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Printing and Fabrication

Strategic Cost Management

Every management team knows that you must cut costs during a recession or when other events threaten revenue streams. Some teams make it a practice to manage costs in both good times and bad. But, enlightened teams continuously manage costs strategically, balancing today's profits with future growth and innovative development. Strategic cost management is most effective when the management team works together to take three steps before launching any cost measures: define key cost elements, rate them using an impact scale (see below), then rank and evaluate those with the highest score, ie. those that provide optimal potential strategic value and cost reduction.

Define Key Elements of Cost

Identify and define those costs you feel must be better managed, for example:

- Employment across various divisions and departments
- Marketing, potentially several market segments
- Purchased materials and supplies
- Equipment
- Utilities and physical overheads
- Service contracts
- Financing

While keeping your long-term strategic goals top of mind, refine your understanding of each element by filling out the strategic template below. The total score will help guide you and your team as you decide to cut, evaluate further, or plan to implement cost reductions immediately.

Rate Cost Elements: Example

Again, with the organization's long-term goals in mind, rate each of the cost elements in terms of a limited set of strategic parameters (only two ratings are shown):

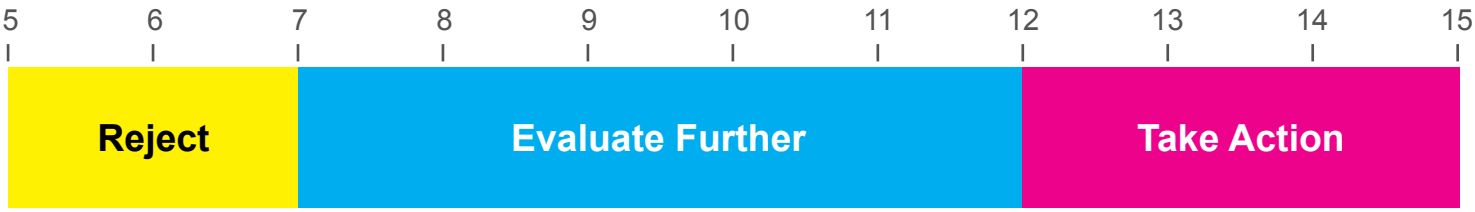
Element: New Product Development	Score		
	1	2	3
Strategic Value	High	Medium	Low
Potential Cost Reduction	Low	Medium	High
Customer Impact	Negative	Neutral	Positive
Time Investment	18+ Months	6 - 18 Months	< 6 Months
Business Risk	Low	Medium	High
Opportunity Cost	High	Medium	Low
Column Subtotals	3	2	3
Total Score		8	

Element: Delay Equipment Purchase	Score		
	1	2	3
Strategic Value	High	Medium	Low
Potential Cost Reduction	Low	Medium	High
Customer Impact	Negative	Neutral	Positive
Business Risk	Low	Medium	High
Time Needed to Achieve Cost Reduction	18+ Months	6 - 18 Months	< 6 Months
Opportunity Cost	High	Medium	Low
Column Subtotals	1	4	9
Total Score	14		

Rank Elements from Highest to Lowest Score

The Rating template is designed to provide high scores for those cost elements with the least strategic impact and the most potential savings. The lowest score is 5 and the highest is 15 in the example above. Typically, you would drop consideration of cost elements scoring fewer than 7 points, evaluate further those scoring between 8 and 12, and immediately begin planning actions to reduce costs where the element scored 13 or more.

In the examples above, the team determined that they would further evaluate new product development, but immediately plan to delay buying any equipment.



Concluding Thoughts

Because your business environment, competition, customer needs, etc. are constantly evolving, your pursuit of strategic cost management is a repetitive process. Each iteration will help you to focus on the cost savings you need to make future investments.

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.

www.bovie.com (603) 224-0651 4 Northeast Ave, Bow, N.H. 03304

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