs your ability to bounce back as the economy recovers. Experience has taught us that there are two factors critical to success in any cost efficiency programme.

The first is to ensure that, whatever costs you choose to cut, you take your front-line managers with you. These people are the bridge between you and your customers. It is their attitude, motivation and commitment which will determine whether their teams – and ultimately your customers – stay with you through a recession. Customers may have less money to spend, but they can still choose to spend it with your competitors. Employees may have fewer career options, but they may still move elsewhere.

The second factor is innovation. Innovation is not something that is typically top of the agenda when money is tight, yet, time and time again, we see companies that put a premium on product and service development performing better during downturns and recovering more quickly in the upturns. Innovation can be the first casualty of a recession because it is still wrongly viewed as a discrete function, an overhead when times are bad. Yet genuine, sustainable innovation should happen at all levels in an organisation all the time. Of course it doesn't just happen; it needs to be fostered by an enlightened management community which in turn fuels an attitude of mind across the whole organisation. Operational innovation in particular can deliver exponential improvement be that in better service, new operating models, faster processing times, enhanced products or reduced costs.

Organisations focus on straight percentage cuts in costs because it is the easy option. We are therefore delighted to be associated with this report which highlights how costs can be cut both selectively and sustainably and which provides a guide to where and how consulting firms – also used selectively – can help in that process.

Brendan Cahill
Chief Executive Officer, Trinity Horne

Executive summary

With recession looming, organisations are switching their focus from performance improvement to unambiguous cost-cutting. Yet such initiatives have often failed to produce the savings expected because people start with the "what" ("Let's cut costs by 10%!") rather than a "how". They fail to see that cutting costs in one area may increase them elsewhere, and allow costs to creep back up once the immediate crisis is over. Ensuring this does not happen depends on seeing how costs are inter-connected; acting quickly and decisively; and engaging your employees. Where organisations are looking to take a percentage of costs out across the board, consulting firms have little to contribute. They can, however, help provide focus, objectivity, experience and speed where organisations take a more considered approach to cutting costs.

The dangers of slash and burn

Given the prevailing economic environment, it will come as no surprise that, in a recent Source survey of large organisations, respondents said that they were almost twice as likely to increase their expenditure on operational improvement consulting as any other type of consulting. As Russell Poynter-Brown at Davis Langdon puts it "There's blatant cost thuggery going on."

In this atmosphere it is tempting – indeed, sometimes necessary – to slash and burn. But that approach ignores several important lessons:

1. **Short-term gains**: Marry in haste, repent at leisure is an axiom that could be usefully applied to cost-cutting. "You can take 30 percent of costs out of any business very quickly, but you wouldn't want to be responsible for the mess that follows," says Simon Vear at PSM Consulting. "You have to ask yourself whether you're creating sustainable change."

2. **Old methods won't work**: Organisations who try to repeat the cost-cutting exercises that helped them through past recessions are likely to find that they don't get the same results. Globalisation, greater dependency on outside suppliers and more complex supply chains all make isolated, incremental savings harder to realise.

3. **Spend to save:** It sometimes costs money in the short-term to save it in the long-term. You might save on running costs by buying a new car, but you still have to buy the car in the first place.

4. **Unrealistic expectations:** Past cost-cutting projects, combined with wishful thinking and, in some cases, desperation can encourage people to overstate potential savings and to ignore the unintended consequences of the cuts they make. "One of the pitfalls is to think you're doing the same for less," says Steve Watmough at Xantus. "In fact, it's incredibly unusual for organisations to do this: what they're doing in practice is cutting corners."

However, despite decades of cost-cutting, there are still opportunities. Most of the consultants interviewed for this report said they expect to be able to save a client at least ten percent of their costs in a specific area. Often the savings are higher, although this depends on the nature of its business, its maturity and the extent to which it has succeeded in cutting costs in the past. A company that has been growing quickly is more likely to have inefficiencies than one that has adopted standard operating procedures and has implemented centralised systems.

Technology and techniques move on; new business models come to light; processes improve. "Athletes run faster, because diets get better and training techniques constantly improve," Jon Bradbury at The Berkeley Partnership argues. "The same is true of organisations." "Best practice always moves the boundaries of where we are today," agrees Celerant Consulting's Bart le Clef.

Outsourcing is a good example. Around for 20 years, managers might be forgiven for assuming that the opportunity for further savings is limited. Not so, argues Tim Lloyd at Alsbridge. "The outsourcing market has changed almost out of recognition," he says. "Companies that outsourced a few years ago should be renegotiating their existing contracts to take advantage of greater competition and looking at how they can outsource more knowledge work." For all the headline-grabbing comments about budgets being slashed, investment in IT quietly continues. "We're not seeing people strongly cutting back here," says Kevin Simmons at Capgemini. "They recognised that technology plays a critical role in improving productivity."

But the greatest challenge is to ensure that whatever costs are taken out of an organisation help, not hinder, its ability to compete as the economy recovers. "You have to distinguish capacity from capability," says David Rankin at KAE. "You can reduce your capacity so long as it doesn't compromise your capability." "You have to cut selectively," agrees Brendan Cahill at Trinity Horne: "It's better to stop doing some things than pare back everything."

