

When's a cut not a cut?

Cuts and savings are not the same thing. If you confuse your terminology you may well apply the wrong solution

By Stuart Smith

Cuts, savings, waste and efficiency. These are very different things with very different outcomes.

Everybody, it seems, has a view on cuts. Most of the argument is about how deep and how soon, not really about whether they are necessary in the first place. Some senior managers, especially in the public sector, talk about "making cuts without impacting on frontline services". This, of course, is impossible.

Cutting in this context should mean ceasing to provide a service, capability or resource to the customer. If we cut the number of times the bin gets emptied, it has an impact on the service the customer receives.

Even Sir Philip Green, the billionaire businessman, gets confused. "The annual cost of 105,000 mobile phones, mostly with one provider, was £21m," he said,

adding that it was "inefficient". It was not inefficient; it was, in fact, wasteful. Being "inefficient" is lacking the ability or inclination to deliver outputs for less input; it is a performance measure, not a financial one.

The media talk about how "£1.7bn will be saved in delaying or stopping government contracts and projects". This isn't a saving, which suggests getting more for less money. These are just cuts. This is important because if, as a business, you confuse your terminology, you are

"This isn't a saving, which suggests getting more for less money. These are just cuts"

in real danger of applying the wrong solution to the problem, creating an undesired outcome.

If asked to make savings, don't start with cost

If you are asked to save money, the tendency is to start with cost and ask yourself, where can we save money? But you should look at quality and delivery first. Quality could cover processes, product, services or thinking. By eliminating poor quality, you cut costs. If you simply cut, you are just moving the source of poor quality elsewhere.

The next issue to consider is delivery. Once again, if you can improve the delivery process - with fewer steps, less variation, less waste - there will be less cost because you are improving efficiency. If we take the traditional Lean interpretation of waste, as being anything you do that the customer would not value (i.e. be prepared to pay for) I suspect that reducing the budget deficit would prove less of a daunting task. In your own business, bear in mind that cutting waste, eliminating sources of poor quality, under or over delivery, reduces costs. But cuts are just cuts.



Inefficient, or wasteful?

Tools and methodologies do help

There are many tools and methodologies which, if correctly applied, can help businesses to make huge savings in almost every aspect of their operations. When using Lean Six Sigma for example, it is not uncommon to see savings of 20-30 per cent. In blue chip companies, this can mean savings of tens of millions of pounds.

If the business climate is set to

get tougher, it is the companies that substitute genuine savings for "cutting" that will thrive and prosper.

Stuart Smith is managing director of Bourton Group, a consultancy that specialises in delivering sustainable performance improvement for organisations (stuart.smith@bourton.co.uk, www.bourton.co.uk)