

Bridgeway to Success™

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START WITH A ZERO-BASED COST STRUCTURE

Add Costs, Don't Cut Them

As your trusted consultant I recommend that you *add* costs, not cut them.

Now, before you label me the consultant from hell, let me explain. I'm not suggesting you *increase* your costs. I'm suggesting you reset your costs to zero and then build them back up through a rigorous justification process. That's exactly what a European division of Royal Dutch Shell is doing. And they're on track to reduce their cost structure by 30% over three years.

How?

1) Set an aggressive, time-linked goal. They wanted to identify a realistic stretch-target that would have a substantial impact on the business. They decided on a 30% reduction over three years.

2) Determine the best method. They realized early on that their existing continuous improvement and lean initiatives would only get them so far ... not far enough to achieve the goal. They also knew that traditional cost-cutting approaches would provoke defensive reactions and hamper their efforts. So they decided to start with a zero-based cost structure and then *add costs back as justified*. Proponents of various projects and activities would have to make a strong business case for adding costs, not simply defend existing costs.

3) Commit the right resources. To make the right decisions and send a strong message about the importance of the initiative, they created a multifunctional team of top-performing, well-regarded people – both attributes being critical – and freed up 100% of their time for five weeks. Their task was to determine which projects and activities would best help the company achieve its overall goals and meet the 30% cost reduction target.

4) Ignore the trap of sunk costs. Too often, companies make decisions based on sunk costs. It's hard to pull the plug on existing activities since it implies management failure. And it's hard not to feel obligated to the money that has already been invested. Yet this often results in throwing good money after bad. With this in mind, the team based their decisions solely on prospective costs and returns, not historic investments.

The cost-building approach forced a fresh argument for every funding decision. No, it wasn't easy. But a 30% cost reduction over three years is a substantial benefit.

So re-frame your approach to cost management. Add costs, don't cut them.

Michael Canic