The following sections of this report explore:

- What tends to go wrong in cost-cutting projects.
- How to ensure they succeed.
- Where consultants might be useful – and where they are not.
- The different approaches to cost-cutting that consulting firms take.

Managers often have an overall number in their heads, often as a result of a prior high-level study, but successful cost cutting combines delivering short-term results with improving clients' ability to control costs in the future, e.g. through improved cost transparency.
– John Dowthwaite, DMW Group

If a cost reduction can't be sustained, then it's not worth doing
– Allan Duguid, Hitachi Consulting

People may not believe it at the moment, but cost-cutting should go hand-in-hand with building for growth
– Daniel Meere, PA Consulting Group

CASE STUDY – Virgin Media

"We don't generally start with the isolated aim of cutting costs, but with our strategic priorities,"

– says Melanie Beavis Schiller, one of Virgin Media's Corporate Services Procurement Managers.

What matters to us is that we start by thinking about our customers. What will improve their experience of using our services? Will the change have a beneficial effect on them? Will the change enhance their view of Virgin Media or make them think about switching to a different service provider? What can we do to improve long-term customer value? And we apply the same thinking to our suppliers: we want the best value, not necessarily the cheapest service. Our purchasing choices are driven by investing in customer loyalty, not by cutting costs. This means that the questions we ask of suppliers are different: what impact would the proposed service level have on our customers? As a business, we know from experience that if we just try to cut costs without taking the impact on our customers into account, customers will look elsewhere. Customer perceptions are very sensitive and all our purchasing decisions have to be taken in the light of this.

That creates a huge challenge for the purchasing team. In a sense, we become the tough edge of the business, integrating the creative and strategic aims of the senior management team with cost and spending constraints. On the one hand, we have a preferred supplier list and are constantly trying to rationalise this, as more suppliers invariably mean higher costs. On the other hand, we want to be able to find really great suppliers so that when a consultant finishes a project, our customers and our business are better off. This means that consulting firms are not selected for projects just because they've worked with a particular part of the business before: we want our senior managers to see what the firms on our preferred supplier list can offer before they make a decision. We also ensure that all the firms on the list are very good at what they do, so managers don't have to waste time vetting and re-vetting their capabilities.

Getting best value out of using consultants is a question of process as much as price. We use competitive tendering wherever possible: internal managers usually review at least three potential suppliers before making a decision so they can get a variety of different views and have the opportunity to match their requirements against the services and approach of a given supplier. Although we want to pay a reasonable rate for the work, the priority here is to ensure there's a good match between the supplier and the business's strategic objectives – because that's the basis of good value and effective outputs. We can, for example, save a lot of money by getting good financial advice: that advice might appear expensive as an up front cost but it can save us millions.

Another critical success factor in making good use of consultants is being very clear about what you want them to deliver and your acceptance criteria at the outset – misunderstandings and lack of clear agreement about end objectives almost always result in over-runs and both us and the supplier being dissatisfied. Part of our job is to sit down with every supplier at the start of a project, define responsibilities and deliverables, and ensure the supplier is fully engaged. We want to know who is available, what the plan is, and what facilities and access we need to provide. We'll also specify how the supplier will help coach and develop our staff so we can build up our own, independent expertise with an effective handover at the end of each project. Trinity Horne has achieved, not only some brilliant efficiency savings by helping us use our field engineers' time more effectively, but has also helped our managers understand how to manage their own resources more efficiently in the future. We could have used this to reduce headcount. Instead we improved service to customers with the increased capability, thereby enhancing customer loyalty and recommendation and moving towards the key objective of not only retaining but increasing our customer base and therefore increasing revenues.

If something is important to us, then we need to measure how effective the supplier has been in providing it. At the end of a project, we go back to our internal users to get their feedback and we like to have quarterly debriefs with the consulting firms who work with us to talk about what they do well and what we would like them to improve as well as to hear their feedback on how we can be easier to work with. This isn't a punitive process: we want a long-term relationship where there's continuous improvement on both sides. Of course, where the feedback is good, we'll tend to use the firm over and over again; a bad experience will mean they get less work from us in the future.

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What goes wrong in cost-cutting projects?

Our research has identified five factors which can significantly reduce the likelihood of success in a cost-cutting initiative:

1. **Carts before horses:** Organisations often start with a number, not an objective. "Or worse," observes Avail Consulting's Nick Stevens, "some organisations pick up the latest buzz-word and seek to implement this technique without really understanding whether it is the right tool to solve their problem." Cost-cutting has to be seen within the strategic context of the business, rather than targeted at a specific group of people or tier of management. "Every year, every business launches initiatives to drive the business forward, but it's very rare that they cancel any on-going initiatives. There isn't a senior person who has never seen anything other than a great project," says Michael Curran-Hays at Kepner-Tregoe. The challenge, therefore, is to introduce a portfolio-based approach in which projects are scored against the objectives of a business, with those that score less well being cancelled. "Then, and only then, should you consider which people are surplus to your requirements," argues Hayes. "What tends to happen in environments like today's is that people jump to quick conclusions about where jobs should be lost."

