

	Price	+ or -	52 week		Volume	Yld	P/E
			high	low	'000s	Gr's	
Wetherspoon (JD).....	243½	-4	342	241½	40	1.1	26.2
Whitbread.....	860	-12	1145	620	824	3.8	15.4
Wolv & Dudley.....	506½	-2	582	430	35	4.8	10.9
Yates Brothers.....	422½	-5	*558½	347	37	1.0	26.1
Young A.....	775	-2½	827½	637½	-	2.6	27.5
N/V.....	600	-7½	682½	537½	-	3.3	21.3
BUILDING MATS. & MERCHANTS							
Aggregate.....	57½	-2½	76½	46	472	3.8	19.8
BPB.....	325½	-15	447	280	2,366	3.4	14.6
Baggeridge.....	96½	-2	118½	88½	-	4.7	10.4
Blockleys.....	37½	-2	44½	36½	-	1.5	42.8
Blue Circle.....	323	-4	332	273½	2,805	4.5	12.2
7%pc Ct.....	169	-3½	232½	153½	-	5.6	-
Breedon.....	95½	-2	140	78½	-	7.6	-
Brit Dredg.....	188½	-2	192½	125½	-	4.3	-
CRH IE.....	746½	-32½	945	632½	-	1.4	-
CHEMICALS							
	Price	+ or -	52 week		Volume	Yld	
			high	low	'000s	Gr's	
AGA SKr.....	£9.5	-1½	£10.5	£7.2	-	2.6	-
Akzo FI.....	£30½	-1.3	*38½	£22½	-	2.1	-
Albright & Wilson.....	139½	+1	191½	105	3,058	5.1	-
Amber Ind.....	92½	.....	*142½	70½	-	7.8	-
Amberley.....	100½	-2	113	90½	1	2.3	-
Athlone Ex.....	70	.....	100	70	-	12.1	-
BASF DM.....	£27	-1½	*31½	£18½	-	2.6	-
BOC.....	751	-15	1115	771	1,328	4.6	-
BTP.....	455½	-19½	641	305½	272	3.4	-
Banner Ch.....	16½	-1½	26½	16	83	9.1	-
Bayer DM.....	£27½	-1½	*32½	£19½	-	2.2	-
Blagden In.....	161½	-4	183½	137½	5	2.2	-

Analysing and reducing costs





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Wetherspoon (JD).....	243½	-4	342	241½	107	4.3	13.0		
Whitbread.....	860	-12	1145	620	824	3.8	15.4		
Wolfe & Dudley.....	506½	-2	582	430	35	4.8	10.9		
Yates Brothers.....	422½	-5	558½	347	37	1.0	26.1		
Young A.....	775	-2½	827½	637½	-	2.6	27.5		
N.V.....	600	-7½	682½	537½	-	3.3	21.3		

BUILDING MATS. & MERCHANTS

	Price	+ or -	52 week	Volume	Ytd				
			high low	'000s	Gr's	P/E			
Aggregate.....	57½	-2½	76½ 46	472	3.8	19.8			
Anglian Gr.....	208½	-	268 199	76	6.0	11.3			
BFB.....	325½	-15	447 280	2,366	3.4	14.6			
Baggendy.....	96½	-	118½ 88½	-	4.7	10.4			
Blockleys.....	37½	-2	48½ 39½	-	1.5	42.8			
Blue Circle.....	323	-4	432 271½	2,805	4.5	12.2			
7½pc CV.....	169	-3½	232 153½	-	5.6	-			
Breedon.....	95½	-2	148 78½	-	7.6	-			
Brit Dredg.....	188½	-	182 123½	-	4.3	-			
CRH IE.....	746½	-32½	948 632½	-	1.4	-			

CHEMICALS

	Price	+ or -	52 week	Volume	Ytd				
			high low	'000s	Gr's	P/E			
AGA Skr.....	£9½	-1½	£10½ £7½	-	2.6	25.8			
Akzo FI.....	£30½	-1½	£38½ 22½	-	2.1	17.4			
Albright &.....	139½	+1	101½ 115	3,058	5.1	13.8			
Amber Ind.....	92½	+12½	82½ 82½	-	7.8	-			
Amberley.....	100½	-2	110 80½	1	2.3	15.2			
Athlone Es.....	70	-	100 110	-	12.1	-			
BASF DM.....	£27	-½	£31½ 19½	-	2.6	-			
BOC.....	751	-15	1186 701	1,328	4.6	12.7			
BTP.....	455½	-19½	681 305½	272	3.4	20.5			
Banner Chemicals.....	161½	-1½	261 166	83	9.1	6.4			
Bayer DM.....	£27½	-1½	£32½ 19½	-	2.2	-			
Blagden In.....	161½	-4	183½ 137½	5	2.2	10.4			

CONSTRUCTION

	Price	+ or -	52 week	Volume	Ytd				
			high low	'000s	Gr's	P/E			
AAF.....	35½	-2	58½ 19½	-	-	-			
Abbey IE.....	315	-	375 265	4	3.3	-			
Allen.....	457½	-7½	480 332½	4	3.0	-			
AMEC.....	161½	-3½	217½ 94	167	3.9	15.9			
6½pc CV.....	109	-½	123½ 80½	75	7.6	-			
Amey.....	605	-17½	875 410	3	2.3	19.4			
Andrews S.....	194	-8	280 104½	-	1.9	13.4			
Ashtead.....	217½	+1	288½ 143½	97	1.3	21.6			
Avonside.....	36	-1½	48½ 20½	-	5.2	-			
Bail (AH).....	3#	-	15½ 2	-	-	-			
Banner H.....	129½	-7	170 80½	20	2.9	34			
Bandt.....	37½	-1½	46 29½	41	4.7	10.1			
Barratt De.....	224	-7	341 21	253	5.2	39.8			
Beazer.....	169½	-6½	236 152½	1,460	5.0	27.2			
Bellway.....	287	-1½	401½ 272	26	4.1	9.6			
Ben Bailey.....	54½	-3	85½ 32	-	5.0	-			
Berkeley.....	586½	-14½	704½ 34	219	2.2	34.4			
Bett Bros.....	136½	-3½	173 15	-	6.3	-			
Birse.....	15½	-4	27½ 5	61	6.7	1.5			
Boot (H).....	195	-2½	306 15	-	5.4	-			
Boustead.....	8½	-2½	21½ 2	-	-	-			
Bovis Hon.....	203½	-5½	276½ 164	15	5.8	-			
Britannia.....	40	-	42½ 22	-	4.4	-			
Bryant.....	88	-3½	155½ 60	167	7.2	10.1			
CA.....	407½	-3½	490½ 101½	4	4.5	6.6			

