



Ways to Cut Costs

Many case questions will ask you to come up with ways to cut costs; however, it has been my experience that students tend to struggle with this request. Below are numerous ways to cut costs in the areas of labor, production and finance. Memorize them and when they ask you, if appropriate, rattle off two or three in each area.

Before you answer, the McKinsey Quarterlyⁱ reminds us to consider the company's strategic needs and to think about the long-term consequences under a range of various economic scenarios. Do these areas "drive value" and do they help make the company "competitively distinctive?" Don't just cut equally across the board.

Labor

1. Cross-train workers
2. Cut overtime
3. Reduce employer 401(k) or 403(b) match
4. Raise employee contribution to healthcare premium
5. Four 10-hour days instead of five eight hour days
6. Make workers owners (if they have a stake in the company they will work longer, harder and constantly think of ways to cut costs that they might not have done before)
7. Layoffs
8. Across the board pay decreases

Production

1. Invest in technology
2. Consolidate production space to gain scale and create accountability
3. Flexible production lines
4. Reduce inventories (JIT)
5. Outsource
6. Renegotiate with suppliers
7. Consolidate suppliers
8. Import parts

Finance

1. Have customers pay sooner
2. Refinance your debt
3. Sell nonessential assets
4. Hedge currency rates
5. Redesign health insurance

ⁱ "A better way to cut costs"; Heywood, Layton and Penttinen; McKinsey Quarterly 2010 No. 1