2. **The view from 30,000 feet:** The Catch-22 of cost-cutting is that senior executives are in the best position to identify cross-departmental savings but often lack the information to make the right decisions. If they hand over responsibility for identifying cuts to middle managers, then the scale of savings will be limited simply because the managers' authority is limited. However, taking out ten percent of staff across the board ignores the fact that some managers will have built higher-performing teams than others. "The question shouldn't be 'How much can we take out?' but 'What should we stop doing?'" says David Rankin. "Cost-cutting has to be selective based on where value is created."

3. **Isolationism:** Because most managers see only their immediate department or business unit, there is a real temptation to ignore the unintended consequences of their actions on other parts of the organisation. A company that cuts back on quality assurance may end up dealing with more customer complaints. "It's perfectly possible for a manager to make all the 'right' cuts from his or her perspective while ignoring the fact that someone somewhere else is bearing the risk of that decision," Russell Hobby at Hay Group argues. "In the eternal triangle of cost, service and risk, you have to look at all three," says Alan Noble of Venturehaus. "If you focus on costs, your service levels will go down and your risks increase. That, in turn, means you have to re-invest in your services, which means taking on risk."

4. **Quality and service suffer more than costs:** A typical slash-and-burn approach to cost reduction also ignores the extent to which some functions may already have been cut to the bone. "A board may think that service levels are acceptable without realising that the business is struggling to maintain them, because they've yet to recover from the last round of cost-cutting," Trinity Horne's Ian Brumwell points out.

5. **Lack of follow-up:** "You have to distinguish between violent change and continuous change," says Alan Noble. All too often, cost-cutting programmes are announced to huge fanfares only to fizzle out some months later, either because executive sponsorship has evaporated or because the immediate impetus never translated into a culture of keeping costs low.

Understanding the drivers of cost is more important than the actual numbers

– Bart le Clef, Celerant Consulting

People don't understand the difference between cutting costs and cutting activities

– Charles Kirchner, Marketing Supply Chain

Costs are like fingernails: if you don't keep them trimmed all the time, they rapidly get out of shape

– Steven Culp, Accenture

Critical success factors in cost-cutting projects

Organisations take one of three fundamental approaches to cost-cutting:

1. **Survival** mode sees a knee-jerk reaction with people and discretionary expenditure cut indiscriminately. "You see people locking up the stationery cupboard and not allowing people to use writing pads," says Baker Tilly's Alan Davis. "It's a sign of a truly distressed organisation."

2. A **tactical** approach involves a little more thought. Although there are still headcount cuts, there are other initiatives too. A typical example would be using purchasing power to buy things more cheaply. People start to think about how to take non-added value out of the business, so it is more sustainable than the survival mode.

3. Organisations that adopt a **strategic** perspective will tackle bigger questions: What is core to their business? Can they move an operation to a low-cost location? This approach requires more thought and time, but is likely to yield the most sustainable benefits.

Our research has identified ten critical success factors common to all three approaches:

1. **Take a holistic perspective.** According to John Oakland at Oakland Consulting, "one of the first and most important challenges is to ensure that whatever costs are cut, are cut in the context of your existing business context and strategy." That is not as easy as it sounds: "The reality of today's organisations is that there are many moving parts," says Steven Culp at Accenture. Complex value chains, globalisation, simply dealing with multiple products and markets increase the risk that costs cut in one area will increase complexity elsewhere. "You have to see cost as intimately connected with time and quality," continues Oakland. "Cut costs and you may see quality deteriorate and time increase, both of which will ultimately drive costs back up again. Understanding the drivers of costs, not just the realised costs, is imperative." You must also understand what drives cost up across an organisation as a whole, not just in the areas visible to them. "People tend to be good at managing up to the point where they lose touch with a process," observes Charles Kirchner at Marketing Supply Chain Solutions. Taking suppliers into account is also important. "How do you get your outsourcer to feel your pain?" asks Steve Watmough at Xantus, "especially if you're tied into a long-term contract."

Cutting waste isn't just about cutting what's obvious
– Nick Stevens, Avail Consulting

You have to go back to first principles and ask what business you're really in and whether you truly understand the forces affecting your organisation
– Russell Poynter-Brown, Davis Langdon

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2. **Review the evidence systematically:** "Transparency is the Nirvana of operational excellence," says Alan Noble. Under pressure to survive, people make assumptions rather than look at the facts. Indeed, the further up the management chain someone is, the more likely they are to rely on intuition. "You have to get a factual handle on where costs lie within your business before deciding where to focus or how to make change happen," says John Lockton at LCP Consulting. And that may not be the information the management team sees: "You have to get out there and see what's happening on the shop floor," says Simon Vear. "You also have to look at trends not absolute numbers." "Don't rely solely on benchmark data," is the advice of DMW's John Dowthwaite. "It's easy to be seduced by 'industry averages' but much traditional benchmarking is inappropriate because you're not making like for like data comparisons." Once acquired, facts speed up decision-making because there is no room for people to argue about what gets cut where. They enable managers to identify the underlying problems that drive up costs and highlight cross-department savings.

You have to make waste visible
– Patrick Gambin, Celerant Consulting

The one thing people should have learned from previous downturns is not to over-react. Otherwise they risk throwing the baby out with the bath water
– Tim Lloyd, Alsbridge

3. **Create value, don't just cut costs:** Facts can also be used to put a value on activities which otherwise get cut. "Reducing expenditure on customer service may cost an organisation far more in the long-term" argues Patrick Gambin at Celerant Consulting. A downturn should not be seen as an excuse to throw out an existing strategy: indeed, savings should be made in such a way that supports the strategy so that the organisation is primed to grow quickly as the economy recovers. "You shouldn't start with a magic number of the level of savings you want to make," says Gary Ashton at ER Consultants, "but from the principle of ensuring that the organisation can still achieve its objectives by working smarter."