Tilbury Douglas.....	282½	-7½	308 190	10	4.2	15.5			
Try.....	22	-	29½ 19½	-	3.4	8.0			
Utility Cable.....	4½	-	10½ 2½	30	-	-			
VHE.....	89½	-	112½ 70	-	2.1	φ			
Vibroplant.....	78	+½	88 61½	-	6.7	27.7			
Wainhomes.....	114½	-1	143 109½	4	5.7	φ			
Ward Hldgs.....	43½	-	60 38½	0.100	7.5	6.2			
Westbury.....	212½	-9	272½ 212½	1	4.3	9.1			
Wiggins Group.....	14½	-¾	16 9½	1,761	-	20.9			
Wilson (Connolly).....	115½	+½	191 115	327	6.0	8.9			
Wilson Bowden.....	561	-5½	733 499	6	2.8	11.5			
Wimpey (G).....	106	-1	143½ 92½	174	6.7	8.8			

DISTRIBUTORS

	Price	+ or -	52 week	Volume	Ytd				
			high low	'000s	Gr's	P/E			
Abacus Polar.....	82	-3½	212 80	48	9.5	5.9			
Abacus Crest.....	152½	-2	163½ 100½	-	3.7	12.6			
Abacus.....	322½	-12½	410 304½	-	4.2	11.3			
Abacus Computer Spols.....	227	-3	257½ 152½	-	1.5	18.9			
Abacus & Harvey.....	285½	-	410 280	-	9.5	φ			
Abacus Lakes.....	57½	-2	65½ 44½	-	-	-			
Alexanders.....	187½	-	24½ 6½	103	-	-			
Ass. Eng.....	2½	-	2½ 1	28	-	21.5			
Autobacs Seven.....	£100	-	£47½ 15½	-	1.0	18.6			
BSS.....	590	-	590 335	-	8.2	10.4			

ENGINEERING

	Price	+ or -	52 week	Volume	Ytd				
			high low	'000s	Gr's	P/E			
AM.....	212½	-7	492½ 212½	-	2.7	-			
AM.....	25½	-	52 23½	18	-	φ			
AM.....	128½	-12	316 127	61	1.3	5.8			
AM.....	£31½	-	£18½ 127	-	-	-			
AM.....	179½	-	214 114½	22	2.4	12.7			
AM.....	136½	-	136½ 89½	-	1.5	9.8			
AM.....	207	-	305 229	186	10.2	10.2			
AM.....	141	-	179½ 139½	-	6.7	-			
AM.....	£15	-	£21½ 15½	-	2.1	16.6			
AM.....	436	-	635½ 345½	384	17.8	17.8			
AM.....	238	-	292½ 187½	1.5	-	-			
AM.....	260½	-	260½ 146	13,172	1.1	10.4			
AM.....	21	-	21 21	-	-	-			

OTHER FINANCIAL

	Price	+ or -	52 week	Volume	Ytd				
			high low	'000s	Gr's	P/E			
AMNSCAP.....	775	350	2,310	12	27.8	-			
AMN Asset Mngt.....	134	86½	104	45	41.7	-			
AMN Am Inv R.....	£23½	£9½	104	57	5.9	-			
AMN Secs.....	256	111	220	48	13.9	-			
AMN.....	292½	266	292½	292½	266	-			
AMN Birch.....	62½	42½	62½	69	φ	-			
AMN Dolphin.....	470	220½	470	300	15.4	-			
AMN.....	64	39½	64	45	15.1	-			
AMN.....	975	588½	975	58	26.0	-			
AMN.....	£45	£28	£45	80	9.9	-			
AMN.....	683	337	683	80	32.5	-			
AMN Stanley.....	346	131½	346	1	9.3	-			
AMN.....	60½	37½	60½	23	10.6	-			
AMN.....	933	431	933	23	0	23.8			
AMN Secs.....	426½	179½	426½	0	0	-			
AMN.....	612	433	612	1	0	12.5			
AMN.....	44½	20	44½	1	0	-			
AMN.....	42½	17½	42½	258	2.4	18.7			

Mobil \$.....	£40½	-11½	£49½ 239½	19	2.7	13.7			
Norsk Hydro NKr.....	£25½	-13	£37½ 225½	-	2.3	15.3			
Occidental Petim \$.....	£13½	-	£18½ 113½	-	4.7	-			
Petrofina BFr.....	£233½	-7½	£258½ 220½	-	3.3	16.8			
Royal Dutch Fl.....	£30½	-9	£36½ 230½	-	3.2	22.5			
Santos AS.....	159	+4	333½ 153½	-	5.6	-			
Shell Transport.....	382½	-9½	499½ 346½	17,725	3.8	21.5			
7pc Pf.....	102½	-	102½ 84½	-	6.0	-			
Total B FFr.....	£86½	-2½	£81½ 58½	-	2.1	φ			

RETAILERS, GENERAL

	Price	+ or -	52 week	Volume	Ytd				
			high low	'000s	Gr's	P/E			
Alexon.....	197½	.....	303½ 185½	3	-	8.1			
Alders.....	189½	.....	266 188½	5	5.5	9.3			
Allied Carpets.....	74½	.....	267½ 70½	-	13.0	5.8			
Arcadia Group.....	349½	-12	508 310	1,078	3.8	12.5			
Arnotts IE.....	533	-19½	569½ 345	-	2.5	14.0			
Ashley (Laura).....	24	-1	68½ 19½	84	-	-			
Austin Reed.....	137½	-8½	227½ 137½	10	6.8	8.1			
Beale.....	182½	.....	147½ 147½	-	4.0	9.9			
Beattie (J).....	159	-4½	193½ 141½	14	7.7	10.4			
Bentalls.....	89½	.....	161½ 89½	-	5.4	4.5			
Blacks Leisure.....	225	-13½	518½ 223	199	3.1	7.9			
Body Shop.....	133	-3	193½ 109	13	5.3	11.2			
Boots.....	1009½	-1	1095 602	2,024	2.8	23.5			
Brown & Jcksn.....	69	-4	84½ 15½	80	-	-			
Brown (N).....	345	-5	460 317½	6	2.7	17.6			
Cadono.....	4	-¼	10½ 3½	279	-	-			
Carpetright.....	264½	+2	574½ 255	20	10.9	9.8			
Cash Converters Units.....	5½	.....	21 5½	18	18.2	7.8			

TRANSPORT

	Price	+ or -	52 week	Volume	Ytd				
			high low	'000s	Gr's	P/E			
AB Airlines.....	90½	+3	115½ 77½	106	-	-			
Air London.....	340	-15	440 205	-	2.6	19.1			
All Nippon Ai.....	194½	-4	385½ 193½	-	-	-			
American Pent Services.....	188	.....	202½ 113½	-	1.4	φ			
Arma.....	411½	.....	518 330	1,859	4.1	11.6			
Assoc Br Ports.....	330	-7½	388 257½	2,088	3.4	16.2			
Autolog.....	275	-7	372 262	-	3.4	12.2			

Why do some businesses enjoy such a cost advantage over others?

The reason - the new business has a superior method of managing costs throughout the supply chain, from procurement to the customer.

