

## viewpoint

### A HOLISTIC APPROACH TO COST CONTROL

The need for effective cost control has never been stronger in the U.S. automotive industry. While many companies



Steve Patton

are aggressively pursuing obvious cuts, few are taking a holistic view necessary to truly maximize the potential savings. Leading companies develop a “DNA-like” approach to complete transparency and involvement of the entire organization to identify actionable responses and sustainable savings.

That’s why Ernst & Young has combined several of our current capabilities into a highly relevant service, Enterprise Cost Reduction, to help companies create programs that drive cost efficiency across the entire organization. Steve Patton, Business Advisory Services Group Principle and Automotive Advisory Services Leader, explains.

#### **Aren’t companies already doing a good job cutting costs?**

Many are clearly targeting the traditional places to reduce costs: staffing, production efficiency and material costs. But there are typically several areas that offer savings that are completely ignored due to lack of understanding or the necessary skills to achieve the savings. In addition, there are sometimes unintended consequences of lowering costs in one area that may actually raise costs elsewhere. Many times multiple efforts are attacking the same cost base, which can result in double-counting results. Without a common command and control structure, it’s virtually impossible to get a true picture of the cost-saving potential and the results achieved.

What we are doing with Enterprise Cost Reduction is applying all of our capabilities into a holistic view that considers the possibilities and interactions, and then helps our clients orchestrate and sequence it in the most effective way.

#### **What factors should guide the cost reduction effort?**

The need to cut costs is sometimes apparent in a company’s financial statements. But how one goes about targeting an excessive cost structure may not always be clear. Typical areas of focus include functional costs (those that are typically applied as overhead), product costs (those that are directly attributable to a specific product or service) and working capital efficiency. The focus should be on the areas that do not directly translate into customer value.

Our approach is to minimize the impact on our clients’ customers by determining what provides value and helping companies focus their resources in those areas.

#### **How should a company get started?**

Formulating an attainable objective for the cost reduction program is the best place to begin. This will guide the effort regarding how broad, how deep and how soon. It is also very important to define the scope based on the reduction target. If the objective is extremely large, then the scope will necessarily have to be similarly large in order to achieve the target. If the need for cost reduction is smaller, it will allow the company to selectively target areas to achieve the savings and minimize any impact to other areas. Scope can be defined in several ways but typically involves elements of functions, geography, business units or products/services.

#### **What results can a company expect?**

It is very difficult to put a generic savings potential target out there and think it is applicable to any organization. Depending on the current efficiency of operations and previous efforts to address costs, the results can vary widely. I

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have rarely seen a situation where savings potential does not exist. Companies are currently too resource constrained to dedicate the people and time to achieve the goal.

#### **How quickly could they see results?**

We have set up programs that start generating results in as little as 60 days. If the issue is over spending, results can be achieved very quickly. When the benefit requires changing a process, it usually takes longer. Our objective is to get near-term benefits that then enable the pursuit of longer-term reductions.

#### **What is your advice?**

Think big and start now. Tough times call for tough action. What worked in the past to cut costs incrementally may not be enough. Maybe it’s time to look at things you haven’t considered before. The sooner you get started on a holistic view of costs, the sooner you’ll see sustainable benefits.

*To learn more about Ernst & Young’s Enterprise Cost Reduction capabilities, please contact Steve Patton at (312) 879-4119 or Kristen Michalik at (313) 628-8326.*