You have to understand how your people can create more value in the future – the capabilities you will need as the economy recovers must form the context for your key people decisions
– Richard Moore, Mercuri Urval

A downturn is the perfect time to start building for the next wave of business
– Allan Duguid, Hitachi Consulting

4. **Take decisive action:** Once the thinking and data-gathering is finished, it is imperative that you act quickly. Every minute wasted not only costs money but allows rumours and uncertainty to fester, to the detriment of performance. "One thing I've learned from past downturns is that small steps won't help," says Steven Culp. "Once you've worked out what you're going to cut, it's better to act promptly and aggressively than to kill by a thousand cuts," agrees Brendan Cahill.

5. **See cost-cutting as change management:** "Past cost-cutting has made managers more sensitive to the impact they may have on the people who work with them," says Allan Duguid at Hitachi Consulting. "There'll always be a temptation to pay more attention to technology and processes, because those look as though they're the main drivers of costs. But if you haven't addressed the people part of it, you won't succeed." Without this perspective, you risk losing your best people. "You need to look at your people in terms of your future situation, not the current status quo," says Richard Moore at Mercuri Urval. "Demographic patterns are changing in Europe and, as a result, you still risk losing your most talented people during a downturn. The insecurity factor which might make people stay doesn't mean there are no employment alternatives for top-performers."

6. **Communicate:** Swift action has to be accompanied by clear communication. The reverse is usually true in practice. Cost-cutting almost inevitably involves people's jobs and pay: "Even the most senior executive can feel uncomfortable discussing these issues," says Craig Walker at Boxwood. There are two characteristics of effective communication in this context. First, it has to be utterly unambiguous: every word will be pored over and therefore needs to stand up to this intensive scrutiny. Second, it should focus on the positive messages. "Most organisations don't think about this," says Ian Brumwell at Trinity Horne. "They don't say that reducing costs will keep prices low and retain customers in a downturn."

7. **Engage:** Taking a scythe to an organisation runs the risk of cutting out the heart of what people care about. "The effectiveness of a workforce is a function of engagement," argues Russell Hobby. "If you don't engage people, all the costs you manage to cut will reappear, as old working habits reassert themselves." Alan Davis at Baker Tilly earned an OBE for his work in helping the Ministry of Defence take £1 billion a year out of its logistics: "Changing systems and re-engineering processes helps, but the real savings came from cultural change," he says. Of course, involving people takes time and there is a trade-off to be made between the level of involvement and the speed with which savings can be delivered. "Employees should be given an opportunity to air their views," says Gary Ashton from ER Consultants. "Cost cutting shouldn't take place behind closed doors. But neither do you want to create committee-itis." However, a de-motivated organisation is far more likely to see a fall in productivity which negates the money saved in redundancies. Although good communication plays a part here, it is also important that laying people off is – and is seen to be – a last resort. "Managers should be seen to have done all they can to keep people," says Craig Walker. "You need to be clear this is the last lever to pull, not the first."

If you want your savings to be sustainable, it has to be done through your people, not imposed on them

– Ian Brumwell, Trinity Horne

8. **Do it quickly:** Organisations are accustomed to programmes of change which last years, but cost-cutting is different. People are far more likely to be de-motivated if the process is drawn out. Long-running projects are also much more likely to lose momentum and fizzle out, leaving the worst of all possible worlds: unsettled employees but no savings. "Our view is that you have to be able to deliver tangible savings within three or six months," says Brendan Cahill. "Longer than that and people start losing faith in your ability to deliver."

9. **Measure progress:** We are all familiar with the dictum that only what gets measured gets managed, and this is especially important when it comes to keeping costs under control across an organisation as a whole and ensuring that changes in performance, whether good or bad, are correctly understood. "You have to put metrics in if you're to stop costs creeping back up," points out Michael Curran-Hays. "Every objective should have an associated metric so that you can see if you're falling behind, irrespective of the economic climate."

10. **Keep the pressure up:** In some ways, implementation here is no different to that of any other project. The sponsorship and commitment of top managers are essential . At Bourton Group, Stuart Smith has seen organisations unable to realise the full scale of possible savings because they could not get senior managers to sponsor specific initiatives. "Although they did make savings, they were nothing like those they could have made, had they not been distracted by their day jobs or stayed in a position long-enough to see the whole project through." George Luff at BPI Improve agrees: "There are too many people who show up at a kick-off meeting and never come again." However, cost-cutting projects do have specific challenges. "Often, people go for projects which are too large, making it almost impossible to achieve the savings expected," continues Luff. "The toughest challenge is to ensure that costs don't creep back in," argues Daniel Meere at PA Consulting. "You have to have a clear line of sight to the costs and know exactly who is responsible for keeping them under control." "Who has responsibility for making the savings?" asks Kevin Simmons at Capgemini. "The onus needs to fall on the immediate business unit rather than the project team otherwise the project will never get off the ground, let alone be completed successfully."