Cost is a strategic issue

It is not uncommon for companies to come from nowhere and overtake established market leaders without appearing to break sweat. Peter Drucker, in a celebrated article in Harvard Business Review, pointed out that the newcomer invariably enjoys a tremendous cost advantage, often in the region of 30 per cent.

These more effective companies have brought about significant changes to conventional business thinking. They have replaced a long-established emphasis on products and revenues with increased focus on customer and profit-centric business models. The result is processes that maximise the full profit potential of every customer. This approach is made possible through the application of systems that keep track of transactions throughout the business.

This document sets out a framework for reviewing and reducing costs. Its principal thrust is to examine what work needs to be done in an organisation, where it is performed, and what influences the overall cost.

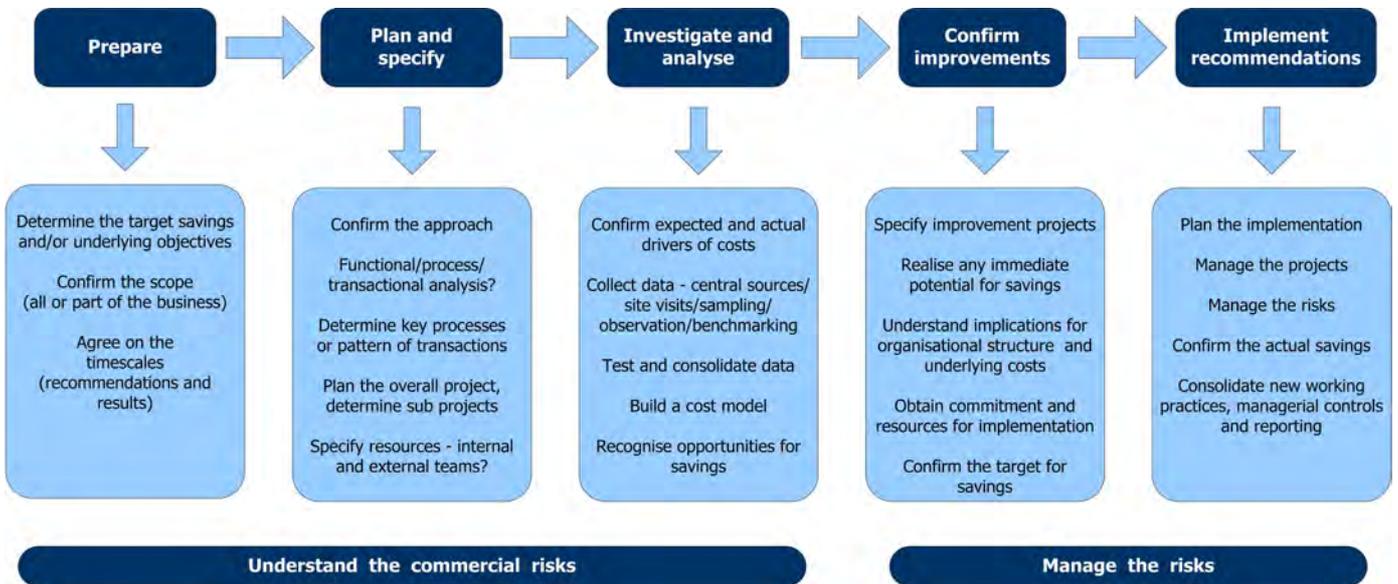
Some home truths about costs

- Profit should always be the first charge against sales. This determines the costs that the business can afford.
- Any business that does not constantly emphasise profit will ultimately make a loss.
- Knowing its value chain is an essential pre-requisite for understanding a company's costs and margins.
- Managers should act innovatively and treat all overhead costs as variable. If volumes fall, overheads should be cut even faster: if volumes rise, overheads should be held.
- Organisations and processes must be reviewed at least every two years.
- Costs should be regarded as:
 - core - adding value to products and customers
 - support - needed to maintain the organisation
 - improvement - required to change and improve the business

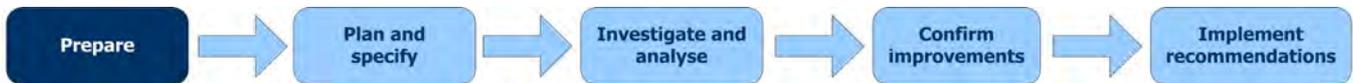
This change of mindset helps managers in their approach to restructuring.

- Organisational structure is the primary determinant of the overhead cost of a company. Its design should reflect and put into effect the strategy for the business.
- People consistently elaborate rather than simplify their work. Resources cluster on tasks that have a minimal impact on profitability.
- Businesses should concentrate on activities that add value to products and services and enhance relationships with customers.

A systematic framework for analysing, understanding and reducing business costs



Clarity at the outset leads to realistic expectations, well focused action and achievable results



Approach

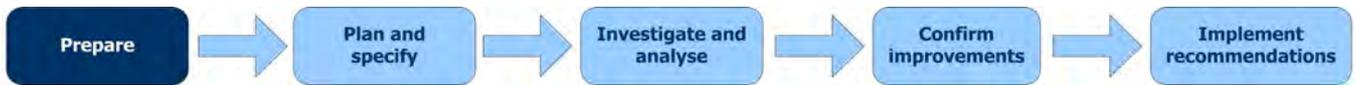
Strategy and rationale

- There are any number of sources of cost in a business. A successful project to reduce them and improve profitability will determine which costs have risen unexpectedly, which costs appear to be poorly controlled and which costs can be reduced without damaging in any way the service to customers or the longer-term potential of the business. The rationale might be:
 - 'One off hit' - pressure from the CEO or investors to achieve a significant reduction in costs
 - Sliding margins - net or gross margins are falling or have not increased in line with expectations
 - Analysis with competitors - market intelligence appears to show that major competitors have a distinct cost advantage
 - 'Good housekeeping' - a review is long overdue, no systematic appraisal of the cost structure has been completed in the last two years.

Targets, scope and timing

- Is there an overall target for gross or % reduction in costs? How should this be expressed?
- What evidence exists to suggest that the target is reasonable - not too low and not too high?
- Which parts of the business are to be examined:
 - The whole business?
 - A representative region or business unit?
 - Overhead functions only?
 - The core business processes?
- How much time has been allocated for the review and implementation?
- How quickly do managers want to see recommendations for action?

Many companies fail to appreciate the extent of potential threats to the business when embarking on significant restructuring or projects to reduce costs



Approach

Spotting the potential risks

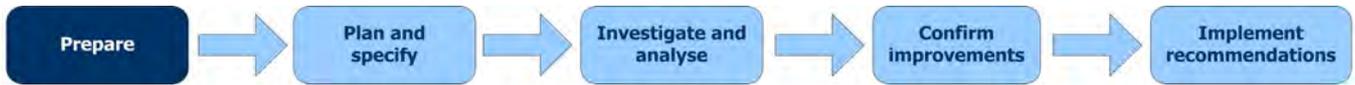
There are many different sources of risk:

- **commercial risks** - changes to working practice and processes do not yield the promised benefits. Service dips in the short term and recovers only slowly. Nobody bothers to tell customers what is changing and when
- **people risks** - changes in the organisation and methods of working lead to the loss of key skills that are difficult to replace. Changes introduced clumsily damage morale and lower productivity
- **IT risks** - promised improvements in IT systems fail to materialise, arrive too late or cost too much
- **performance risks** - output falls while operational managers are distracted by new initiatives
- **timing** - all the agreed improvement take longer to achieve than predicted. Financial results do not improve in line with the promises made to investors

Managing the risks

- Who is responsible for monitoring each risk and for taking remedial action effectively and quickly?
- Is there a formal schedule of risks, which is easily accessible by senior managers?

