

Managers Struggling To Deliver Further Reductions In Costs, According To New Study

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Managers (<http://www.compassmc.co.uk>) Under Pressure From Boards Are Struggling To Deliver Further Reductions In Costs, According To New Study

Managers are finding it increasingly hard to find savings in IT costs (<http://www.compassmc.com/en/testimonials/>) without harming their operations, according to new research.

A study by Compass Management Consulting (<http://www.compassmc.co.uk>) suggests that as a result of the credit crunch, boards are putting managers under pressure to find second and third round savings but with the easily identifiable savings already gone, it is proving hard to harvest further cuts. Moreover, the indiscriminate nature of some cost-cutting has resulted in unsustainable savings and, in some cases, has reduced the options for future savings.

"When volumes are going down, it is easy to make across the board cuts of, say, 10%, but these exercises often amount to no more than poaching from future savings opportunities. We are seeing organisations which made cuts in the first round that had unintended consequences in terms of service quality and even increases in overall costs," said Paul Teather, regional president of Compass Management Consulting.

Compass says the best performing companies are insisting managers make a forensic case for change and model costs and benefits in a way that reduces risk and ensures that savings will be delivered.

"Boards are under pressure to maintain margins even when volumes are in decline. At the same time shareholders need confidence that cost reduction programmes are going to generate sustainable savings and not have unintended consequences on sales and customer service," said Paul Teather. "This is why the best performing companies are instituting fundamental change in their business, including challenging levels of demand and implementing new governance structures for their IT and operations."

Compass claims that detailed analysis of an organisation's operations and comparisons with industry best practice can identify further opportunities for performance improvement that can yield up to 20% cost reductions in areas such as storage, software and telecommunications costs. Compass reports seeing FTSE 100 financial services companies with multiple processing centres performing the same tasks, the best performing of which was 50% better than the average and the worst of which was 25% less efficient.

"In cases like these, where there is significant variance in performance across the organisation, it is not enough to cut 10% across the board or close half the centres based on geography as volumes drop. Detailed information on performance and comparison with best practice across the sector means that far greater savings than 10% can be made by eliminating the underperforming facilities," said Paul Teather.

Compass says that it is important for organisations to avoid indiscriminate cuts and maintain operational capacity so they can take market share as demand picks up again.

“There is pent-up demand in many marketplaces and the recovery may come in the same surprising and swift manner as the downturn. When volumes return, companies need a high performance operational infrastructure to service that demand efficiently,” said Paul Teather.

Background on Compass Management Consulting Compass is a company that specialises in operational excellence, covering both business and IT processes. Compass consultants analyse and optimise the operational practices of large organisations in relation to their core business objectives. All recommendations are fully auditable and are based on data, not opinion, that quickly enables organisations to close performance gaps, develop best practice and drive effective change.

In the last two years, Compass has analysed over 200 outsourcing contracts accounting for a total value of more than £3 billion. For each client, Compass typically identifies detailed, quantified opportunities amounting to over 17 percent of the budget analysed.

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