The urgent always overtakes the important

– Stuart Smith, Bourton Group

When should you use consultants to cut costs?

If your back is against the financial wall and there is little you can do other than take a significant slice of costs out across your whole organisation, there is little point in hiring consultants to help you. Indeed, to employees wondering whether they will keep their jobs and shareholders wondering where the next dividend will come from, there is little that would be harder to justify. Such circumstances need managers to lead by example, not exception, and use their own staff rather than expensive outsiders.

Using consultants as a safety blanket just doesn't work
– Craig Walker, Boxwood

There are, however, four reasons why it can make sense to use consultants which are specific to cost-cutting projects:

1. **Focus:** Most managers do not enjoy taking costs out of their business and are only too glad to get distracted by other commitments, especially once the immediate urgency has passed. By contrast, consultants can concentrate on the task in hand for as long as is necessary

2. **Objectivity:** It is often hard for organisations to cut their own costs beyond a certain point: relationships and personal empires get in the way of clarity of thought. Previous cost reduction exercises, assumptions accumulated over time and cynicism combine to make it hard for internal people to see the wood for the trees. "It takes an outside view to get you through these kinds of projects," says Alan Davis.

3. **Experience:** Cost-cutting is one of those areas where a track-record and/or established methodology can make a real difference. "In this situation, where we don't know how consumer sales or the markets are going to behave over the next few months, logical analysis of future trends isn't that useful," says David Rankin. "Having been through a downturn before and knowing what kinds of costs can safely be taken out of an organisation is much more valuable."

4. **Speed:** Running an effective programme that strips out costs is hard enough but doing it quickly is a huge challenge. "Random cuts are actually quite dangerous and, in the long run, an expensive way to make savings," Craig Walker points out. "Consultants can accelerate the process and the time saved should pay for their input."

A third party can be completely objective, able to attack an organisation's sacred cows
– Kevin Simmons, Capgemini

Clients tend to pick and choose their experts in a downturn. They are generally more reluctant to engage on large-scale projects and may opt to bring in specific expertise, rather than teams of consultants. They also re-deploy their own people into internal consulting roles. Very few consulting firms focus wholly and explicitly on cost-cutting.

Cost-cutting consulting has had a bad name. Anyone can slash and burn: the question is how to make the change sustainable
– Stuart Smith, Bourton Group

Most niche firms in this field take a broader stance, looking at performance improvement, efficiency and change management, as well as cost reduction. Beyond these firms, there are clearly also the large firms that offer such services as part of a much wider portfolio.

If you do decide to bring consultants in, make sure:

1. You are specific and precise about what you want the consultants to achieve
2. You select a consulting firm whose values match your own
3. There is a structured handover from the consultants at the end of the project, otherwise any savings are likely to evaporate
4. The project pays for itself within a short period from real savings, not just theoretical ones
5. You at least discuss the possibility of basing the payment to the consultants on results. Not every organisation will want to do this, nor will every project be suitable, but simply the discipline of discussing it has benefits.

"One of the key differences about using consultants to cut costs is not the process, but the way in which clients want to pay," argues Jon Bradbury. "Quite rightly, they are concerned, not just about the overall return on investment, but on the immediate benefits. That's partly because they have less money to spend but also because the output of a cost-cutting project should be more objective and quantifiable than is the case for some other consulting work." "We've done risk-reward projects for almost 20 years," says Elizabeth Gooch at EG Solutions, "and it's entirely appropriate for this kind of work. But some clients handle this type of arrangement better than others: the best are those who really need to make the savings."

But above all, you cannot rely on outside expertise: for the savings you make to be sustainable, you need to use consultants to help build the capabilities of your staff. "In large, complex organisations, the support and commitment of middle management is essential in projects such as this, perhaps more so than in other types of consulting," agrees John Oakland, "so it's important you use a consulting firm that provides an approach that is sensitive to this." Furthermore, most performance improvement techniques recognise that culture and habit drive up costs as much as systems and processes. "They are team sports," Stuart Smith at the Bourton Group points out. "Their success ultimately depends on building the capabilities of groups of people, not individual experts."

You need consultants who can work closely with your front-line staff. Cost reduction projects are most successful where the consultants you use have values that are compatible with your organisation's and where they work in a way that builds rapport with staff
– Nick Stevens, Avail Consulting

Differentiating between consulting firms in this field

Consulting firms are notoriously hard to classify because their services are fluid and no one offers exactly the same configuration of activities. Moreover, because consulting firms are people businesses and because every client's need is unique, the same firm may do similar work differently for different clients. In choosing between firms, it is both unwise and meaningless to assume that one firm is the best. Instead, you need to identify a shortlist of firms whose scale, approach and culture most closely meets your needs, then meet the individuals those firms put forward to work with you. Sauce for the goose may be poison for the gander.