Costs can be analysed in many different ways. Care is necessary to collect and interpret data in a way that will inform managerial decisions



Approach

Scale and scope

- In order to plan a systematic and thorough review, it is necessary to understand the shape, size and characteristics of the business:
 - How are customers won, served and retained?
 - What are the fundamental sources of sales and profit?
 - What are the main business processes and the resources they use?
 - What models are used for costing and pricing products and services?
 - What is the underlying culture of managerial accountability and reporting?
 - Are there effective controls on costs? Are there managerial incentives for controlling/reducing costs?

Structure and transactions

- What is the main organisational structure? Sites, operational units, overhead functions, support and maintenance units?
- What are the principal interactions with customers - establishing the contract, providing the service, maintaining the relationship, dealing with problems?
- What are the overall drivers of costs? Transactions, complexity, types of account, other?

In-house resources and a sound understanding of the business model lead to efficient and effective investigations



Approach

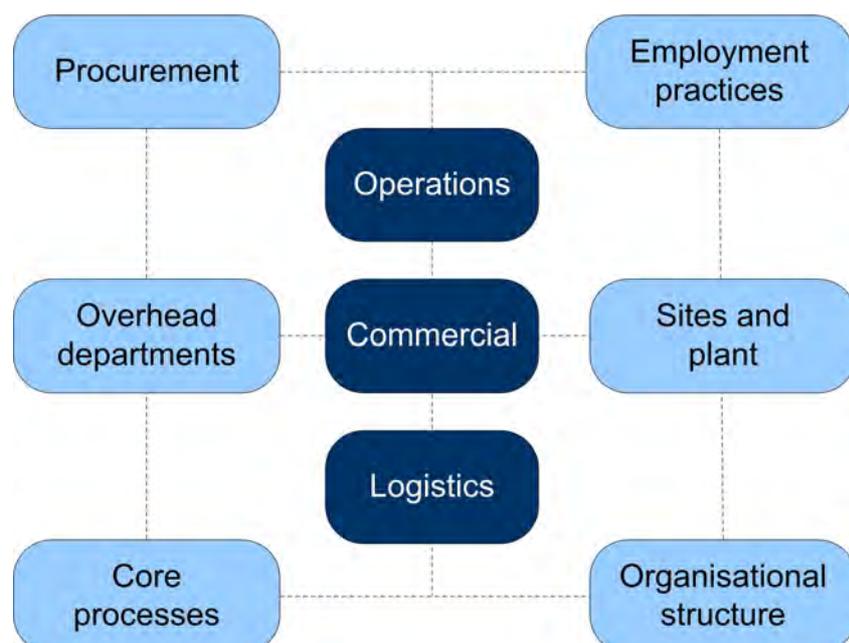
Planning

The principal tasks are:

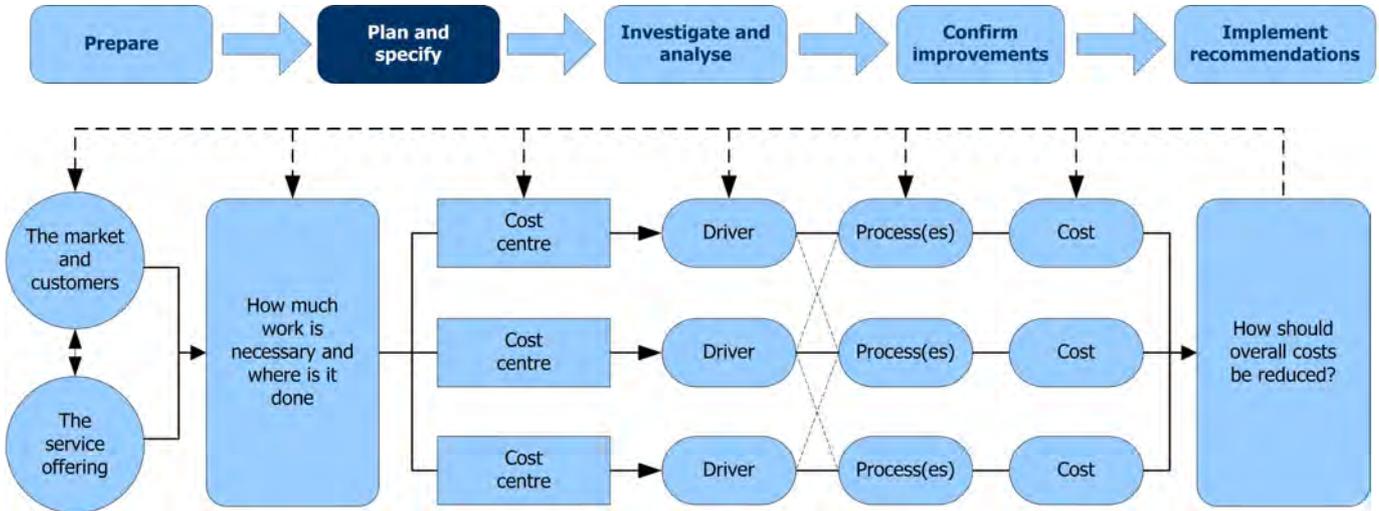
- to determine the overall timescale, taking account of calendar restrictions and availability of resources
- to specify the main sub-projects and develop a project plan for each one to collect and validate robust data for analysis
- to confirm the protocols for collating and storing information
- to agree on available resources from within the business (if any). The quality of data and analysis can be enhanced if joint teams are established that combine experienced consultants with junior and middle line managers who are prepared to challenge the status quo

Themes

There are number of different starting points, but they are not mutually exclusive. The best results are sometimes obtained by combining two different perspectives of the business to get a clearer view of how costs are structured:



