

Cost Reduction Framework: Anticipating a Hard or Soft Landing

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Key Takeaways:

- *The necessary types of approaches for reducing costs are dictated by how deeply your industry has been disrupted and your business has been impacted.*
- *Whether facing a soft, medium, or hard landing, trust the analyses.*
- *Actions to cut costs must consider how they will impact investor confidence, customers, organization, leadership, and employees.*

Before the effects of COVID-19, most industries were enjoying record altitudes and looking forward to continued growth. While organizations are always looking ahead, the turbulence of quick and drastic shut downs across the globe required those at the helm to keep a sharp eye on the horizon while steadying

the plane for a safe landing. With this in mind, RBL has offered guidance on **five pillars for coping with COVID-19** from an outside in perspective and linking strategy to the organization's current employee actions and needed recoveries:

- Ensure Costs are Aligned to the New Realities.
- Build a Customer-Centric Culture.
- Position for Customer Advantage.
- Ensure Results-Based Teams.
- Maintain Development Cadences—Virtually.

The first pillar focuses on ensuring costs are aligned to the new realities in a way that cuts non-essential work, not distinctiveness. In other words, strategically reducing costs while protecting key capabilities. This complex

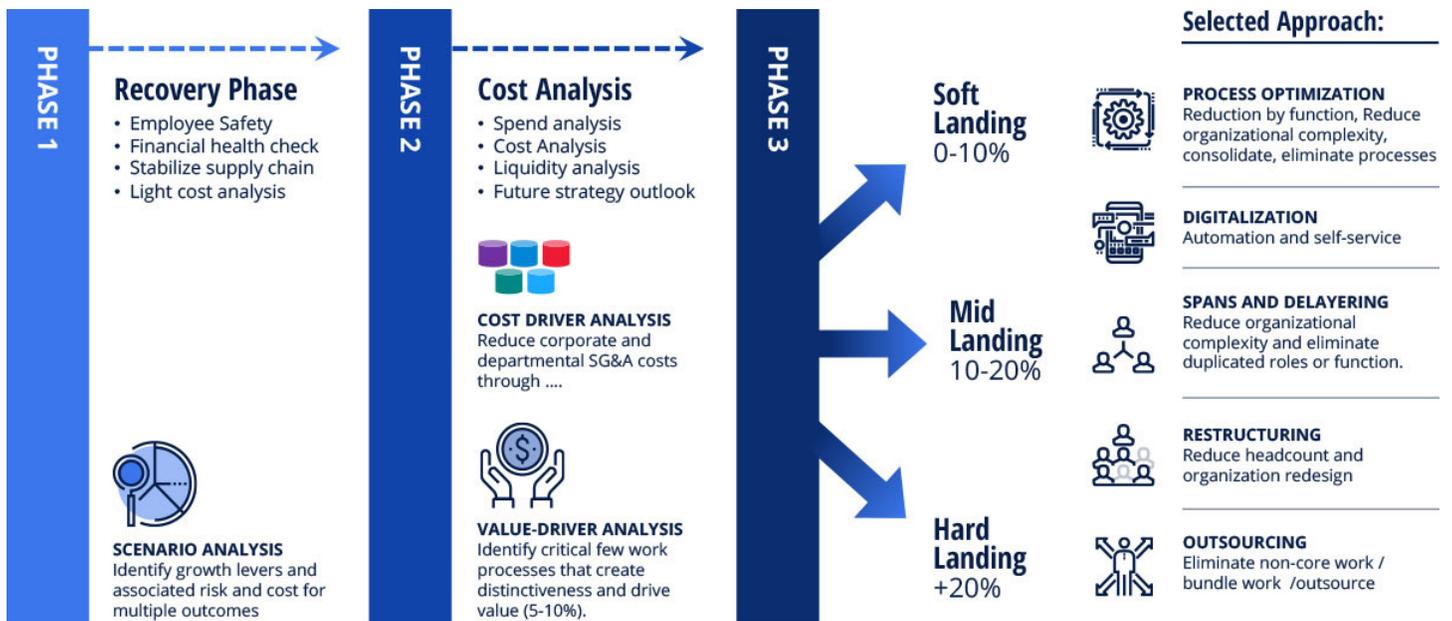
topic has several angles.

We have already shared articles that provide an overview of a **strategic approach to cost reduction**, and consider how to apply the **Work-Out methodology** to remove work once you've already conducted layoffs or as part of a cost recovery initiative. This article will focus on how to assess the degree of cost cuts needed and the implications for how you approach that within your organization.

