Effective Cost Cutting and Cash Flow Management in Turbulent Times

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Overview

1. The turbulent business environment
2. Traditional approaches
3. A structured approach to cost cutting
4. Identification of cost saving opportunity
5. Cash flow management principles
6. Monitoring and controlling
The Turbulent Business Environment

- Entrance of Global competitors
- Rapid technological changes in Market
- Depleted Capital reserves
- Inefficient Cost Structures
- Declining revenues, declining margins, rising cost base
- Missed Opportunities

FAILURE TO ACT DECISIVELY WILL RESULT IN CERTAIN FAILURE !!!!!
TRADITIONAL APPROACHES

- **Across the board cuts**
  - Arbitrary cost reduction percentage on all SG&A costs

- **Headcount reduction**
  - Staff layoffs, abolishing overtime, forced unpaid leave, hiring freeze

- **Automation**
  - Works with headcount reduction by automating processes done by people

- **Business process reviews**
  - Eliminate non-essential processes

- **Product redesign**
  - Change components of product design to achieve lower production cost

- May not support strategy
- May not be sustainable
- May harm quality of service/product
- May be ineffective
Structured Approach to Cost Cutting

Conceptualise
- Strategy
- Changed environment
- New Risks
- Opportunities
- Critical Success Factors
- Financial targets

Analyse
- Costs
- Cost drivers
- Processes
- Benchmarks
- Which costs drive revenue and which ones do not

Implement
- Assign accountability
- Process changes
- Eliminate non-value adding activities
- Reinforce cost consciousness culture
- Monitor and control
- Revise risk register

THROUGHOUT THE PROCESS - COMMUNICATE
FINDING THE COST SAVING OPPORTUNITIES

- Centralising Functions
- Negotiate Bulk discounts
- Explore new suppliers
- Use technology
- Strategic partnerships
Managing the Cash

**Cash forecasting**
- Establish optimum cash levels
- 3 scenarios with plan for each
- Daily tracking and review

**Management**
- Cost cutting
- Manage the Big 3
- Consider leasing as an alternative to buying

**Sourcing funding**
- Compare borrowing costs
- Consider whether short term or long term
- Vendor financing
Monitoring and Controlling

- **Document/revise cost reduction plan**
- **Build new cost framework into budget and cash flow forecasts**
- **Monitor and control your budget**
- **Periodic review of effectiveness**
- **Communicate progress to all stakeholders frequently**
DISCUSSION POINTS?