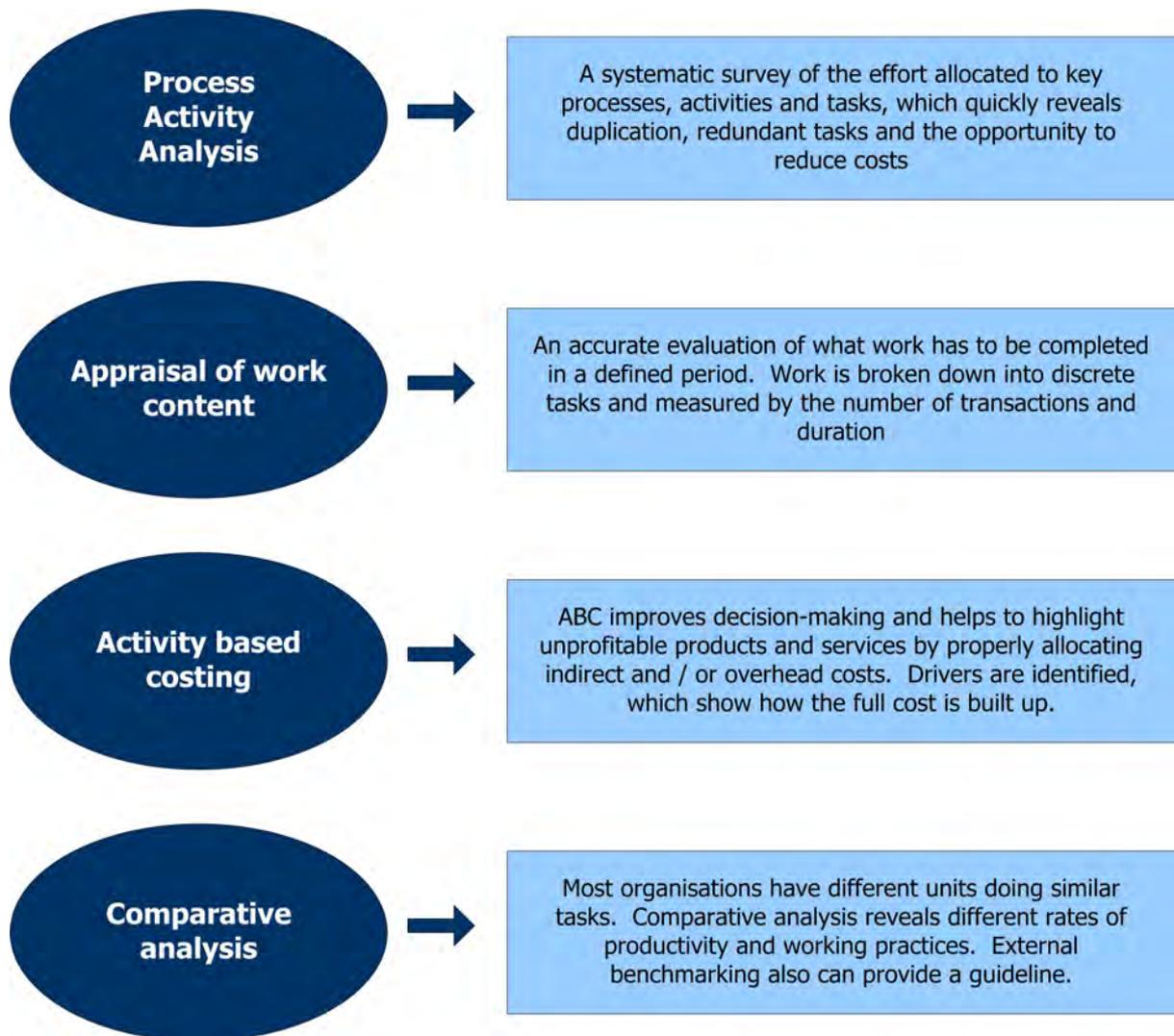
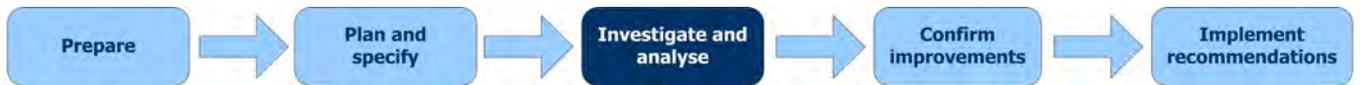
Developing a model for examining what work needs to be done, where it is done and how costs are built up



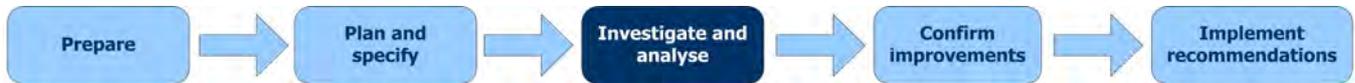
Understanding the service / product offering and specifying the cost drivers

Cost centres	Drivers	Processes	Costs
Operations Manufacture/produce products and services to agreed specification	Number of products/services Complexity of products/services Purchasing behaviour - method of production Frequency with which products/services change	Design and specification Manufacturing and assembly Quality control Research and development	?
Logistics Provide services/products to the agreed specification in the right place and at the right time	Number and location of customers (and suppliers) Number of warehouse/distribution centres Frequency and timing of deliveries Complexity of orders Security of deliveries Stock holding	Order picking and packing Route planning Delivery (different options) Handling queries/complaints	?
Marketing and selling Increase sales from existing customer base and attract and convert new prospects	Number, location and loyalty of existing customers Principal sales channels and methods of selling - catalogues, web sites, sales literature Number of sales visits, after sales service Ordering mechanisms Pool of prospects	Maintaining contact with existing customers (CRM) Promotional campaigns - mailing, exhibitions, advertising, events Estimating and quotations Visiting customers and prospects	?
Finance (such as credit control) Collect cash from debtors Maintain a strong cash flow	Number of customers Number of invoices Average value of invoices Nature of debt	Credit rating Credit control - telephone and written contact Litigation	?
Human resources Recruit, retain and motivate an effective workforce	Number of employees Labour turnover (and recruitment) Attendance rates Amount of training Employee relations/collective bargaining	Recruitment Performance management Payroll Discipline and dismissal Training and development	?
Organisational structure Not a cost centre - but a significant influence on costs	Number and location of sites Managerial hierarchy - including typical reporting structures in layers and spans Managerial controls and reporting IT infrastructure	-	?

Different techniques are available to investigate and analyse costs



Understanding how work is organised and how much time it takes



Analysing work content

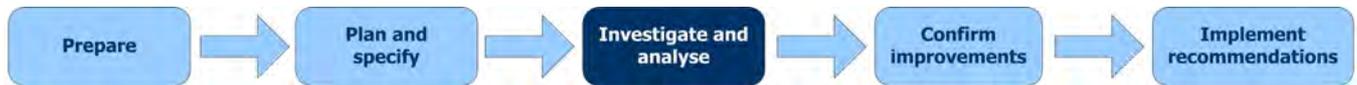
Appraisal of predicted work content

- In this method, which can be described as zero based budgeting, a cost model of an organisation is built up from first principles
- It requires an accurate evaluation of what work has to be completed in a defined period; how this would be broken down into different tasks; how long each task should take; what allowances should be built in for supervision, management, training, absence etc; what support functions are necessary (HR, finance, purchasing) and what their cost will be
- Theoretically, this should provide a robust model for determining the optimum size and shape of an organisation and hence its cost. However, it relies heavily on managers describing precisely what work needs doing and how much effort is necessary to complete specific tasks
- There is a real risk that the very inefficiencies and duplication that should be revealed and eliminated in order to reduce costs may be actually endorsed and embedded in the revised organisation. This is particularly the case when the work undertaken is complex, with few repetitive transactions and no directly relevant comparators. Judgements tend to be made on subjective criteria rather than objective reasoning
- A theoretical model of costs can be compared with the actual costs in an organisation (if these are accurately known), but this does not necessarily reveal where and how savings should be made