What is a Good Framework for Anticipating a Landing and Related Degree of Cost Reduction?

Companies are all over the map as far as cost impact from COVID-19. Some are

Diagram 1: Phased approach to help your business recover



actually growing, while some have been hit moderately with revenues flat or declining. Others have been impacted significantly with revenue losses from 50% to 90%. Understanding how deeply your business is impacted and whether to anticipate a softer or a harder landing will help dictate the types of approaches to reducing costs.

In diagram one, we provide a simple approach to help your business through the recovery from COVID-19 to a growth phase.

Phase 1: Recovery Phase- focuses on employee safety, the financial health of the company, a stabilized supply chain, and retaining customers. The challenge here is scenario planning to look at both managing speed of revenue growth and your current cost run rate. Figuring this out sets the scene for how radically you need to approach the landing phase.

Phase 2: Cost Analysis- explores the degree of required cost structure changes given your scenario conclusions in phase one. The finance team plays an important role in creating cost clarity as part of restructuring the organization. This phase provides a clear assessment of costs against future growth strategy and liquidity needs. Looking at the spend and liquidity analyses forecasts cash flow and cash position. Combining that with the future strategy outlook provides understanding

of the magnitude of the customer and growth prospects, the cash position that you are forecasting and the cost position you need to be in to survive and then turn around and grow. This becomes a very critical impact analysis that leads to clarity about which landing to anticipate and informs the necessary approach to landing.

Phase 3: Select Landing Approaches- assesses the implications for the business and the range of costs reduction needed to survive given the scenario and cost analyses. There are varying approaches to cut costs depending on the type of landing.

The soft landing is a cost reduction from zero to 10% and would begin by addressing business processes.

Process optimization involves eliminating unneeded work, simplifying steps and handoffs, reducing organizational complexity, and consolidation and centralization of where possible.

Digitalization is a new powerful tool to simplify and leverage process by combining automation, artificial intelligence and robotics. This strategy allows an organization to improve customer interface and impact, simplify internal process, and reduce costs across all types of work and business units – competitive to essential operations. The medium landing is a 10% to 20% cost reduction and requires a more intense

approach. This will require a restructuring approach to address spans of control and layering the structure, in addition to the process redesign reductions mentioned above.

Increasing spans of control and reducing organization layers drives significant additional cost cutting opportunities and can be greatly facilitated by, and builds on, the process simplification mentioned above.

Cross-functional opportunities to help consolidate or eliminate work, roles, and leadership become important variables to a successful restructure. The hard landing is reducing costs by anything over 20%, and potentially for some companies up to 50% plus. Our experience has shown that in addition to the process redesign and restructuring mentioned above, options to consolidate and potentially outsource essential or operational work are the best options at this level.

Consolidation bundles essential work to be done at the most efficient enterprise level in the organization.

Outsourcing can eliminate non-core work internally and directs to the most efficient external provider. critical governance mechanisms for agile teams—can be achieved only when teams clarify and align roles, tasks, and processes to clear and specific outcomes.

Diagram 2: Evaluating the impact on stakeholders



Core Elements in a Safe Landing

As you assess your landing and required cost reduction, they need to be considered in light of broader customer and organizational implications.

The first filter is outside in logic. What is the impact on customers and external stakeholders? First and foremost, every action ensures a refocus of the service experience to bring this closer to the customer relationship and reinforcing that intimacy as shown in diagram two.

The second filter is to use that outside-in understanding to clearly define the organizational capabilities needed for success and where the most critical and different types of work functions

happen in the organization. Within any design there is a need to optimize core competitive advantage work. As you think about taking out costs, be clear that the first targets for cost reductions are in operational and efficiency type of work. The most important business work to protect and secure is the core competitive work. For example, Apple’s core advantage work is product innovation and should be protected as much as possible to maintain muscle.

The third filter is to assess the leadership model and help leaders adjust to the new environment, taking into consideration: a customer perspective, a cost perspective, and how to manage these new ways of working.

Finally, the fourth element is to continue to

ensure the health and safety of employees throughout this process. We already see companies announcing that working from home 2-3 days a week will be part of the future working model. At the same time, curiosity about leveraging new technology platforms like, Miro, Stormboard, Evernote, Stormz, Mentimeter, to enhance collaboration and engagement has increased.

Assessing where you are and the types of approaches that you may need in your cost restructuring is best done with the facts readily at hand. Stay clear about what your customers value and trust the analyses. RBL is here to help in this regard, reach out and let’s work together to get your organization growing as soon as possible.

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