Align Cost-Cutting with Strategic Objectives

Introduction

In 2020, we saw an unprecedented number of events that threatened businesses and revenue streams. Leaders across the manufacturing industry evaluated and implemented cost-cutting efforts to protect their businesses. In times of turbulence, executives looked to the **typical cost-cutting areas**, such as:

- Employees/management
- Supplies and suppliers
- Marketing
- Telephone and electricity
- Loan financing

However, this type of reactive cost-cutting is dangerous because it forces a company to hunker down, focus on the basics, and ultimately push off innovation. Alternatively, rather than cutting costs reactively, some companies pivot their operations instantly to take advantage of market surges—cutting costs everywhere except those supporting the surge in business. However, if the organization survives to experience the long-term impacts of these measures, they may find that they've hindered growth and reduced profits.

The best and often most successful businesses take a more strategic cost-cutting approach.

Strategic Cost-Cutting Initiatives

Many successful companies embrace cost-cutting as a continuous process focusing on aligning a company's expenses with its strategic objectives. Business gurus recommend these stages:

Define elements of cost, rating them on a scale depending on how they support the company's strategic aims.

- While keeping your long-term goals in mind, it is critical to define the elements that you feel must be better managed or have a significant impact on your overall business, such as:
  - Employment across divisions and departments
  - Marketing and the segments targeted
  - Materials and equipment
  - Utilities and physical overheads
  - Service contracts
- Bovie Printing & Fabrication has developed a Strategic Cost Management tool that can help guide your team define and rate your cost elements based on business impact.

Download the Sheet

Align these elements with your strategic effort over the next 3-5 years.

It is very difficult to identify your strategic priorities if you have not first clearly articulated your vision for the future 3-5 years out. This vision is essential to set a context for your long-term goals which, if achieved, would make it possible to be the company you envision. Consider the steps that you need to take to get your company to that end goal.

Know that these strategies are not fixed; rather, they will evolve and pivot over time in response to customers, the financial landscape, and society. Periodically review and evaluate your vision, goals, and strategies with key leadership positions throughout the company to ensure you are on the correct path but also to assess their relative importance to support the goals you have defined. See below for examples of the types of questions that you should be asking to come up with the steps needed to get to the end goal:

- To what goal or goals is this strategy most clearly aligned?
- What do we actually do when we pursue this strategy?
- What physical and intellectual resources are needed to do it?
- How important is this strategy to the achievement of the goal/goals?
- What other strategies, if any, contribute to the achievement of the goal/goals?
- How much does achieving the goal/goals contribute to the vision you have for the company in the long term?

When companies practice strategic cost management on a regular basis, cost adjustments are rarely dramatic; rather, they refocus expense where it is most important. When deep cuts to expenses are required, they attempt to preserve resources that support the most important goals while sacrificing entirely those least important.

Rally everyone on staff to cut cost elements that do not provide direct support to your strategic objectives.

As a company's strategic priorities evolve, their cost-cutting priorities will change as well. This means that organizations must continuously recover costs from the initiatives that were deprioritized or diminished and then invest the recovered resources to achieve their ever-changing goals.

In order to make this work, you must rally everyone on staff to work together in support of your strategic goals by:

- Developing a consensus among the management team
- Communicating your goals
- Structuring policies and practices in support of those goals
- Disciplining the organization at all levels to adhere to this structure
- Measuring progress to your goals
- Evaluating honestly and from multiple perspectives
- Modifying goals as needed
- Restructuring policies and practices while maintaining discipline.

But it is not enough to take these actions once. They must become part of a cycle of company behavior repeated as needed to keep the company on target to achieve its goals.

Importance of collaborative strategic planning

If we've learned anything from the COVID-19 pandemic, it's that companies function in a highly intertwined global market. We now understand that our actions—even our inactions—can impact people and organizations all over the world. Independence, on both the personal and organizational levels, is an illusion.

We need to abandon the independence illusion and accept the need to do **collaborative strategic planning**, including cost-cutting. This means working with suppliers and customers to:

- Define cost elements in your relationships with your business partner (either customers or suppliers):
  - Look first to the nexus of your current transactions, and ask yourself questions like the following:
    - When and how do your customers pass their orders to you?
    - How do you locate, validate, and send orders to your suppliers?
    - How are invoices received and paid?
    - What are the specific cost elements in each of these transactions?

- Examine how they support your common strategic aims:
  - Encourage a dialogue with your customers and suppliers regarding our important goals to identify those areas most important to both of you.
    - Identify those goals most clearly held in common: e.g. lower non-value adding transaction cost, sharing new product development costs.
    - Of these, determine which are most likely to endure as both entities pursue their objectives.
- How to work together to recover costs to invest in the future:
  - Specifically identify how each of you would attempt to recover some of the cost.
    - Are there existing best practices that you would wish to emulate?
    - To what extent would you be willing to change your existing practices to achieve your goals?

This is the approach the Bovie team has taken with our suppliers and customers over the past several years. As long as we align our cost cutting measures with our collective strategic goals, we not only set ourselves up for future success, but we also help pass that success along to our customers and suppliers. This strengthens the industry as a whole and allows businesses to become more agile.

In our discussions with customers, for example, we found that they were working toward a future with the lowest possible transaction cost and a lower cost of maintaining stock. They wanted reliable on-time delivery when products are needed, but not before. Bovie was looking to avoid feast and famine production loads and durable customer relationships that would reduce the risks (and costs) of product and service development. Together we developed Bovie's Keystone Partnership.

Learn More with Bovie's Customer Portal

Case Study Example

During the years immediately following 2008's "Great Recession," Bovie experienced a 45% reduction in sales from a high in 2007 and posted significant losses in the two following years. We responded in the traditional ways…

- Layoffs
- Mandatory reduction in hours
- Wage reductions and slashed benefits
- Increasing debt to the limits
- Delayed supplier payments

Our goal was simply: survival. We succeeded in this, preserving our business life span of about 60 years and were able to continue meeting our customers' needs. However, in the years that followed, we realized that we had made it more difficult to recover and grow our business in the future.

After enjoying our most profitable year ever in 2019, Bovie's sales collapsed by more than 25% in 2020 — but, thanks to years of strategic cost management and the government's generous PPP, we avoided losses and even posted a small profit for the year. Our cost management efforts were tied very closely to our primary strategic goals: preserving excellent customer services, achieving on time delivery rates of 96% or better, maintaining near perfect quality, and continuing to innovate to provide additional customer benefits via our new Customer Portal. With a focus on these goals, we focused cost management efforts as follows:

- Delayed investment in equipment replacement
- Slowed replacement of anyone who left our employment
- Developed lean practices in manufacturing
- Reduced inventory by developing more responsive materials management practices

Conclusion

2020 taught us the importance of approaching cost cutting strategically when times get tough. If more businesses learn to evaluate their business goals and identify where to adjust expenditures, we are confident that they will not only come out on the other side, but that they will emerge stronger and more resilient than they were before.

ABOUT BOVIE

Established in 1950, Bovie is the leading supplier of technical printed parts and plastic fabrication in Northeastern New England, manufacturing overlays, labels, membrane switches, printed circuitry and other products for customers in the region and beyond. For decades, we have been dedicated to working closely with our customers, using our time-tested knowledge and wide range of services to provide the optimal printing experience. We have built a strong legacy of delivering quality products and services, supporting collaboratively revealed insights with actions.