

1 of 1 DOCUMENT

Graphic Arts MONTHLY

Graphic Arts Monthly

March 1, 2006

Why Cutting Costs Can Get Darned Expensive

BYLINE: By Kevin Cooper.

Cooper, who teaches graphic arts at his alma mater, Cal. Poly Tech., had an 18-year manufacturing management career with RR Donnelley and Microsoft.

SECTION: COLUMNS; BestTrack; Pg. 35

LENGTH: 659 words

What printer is not interested in finding cost savings? Market conditions continue to toughen as price pressures push downward and customers seek their best return on spending. To maintain existing profit margins, with any hope of improving them, cost reduction is on the agenda of every print firm.

While the drive to lower costs is universal, the approaches taken to succeed vary. Countless printers go through year-end exercises of budgeting for the future only to require their operations to find additional improvements when expected sales don't materialize, or when costs run outside acceptable deviations. Operating managers scrutinize expense ledgers seeking areas on which to cut back. The focus, by nature of the process, is on short-term discretionary items where some control of actual spending exists. Reductions are targeted in areas such as business travel, maintenance, small equipment purchases and education/training. In the near term-short of cutting wage rates, deferring significant capital projects or making major policy decisions around pay practices and benefits-there aren't other areas to cut to achieve savings targets.

When cuts are made, some savings certainly can drop to the bottom line. However, other costs build, sometimes without management awareness. These costs are elusive to quantify and easy to discount, since they don't appear as line items in your statements. But they are as real and important as those that do.

For example, when employee-related expenses are cut, how do you quantify drops in employee morale or in overall customer satisfaction? They can be measured abstractly by tracking employee turnover or repeat business, but these measurements are impacted by external factors and may move too slowly to be of real use. Satisfaction surveys can indicate the prevailing mood but aren't likely to occur when cost cutting. Employee morale has a direct impact on customer satisfaction. Unhappy employees find it difficult to mask their feelings and occasionally use the customer as a sounding board for voicing discontent in the normal course of doing business. Many organizations develop cultures of employee empowerment and rely on the workforce to minimize costs. Rather than cutting line items, management communicates more broadly about the state of the business, working with employees to improve processes.

Wrapping shared values around a well-communicated mission statement will link management's efforts with those of

employees-and improve costs under all business conditions. Ongoing commitments to training accompany this, as empowered cultures consistently reinforce the value of educating and developing employees. These companies view employees as assets to improve operations-not as expenses to cut when times are tough. According to Ronnie Davis, chief economist of PIA/GATF, ratio studies indicate that training is the one area where profit-leading firms consistently outspend profit-lagging firms. This training commitment is present throughout successful organizations and contributes to their development as learning organizations and to their ongoing successes.

So how do you find cost improvements? If you're consistently in the mode of making difficult choices of which line items to cut, you should consider a longer-term view. Successful printers continue to invest in their workforce and manage a culture of empowered employees. Empowering the employees creates buy-in to existing business issues and engages people's minds and energies on business problems. Beware of finding success through cuts that look great on paper but have qualitative impacts on your ability to compete in the long term. If saving a dollar today means you've lost the hearts and minds of your employees or customers, then saving costs are truly darned expensive.

Cooper, who teaches graphic arts at his alma mater, Cal. Poly Tech., had an 18-year manufacturing management career with RR Donnelley and Microsoft.

LOAD-DATE: March 17, 2006

LANGUAGE: ENGLISH

PUBLICATION-TYPE: Magazine