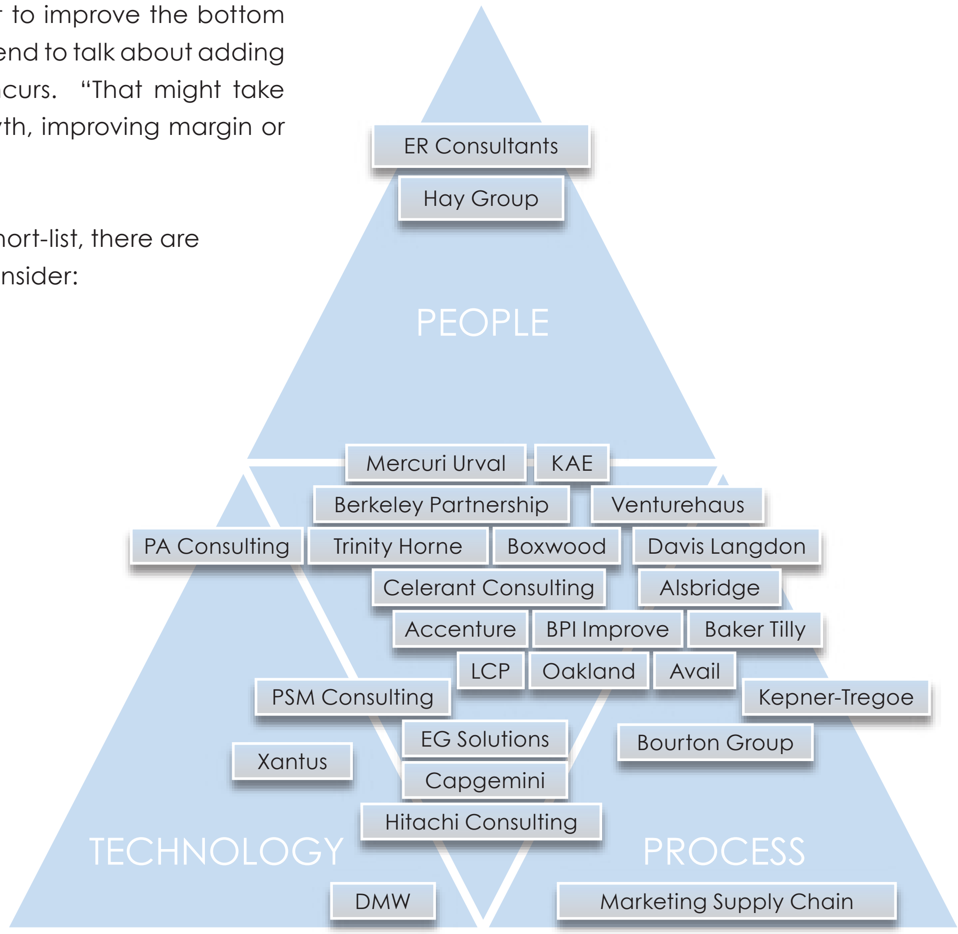
"Most consulting firms and clients would come at this from a performance improvement angle," says John Lockton. "Rather than saying we want to eliminate costs, we want to improve the bottom line." "Consulting firms will tend to talk about adding value," Kevin Simmons concurs. "That might take the form of achieving growth, improving margin or cutting risk."

In deciding which firms to short-list, there are three things you need to consider:

(1) Starting-point

Consulting firms will tend to start from a particular point and this colours the services they provide. Some may tend to focus on people issues and some on processes, while others pay more attention to systems. Other firms may focus on combinations of these. Which starting-point is right for you depends on the nature of the problem you are facing: clearly, hiring a systems-focused firm to look at a people problem will not make sense.

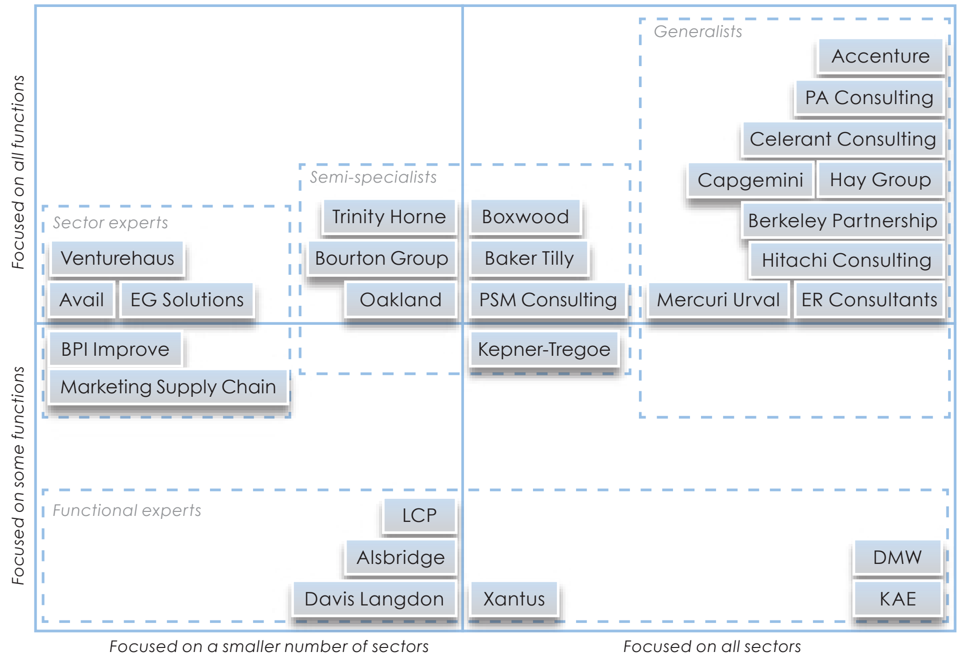
It is perhaps not surprising that most of the firms interviewed for this report are process-orientated (see below). Firms that start from a technology perspective are scarcer.