Lean and six sigma

- Lean and six sigma are techniques that help to examine the complete value chain from the perspective of the customer. They force a review of the time spent at each stage of a process, pinpoint waste and focus on quality
- Teams of employees work together on selected projects to find weaknesses, resolve problems and improve performance

The field research and initial analysis reveal a series of opportunities to reduce costs, which will usually need further investigation



Opportunities for further investigation

Procurement

Reductions in the costs of inputs can be achieved by concentrating on:

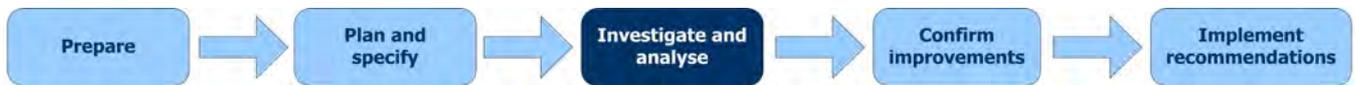
- improving buying practices and negotiating skills
- using materials better and reducing waste
- researching and introducing newer, cheaper materials

Overhead functions

How are resources are deployed in Finance, HR and IT etc?

- **Duplication** - the analysis may have revealed that the same work is being undertaken, unnecessarily, in different parts of the organisation
- **Disproportionate resources** - the total effort expended on processes categorised as support or improvement may not be appropriate to their overall importance
- **Over-devolution** - attempts to move processes and activities from a central department nearer the front-line may have gone too far. Obvious economies of scale may have been ignored
- **Centralisation** - conversely, the opportunities to consolidate tasks in central services - possibly within a shared services centre - should be examined
- **Outsourcing** - transferring whole functions or processes to an external provider offers some advantages in cost and service, but does not necessarily increase flexibility
- **Maintenance tasks** - resources devoted to maintenance are often poorly controlled and excessive
- **'Specials'** - non-standard tasks are likely to consume disproportionate resources. Why? Is it justified?

Organisational structure is one of the single most important influences on overall costs



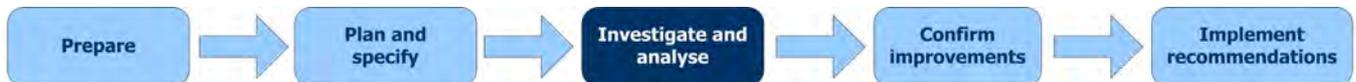
Opportunities for further investigation

Organisational structure

- **Organisational design** - has a direct influence on the total cost of human resources and the numbers of managers in an organisation. It is most unlikely that substantial reductions in costs can be achieved without considering some degree of restructuring
- **Cost-effective shape** - the review of managerial layers and spans of control should be challenged. Some 'managers' may have only one subordinate, others may have excessive numbers of people reporting to them. Removing excessive layers and broadening spans generate valuable savings, reducing 'over management' and improving communications
- **Alignment of organisation and processes** - does the organisation reflect the core processes that generate services for customers? Are processes fragmented or trapped, artificially, within functional or departmental structures?
- **Inconsistency** - are similar activities done in different parts of the organisation allocated the same amount of resources? If not, why not?
- An effective organisational structure has a dynamic balance between accountabilities, job design, core processes, and operational and financial controls:



Employment practices tend to become more rigid and more costly over time



Opportunities for further investigation

Core customer-serving processes

- What opportunities has the application of lean thinking and six sigma techniques revealed in the key business processes?
 - Reduction of waiting time?
 - Elimination of waste?
 - Pinpointing of critical resources and principal bottlenecks?
 - Increased throughput and capacity?
 - Improvement of sub-optimal processes?
- What are the benefits and risks of considering the outsourcing of manufacturing or other 'core' activities?

Employment practices

How can the total costs of labour be reduced?

- Overtime (paid or unpaid) - indications of excessive or limited use of overtime are pointers that resources have been poorly apportioned to tasks. In a properly resourced organisation, there should always be slightly more work than resources to do it.
- Unproductive time - the analysis will reveal the proportion of time being spent on meetings, travel, managing e-mail, social events and other activities of questionable benefit. The underlying rationale must be challenged.
- Managerial time - a comparison of how managers in different parts of the organisation use their time is revealing. Signs that they spend a significant amount of time on the same tasks as subordinates should be examined.
- Recruitment and selection - in tight labour markets recruitment and selection of the right people become costly. Effort is duplicated and controls on the overall process are poor.
- Pay drift - in companies without firm controls on pay and benefits, the total cost of labour is always likely to increase as a proportion of overheads. It is difficult, but necessary, to draw a line in the sand. Attention to 'one-off' benefits is likely to pay dividends.
- Temporary and contract staff - many enterprises operate with excessive numbers of 'off-line' staff. Their costs are often difficult to find and their performance is poorly managed. What employment rights do contract staff have? Why have managers pursued this policy?

The investigation and analysis should be thorough and wide-ranging

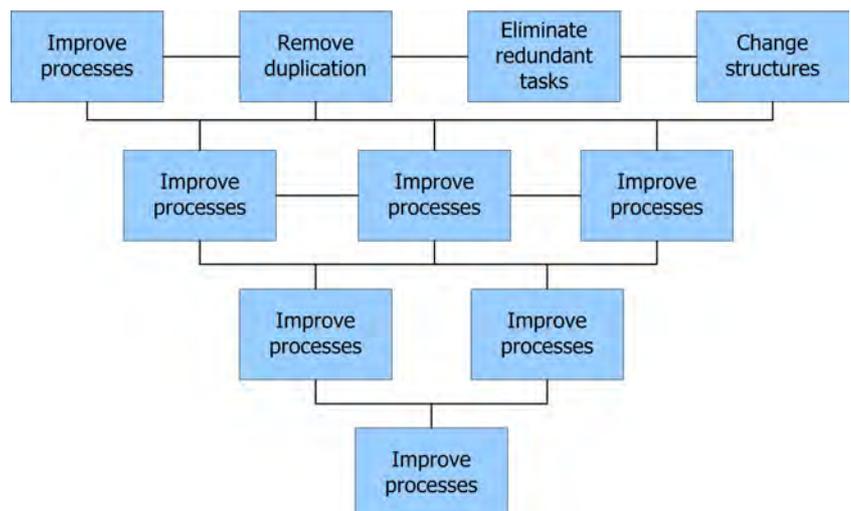
Opportunities for further investigation

Utilisation of technology

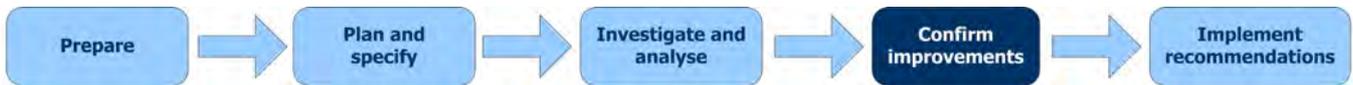
- Most initiatives to reduce costs should include an appraisal of the use of technology and automated systems. Initial investigations may often reveal that systems are under-used, expensive to maintain and off-line for excessive periods. Attention to all these features may lead to greater productivity, before any decisions have to be made about investment in newer technology.

