Ask a VR Intermediary?

Greg Hedgebeth
Owner, VR in Cincinnati, OH

How Do I Cut Costs for My Business?

Stanley Johns
Dover, Delaware

Dear Stanley,

To effectively cut costs for your business, you need to understand the bare bones of your company. Ask the most basic questions about each element required to create your product or service. You have to distinguish between low-cost and high-cost activities and determine what controls the cost of each of them. Keep activities that add value, while compressing, eliminating or outsourcing those that don't. Implement cost-reduction opportunities that you find, and aggressively pursue cost saving throughout the value chain.

Low-cost leaders understand very clearly the bare bones of their businesses. They rethink the very core of their companies' internal value chain -- the distinct activities needed to create their products or services. They determine what controls the cost of each activity. They shave off costs at every element of the value chain.

As a result, low-cost leaders make real and lasting breakthroughs. They benefit from increased productivity, reduced cycle time and lower input costs. Most of all, they can produce goods or deliver services more cheaply than their competitors. This translates into better profitability and potentially more cash flow.

One example of cutting costs effectively is Katsuaki Watanabe, Toyota Motor Corp.'s President. He is the guru behind an initiative called "Construction of Cost Competitiveness for the 21st Century," or CCC21. This program forced suppliers to slash the prices of 180 key parts by at least 30%. As a result, this plan helped the automaker save $10 billion in a five year period.

Toyota's relentless drive to cut costs stems from a philosophy that views waste as unacceptable. Toyota's engineers, managers and line workers work together closely to continually tweak the system. They then make little changes to make work go more smoothly. Toyota roots out wasted costs, effort and time as well as excess capital investment. As a result, it makes more automobiles with more efficient workers and leaner factories than its competitors.

Toyota's North America factories built 1.44 million vehicles in 2004. That number is 107% of Toyota's theoretical capacity. In contrast, GM and Ford factories used only 86% of their rated plant capacity in 2004. This suggests they could have invested more efficiently to avoid expensive excess space and machinery.

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