(2) Specialisation

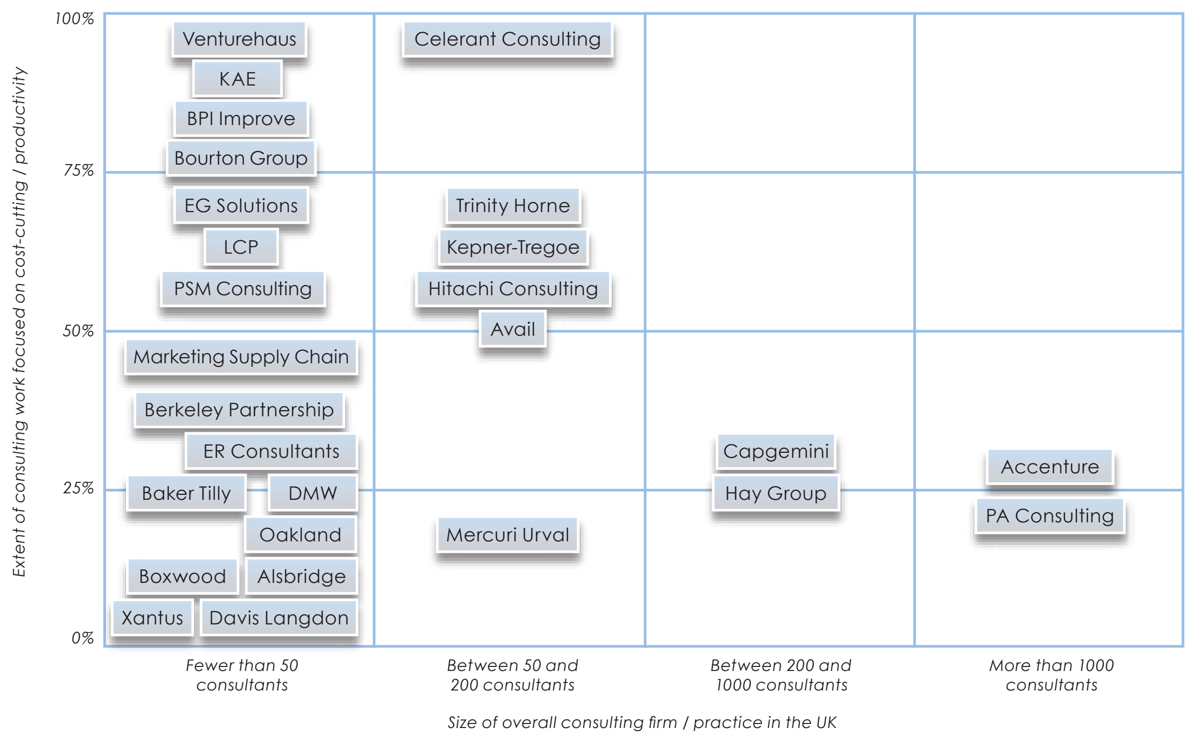
Consulting firms differ in the extent to which they specialise in a given field. Small firms may focus in just one area, while bigger firms are more diverse. If the problem you face is small-scale and discrete, a niche firm might be the appropriate choice, but if you think you will require a variety of skills, selecting a larger firm that is capable of pulling in additional resources might be better.

Cost-cutting is one of the more generic areas of consulting. While you can find firms that specialise in a particular sector or business function, most firms are generalists or semi-specialists (see below). The table on page 16 details which firms work in which sectors / services.



(3) Style

You should also consider the scale and level of expertise you require. Although this is something you can really only judge when you meet the individual consultants, a small firm where a particular service constitutes a large proportion of its work is more likely to staff your project with experts. However, it may also, precisely for this reason, be more expensive. Larger firms are clearly able to handle larger projects but are more likely to use a range of people from different backgrounds and at different grades.



The following table provides an indication of the sectors and services in which the consulting firms referred to in this report primarily carry out cost-cutting work. Please visit **www.sourceforconsulting.com** for further information on these companies and case studies on this subject.

	Sectors						Services							
	Financial services	Energy and utilities	Telecoms, media, high tech	Retailing and FMCG	Manufacturing	Public sector and healthcare	Outsourcing	IT function	HR function	Finance	Procurement	Supply chain / operations	Sales and marketing	Customer service
Accenture	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Alsbridge	■	■	■			■	■							
Avail Consulting						■	■	■	■	■	■	■		■
Baker Tilly	■	■	■	■	■	■			■	■	■			
Bourton Group		■		■	■	■						■	■	■
Boxwood	■	■	■	■	■			■	■	■	■	■		■
BPI Improve			■				■	■			■	■		
Capgemini	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Celerant Consulting	■	■	■	■	■		■	■	■	■	■	■	■	■
Davis Langdon												■		
DMW Group	■	■	■	■	■	■	■	■						
EG Solutions	■			■					■	■		■	■	■
ER Consultants	■	■	■	■	■	■			■			■	■	■
Hay Group	■	■	■	■	■	■			■			■		■
Hitachi Consulting	■		■			■		■	■	■		■		■
KAE	■	■	■	■	■	■							■	■
Kepner-Tregoe	■	■	■	■	■	■		■				■	■	■
LCP Consulting		■	■	■	■		■				■	■	■	■
Marketing Supply Chain	■			■									■	
Mercuri Urval	■	■	■	■	■	■		■	■	■	■	■	■	■
Oakland Consulting	■	■	■		■	■	■					■		■
PA Consulting Group	■	■			■	■	■	■	■	■	■	■	■	■
PSM Consulting	■	■	■	■	■			■	■	■	■	■	■	■
The Berkeley Partnership	■	■	■	■		■	■	■	■	■	■	■	■	■
Trinity Horne	■	■	■			■	■		■			■	■	■
Venturehaus	■						■	■	■	■	■	■	■	■
Xantus	■	■	■	■	■	■		■						