Operating sites and plant

- The reviews of core processes and overhead functions will force consideration of operating sites. Are there too many? Are the ones we have got in the correct place? What are the possible savings from relocating some functions or closing some sites?
- Are plant and equipment being used at optimal efficiency? Would a review of Operational Efficiency and Effectiveness (OEE) yield useful data?
- Most improvements are likely to accrue from a small number of critical sources:



Initial opportunities for savings must be specified in discrete projects, examined critically and assessed for their value and practicality



Summarising the opportunity

Savings plan

- A Savings Plan summarises all the potential savings throughout the organisation (or part of it) under review. It must be primarily numerical in nature, but with sufficient commentary to explain the broad rationale behind each recommendation. The information should be organised by theme (type of saving) and by function/department (where the savings can be made). It will normally include some degree of overlap or double counting. This is inevitable, given the broad range of ideas under consideration.
- One of the strengths of the methodology is that many of the original data, analyses and subsequent proposals for change can be generated by managers and staff from the company itself - with the support of external specialists. Ownership of the data and confidence in their interpretation reinforce any recommendations made and increase the chances of successful implementation.
- The Savings Plan sets out the possible opportunities for reducing costs. It can include options for changing the organisational structure, for eliminating unnecessary tasks and for reducing staffing. It is important that, at this stage, the report and its contents should remain confidential to the Project Team, the Steering Group and the Project Sponsor.

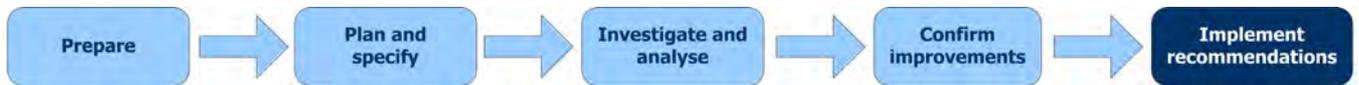
Presentation

- The Savings Plan is presented to the Steering Group. It should clearly demonstrate the rationale behind each proposal and the factual evidence that underpins it. As a large amount of information has to be presented, this event must be well managed, with adequate time set aside to ensure that the findings are properly understood.

Commitment

- The outcome from this stage should be an unequivocal statement from the senior managerial group (main operating board):
 - to agree on the priorities for reducing costs
 - to confirm the scale and proposed timing of reductions in jobs
 - to confirm the scale of cost savings
 - to support major, organisation-wide initiatives
 - to set targets for departmental/divisional improvements
 - to develop comprehensive and firm plans for implementation.

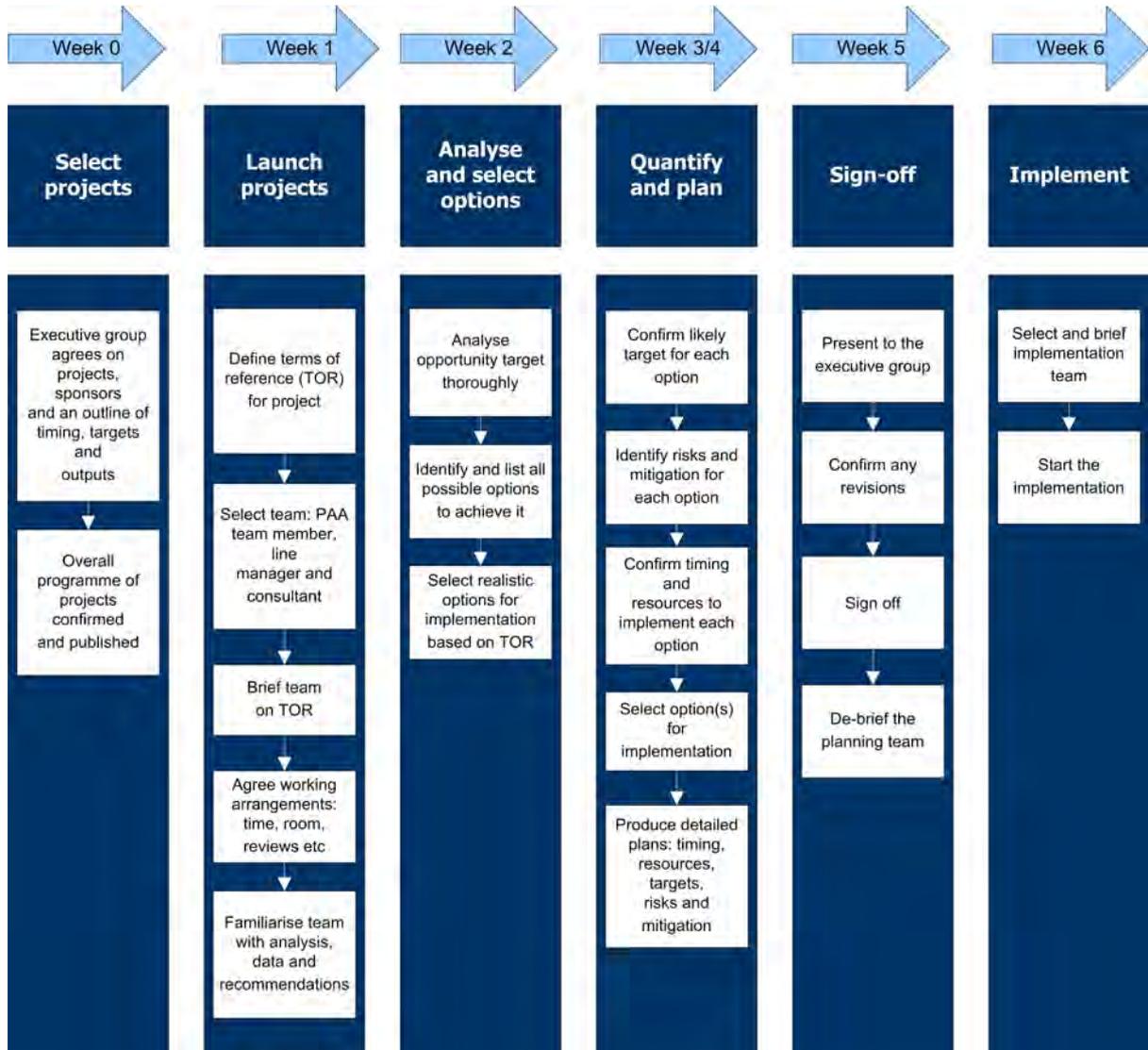
Detailed plans should be created for each improvement project



