

Case Study

Cost Reduction

Estimated time	45 minutes
Presentation of recommendations	15 minutes

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Instructions

Estimated time: 60 min (45 min for analysis, 10 min for presentation, 5 min for Q&A)

Read through the entire case and formulate your responses to the problems posed. Base your responses on facts in the case and maintain your assumptions.

Client background

The Acme business is a conglomerate split into 4 different business units: TVs, Kitchen Appliances, Power Tools, and Lawn Equipment. Historically, the company had been a strong, profitable group. But over the past few years, with the downturn in the economy, performance has declined.

Acme has experienced a 17% decline in Revenue over the past two years, resulting in a need to reduce costs. The company has moved its manufacturing to three international locations (South America, Eastern Europe, and Asia), which has had a limited impact on costs. As a result of the change in manufacturing, Acme has experienced an increase in quality-related issues. The Acme brand has always stood for quality, and customers historically have paid for that. Management realizes it needs to reduce costs, but also understands it can not do so at the expense of losing customers.

A few years back, Alan Dumant, the CEO, tried shared services centers for each of the individual business units. Not a bad idea, but it took too long to implement and to see results. He is not interested in an upgraded IT system implementation or other "silver bullet" solutions.

Alan would like to know the feasibility of restoring the company to profitability in the short term (i.e., major IT changes, shared service centers, manufacturing and distribution consolidation, and other major transformational initiatives cannot be implemented in the short term). PwC has been asked to conduct a review of the business to identify potential "quick win" cost reduction opportunities and develop recommendations.

Task 1

1. What factors would you take into consideration in trying to decide how to reduce costs?
2. What methodologies would you look to incorporate to help Acme reduce costs?

Interview with Alan Dumont

You ask for a meeting with Alan Dumont to gather more details on Acme. Below is a transcript of that meeting.

You	Hello Mr. Dumont. Thanks for agreeing to meet with us today.
Alan	No problem, I am looking forward to working with you regarding our cost reduction initiative at Acme.
You	We would like to start by just asking you a few questions about your organization and some of your activities to date. Have you done any benchmarking and comparisons to competitors in terms of headcount or spend?
Alan	Frankly, we don't believe in competitor headcount benchmarks too much and we haven't used them in the past. Historically we have cut heads to help the bottom line--if that is your question. But it is based on our knowledge of the business, not on any outside benchmark study.
You	Thanks. Can you tell me a little about the four business units and how they spend money on back office goods and services?
Alan	Sure, each business is responsible for their own spend and contracts with suppliers. For example, office supplies are procured separately at each business. We leave it up to them to manage that spend and negotiate the best possible contracts.
You	Can you provide a summary of this by commodity or business unit?
Alan	Sure, I will send you what I can. It may take some time to pull all of the data out of our system but I can send what I have readily available for now.
You	Sounds great. I look forward to seeing the information and beginning to come up with savings opportunities for you.

The next day you received the following data from Alan. It contains information on Office Supply and Marketing spends for all four business units. It has the commodity, supplier name and how much was spent with that supplier for all of 2008.

TV		
Marketing	Supplier A	\$ 250,000
	Supplier B	\$ 300,000
	Supplier C	\$1,500,000
	Supplier D	\$ 200,000
	Additional 30 Suppliers	\$ 30,000
Office Supplies	Supplier E	\$ 400,000
	Supplier F	\$ 150,000
	Supplier G	\$ 200,000
	Additional 100 Suppliers	\$ 500,000

Kitchen Appliances		
Marketing	Supplier A	\$1,800,000
	Supplier H	\$ 200,000
	Supplier C	\$ 300,000
	Additional 40 Suppliers	\$ 250,000
Office Supplies	Supplier E	\$ 500,000
	Supplier F	\$ 200,000
	Supplier I	\$ 300,000
	Additional 75 Suppliers	\$ 500,000

Power Tools		
Marketing	Supplier C	\$800,000
	Supplier D	\$400,000
	Supplier H	\$300,000
	Additional 75 Suppliers	\$500,000
Office Supplies	Supplier F	\$600,000
	Supplier G	\$100,000
	Supplier I	\$200,000
	Supplier J	\$300,000
	Additional 40 Suppliers	\$400,000

Lawn Equipment		
Marketing	Supplier A	\$1,000,000
	Supplier B	\$ 300,000
	Supplier C	\$ 300,000
	Additional 20 Suppliers	\$ 300,000
Office Supplies	Supplier E	\$1,200,000
	Supplier I	\$ 200,000
	Supplier J	\$ 300,000
	Additional 20 Suppliers	\$ 400,000

Task 2

3. Based on the above conversation and spend data received what are some opportunities you notice for cost savings? Please be sure to state all assumptions when quantifying the value of the savings.

Sustaining the Savings

You receive a message from Alan Dumont a few days after he sends you the first part of the data you asked for. He has asked you to present your ideas on sustaining the savings and ensuring that the program is not like all the previous activities, which provided only temporary results.

Task 3

4. In addition to your recommendations for savings based on the initial data given to you, present your recommendations for sustaining the savings. What will the company need to do organizationally, technologically, and process-wise to provide sustainability?

