

Case Study – Cost Efficacy Project



Problem issue and scope

The Online Services Division of a major U.S. global software company had been experiencing a 7-year annual net loss streak in its Online-Services Division. Along with recessionary pressures and a tight oligopoly market structure, the company's failure to combat and control rising operational costs had put them in a very tight financial predicament.

With a problem scope of global proportions, the company had the following cost optimization objectives:

1. Reduce costs through head count optimization.
2. Streamline vendor contracts.
3. Other cost efficiencies where ever possible.

Methodology

A caveat in such cost efficacy situations is to avoid the trap of simple cost slashing from the largest cost intensive areas of the organization. The obvious danger being the affect on operational effectiveness.

The core of the 3i One-Shot model 'interlaced relationship consideration' played an integral part in achieving these cost efficacy objectives without sacrificing output. The research strategy employed comprised of various rate, volume and scale cost efficacy techniques to comprise:

1. Targeting the individual cost intensive areas of the organization and rank by volume and operational priority.
2. Mapping cause-and-effect relationships between each cost category.
3. Scenario testing varying cost reductions and eliminations on each different sectors and operational centers of the organizations.
4. Comparing similar cost structures with other global division operations for re-deployment opportunities.

Recommendation and Outcome

The key to success was to find a balanced mix of cost reduction targets and a zero tolerance approach to efficiency reduction.

Case Points

Organization & Market:

- › Redmond, WA – Multinational Software Company

Situation:

- › Escalating operational costs
- › Required streamlining of financial cost centers

Process:

- › Target cost intensive areas of company
- › Map cause-and-effect relationships
- › Scenario testing
- › Comparing global cost structures

Recommendation:

- › Cost/efficiency balanced tactics
- › Headcount optimization and redeployment
- › Vendor portfolio streamlining
- › Energy management tactics

Outcome:

- › First year global framework saving of \$210m

By demonstrating to the company the negative effects of an indirect correlation between excessive headcount reductions and an increase in internal group communication network complexity, we were able to spearhead cost/headcount harmonization as the driving force in the campaign strategy. With this understanding in place, the remaining considerations of full-time employee and sub-contractor mix, headcount redeployment, vendor optimization, energy efficiencies, workflow cost mapping and process re-engineering fell almost automatically into place.

The result was the delivery of a framework for an annual saving of \$210 million and minimal efficiency interruption.

Client Quotation:

“the Consultant’s approach helped us see beyond mere cost target reductions and really provided clarity on the cause-and-affect considerations of the divisional cost factor relationships and which buttons, when pushed, have a ‘butterfly affect’ on the rest of the company while providing us with sound long-term cost efficacy strategies”

--Group Accounting Manager

Consultant Quotation:

“the greatest reward was being able to provide the client with education for the future. We helped them understand cause-and-affect and the positive and negative impact small decisions can have on a big company as theirs. This helped them focus on controlling their internal costs, while also giving them a stronger footing in securing greater bottom line results, especially in the economic down turn.

– AOP Consultant