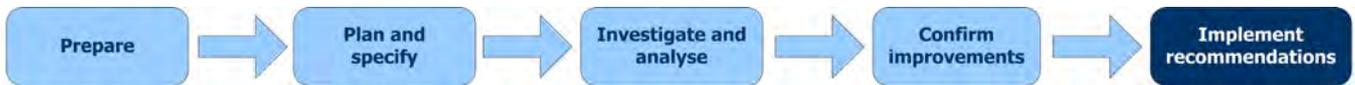
Creating the project plans

- The plans for implementing different projects have to be developed by and gain the full commitment of line managers
- They will be supported by a number of new project teams, comprising some of their own staff, members of the original survey and analysis group, and external consultants providing specialist skills and acting as catalysts
- The project plans will confirm:
 - the precise savings to be achieved and the number of jobs this represents
 - how the savings are to be realised in changes to structure, processes and managerial behaviour, and in the elimination of unnecessary work
 - what resources (financial and staffing) can be released for reallocation to front line services
 - the timing of changes, with a comprehensive schedule of activities
 - the resources necessary to put the plans into action
 - the requirements for consultation with internal and external stakeholders and the arrangements for doing so
 - defined criteria for success and clear milestones to monitor progress
 - who is accountable for implementing the plan, and
 - a schedule of potential risks and the actions proposed to mitigate them
- Implementation plans reflect the complexity and degree of difficulty in making the proposed changes
- The senior managerial group should confirm the process and timing for preparing the implementation plans. A demanding schedule should be adopted, in order to maintain momentum and demonstrate the continuing commitment to change. Five to six weeks should be the standard. The main tasks are illustrated overleaf:

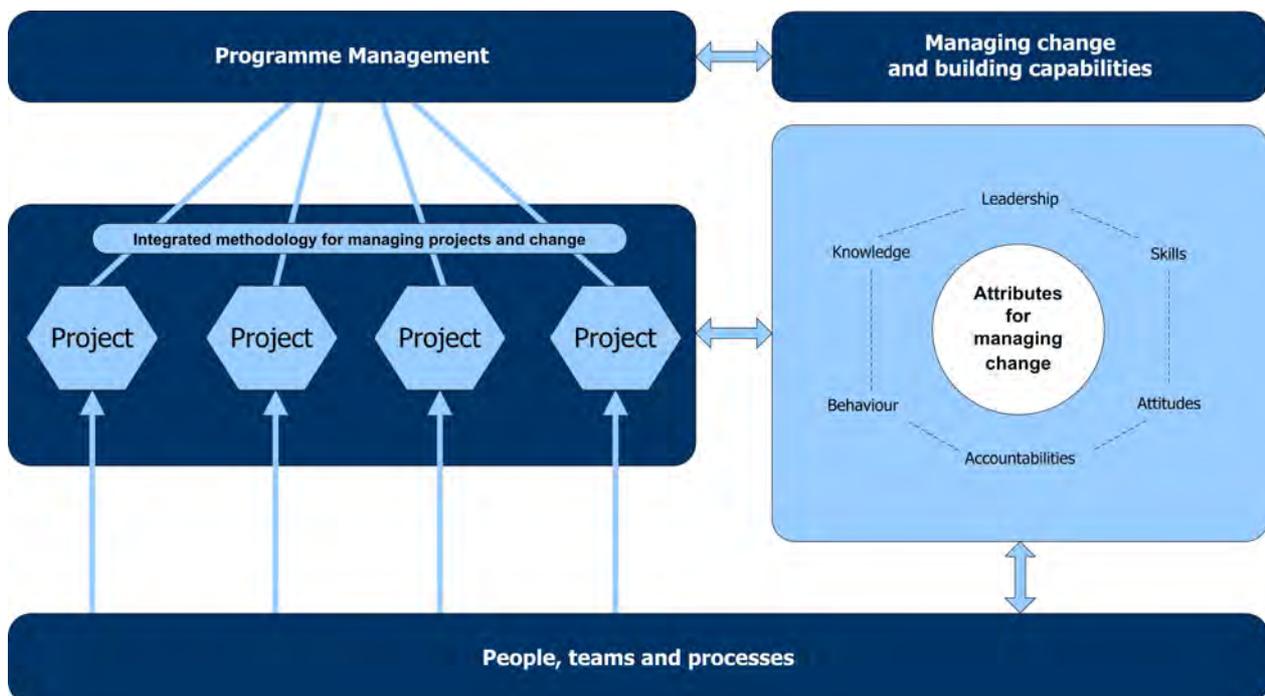
Each project has discrete stages and a confirmed schedule



Use an established methodology for managing projects and the overall programme of cost reductions



- Successful implementation is the most challenging element of the whole process. It depends on an integrated approach to programme and project management. The main factors are:
 - Programme management - embracing a sound organisational framework, good leadership from the top, and effective communications
 - Project management - the skills, resources and disciplines for managing projects within specified deadlines and to agreed standards
 - Continuing capability - the organisational ability to sustain improvements in performance, build on cultural and behavioural change and get the best out of people, teams and processes
- All change encounters some degree of opposition. Major organisational change and reductions in employment cause conflict. This must be recognised and managed - it cannot be ignored
- This approach is summarised diagrammatically:



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Collinson Grant is a management consultancy with a history of profitable growth. We help large organisations all over Europe and in the United States to restructure, merge acquisitions, cut costs, increase performance and profit, and manage people. By building long-term relationships, we have kept some clients for thirty years.

Our emphasis is on implementation, results and value-for-money. We expect to give a substantial return on the investment in us. So we do not recommend action unless we are sure that the outcome will be worth it. We are not afraid to give bad news, or to champion ideas that may not be welcome.

Most of our work is on three themes – organisation, costs and people. We use this simple framework to manage complex assignments - often with an international dimension - and to support managers on smaller, more focused projects. We help them:

- to restructure and integrate - following acquisitions or to improve profits
- to improve the supply chain. We examine every process and interface to improve efficiency and service
- to set up financial and managerial controls. We create robust systems to improve decision-making and reduce risks
- to refine business processes and introduce lean manufacturing. We analyse and improve how work is done, and use new ways to create change and make it stick
- to cut costs. We make systematic analyses of overheads, direct costs, and the profitability of customers and products. This helps managers to understand complexity, and to take firm steps to reduce it
- to manage people. We draw up pay schemes and put them into effect, guide managers on employee relations and employment law, get better performance from people, and manage redundancy.



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Costs

People

Organisation

Productivity

Performance

Restructuring

**United
Kingdom**

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Europe**

**United States
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Complexity, Direct costs, Employee relations,
Employment law, Implementing change, Integrating organisations, Lean,
Managerial controls, Organisational design, Overheads, Performance management,
Pricing, Process improvement, Procurement, Reward, Supply chain,
Transitional management, Value chain analysis, Workforce planning

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