Firm	Outline of approach to cost-cutting
Accenture	Takes a holistic view and applies durable techniques proven with world class companies to deliver rapid and sustainable cost savings without jeopardising long term value creation opportunities.
Alsbridge	Helps organisations save money by outsourcing or offshoring parts of their business.
Avail Consulting*	**Public sector specialists that help clients embed reductions in cost through process improvement and Lean, commissioning, procurement, organisational change, better use of ICT and business planning.**
Baker Tilly	Focus on process improvement and change management based on the future business model and strategic rationale.
Bourton Group*	**Experts in Lean and other process improvement techniques, but with a focus on transferring these skills to clients.**
Boxwood	Uses a process framework for critically evaluating where value is created in a business, leading to transformational cost reductions coupled with increasing operational performance through better clarity and discipline.
BPI Improve	Looks at how companies are organised in order to identify non-important tasks; identifies which functions add value to a business and which don't; supports the concept of the "virtual enterprise" where process spans commercial, geographical and systems boundaries.
Capgemini	Manages strategy implementation, through a structured approach to understanding the success of planned actions and assessing whether the strategy is still relevant.
Celerant Consulting	Provides evidence-based approach – will look at data and identify inefficiencies; have proprietary techniques for analysing the interdependence of costs to ensure savings are sustainable.
Davis Langdon*	**Has used its background in construction and engineering to develop value planning tools that analyse the value and costs of a specific function or asset; helps clients decide how to prioritise their capital expenditure.**
DMW Group	Undertakes cost reduction programmes alongside large-scale IT projects or as part of performance reviews with the aim of helping clients make sustainable savings to their IT operations.
EG Solutions	Focuses on operations management improvement, particularly where process driven operations are critical to business performance. Their software provides real-time operational information.
ER Consultants*	**Focuses on the sustainable implementation of cost reduction by building the ownership and commitment to working in a more cost effective way through the combination of analytical and organisation development techniques.**
Hay Group*	**Improves productivity through clarity about how value is created, higher engagement, focused talent management, modernising roles and processes and helping senior leaders capture the benefits of change.**

Firm	Outline of approach to cost-cutting
Hitachi Consulting*	**Provides an accelerated cost reduction approach which starts with an evidence based diagnostic to identify which cost sources will yield optimum results set against sustainability, strategy and change readiness considerations.**
KAE	Focuses on fully understanding customer experiences and helping organisations to deliver the most positive impacts on preference across their chosen segments as cost-effectively as possible.
Kepner-Tregoe	Places decision-making and productivity improvement within a strategic mindset in order to ensure the optimum allocation of resources.
LCP Consulting*	**Specialises in taking waste (inventory, write-offs, etc) out of the supply chain in order to release cash and increase margins.**
Marketing Supply Chain	Focuses on the "logic" of marketing, analysing the costs and effectiveness of the marketing supply chain in order to identify savings, especially in procurement.
Mercuri Urval	Delivers business results through people by ensuring a match between capabilities and current and future business need. Focuses on optimising individuals' performance, retaining talent and "right-shaping" organisations.
Oakland Consulting	Offers an innovative approach based on business-based research and tailored to meet specific client needs through deploying a deep understanding of the interactions between cost, quality and time.
PA Consulting Group	Works with clients to identify sources of long-term value through cost reduction and service improvement initiatives. The key to this is defining the drivers of cost and growth, aligning the business to optimise performance through these and establishing robust ownership and monitoring mechanisms.
PSM Consulting	Works closely with the management team, identifying the real KPIs and undertaking a detailed review of performance against them; looks to get a real understanding of the underlying cost drivers before making recommendations for improvement and implementing the changes.
The Berkeley Partnership	Works in partnership ("done with you, not to you"); ensure those that do the strategy / plan are also "on the hook" to deliver it; move quickly, but make the changes lasting / sustainable (not short term" slash and burn").
Trinity Horne*	**Delivers sustainable productivity improvement and cost reduction through a more effective use of people and process.**
Venturehaus	Applies proven industry-specific operational excellence techniques to reduce complexity and drive higher levels of operating leverage in the financial services industry. Delivers greater performance in the management of service and risk with higher efficiencies and/or increased cost reduction.
Xantus*	**Provides pragmatic approach to bringing IT costs down on an organisation by organisation basis; improvements identified based on experience elsewhere rather than through use of a specific methodology.**

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Intelligent cost-cutting

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