Five Steps to Cutting Costs without a Chainsaw

White Paper

Executive Summary

Reducing spending on programs and cutting employees can be a dangerous practice. By isolating profitable projects, clients, and employee needs, your organization can cut costs without hurting operations. Stay in the black through careful analysis and targeted improvements.

In the event of a down economy - such as the one which we appear to be coming out of – many companies start looking for ways to cut costs. This can include anything from reducing spending on various programs to cutting employees. Yet, such drastic measures are often unnecessary and harmful to the company's future. If we could simply figure out where our companies are profitable and where they are not, we could simply choose to do more of the profitable work.

Planning for Profit

Companies need data to help them make future decisions. For example, how many executives really know which projects were successful? Which clients were a drain on resources and which ones were profitable? How many employees worked on each project, and for how long?

When companies don't know how long it took to complete previous projects, they won't be able to gauge the accuracy of their initial estimates.

If executives have this information in hand while planning future projects and budgets, they can make much more informed, cost-saving decisions. The good news is that getting this important data is not difficult. It just means taking a different approach. Here is a five-step process that can help you improve your company's profitability, especially in a down economy where every penny counts.

1. Evaluate Your Current Situation

When companies don't know how long it took to complete previous projects, they won't be able to gauge the accuracy of their initial estimates. This doesn't exclusively refer to hours, because a project that was delivered on time may not have been delivered on budget, which is another problem.

Without per-project cost data, repeating past successes is nearly impossible. If you don't know which projects were on-time and on-budget, you don't know which projects were successful and should be replicated. Not only that, but recognition of project crisis becomes a matter of subjective feelings rather than empirical data, increasing the likelihood that good processes will be abandoned in times of crisis.

2. Begin Tracking Project Hours and Expenses

Having your employees track the majority of their time on a per-project basis will alert you to when projects are in trouble much earlier, giving you the opportunity to do something about it before it is too late. In addition, this data will surprise you in many ways. You can learn the truth about projects that are consuming more labor hours than you thought, or customers you deemed expensive who are actually inexpensive to service. When the economy is down, this gives you the option to "fire" your

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unprofitable customers and keep the profitable ones happy.

3. Add Labor Rates and Track Expenses

Travel expenses make up the second largest controllable corporate expense for most companies, and some projects, products and customers use up more travel expense than others. Collecting all this data on a per-project basis gives you the ability to know true direct per-project cost. This gives management better insight into how to cut costs without a chainsaw.

4. Allocate Indirect Costs

There are two types of indirect costs: general indirect costs, such as rent, that need to be allocated across every project in the company; and semi-indirect costs, such as customer relationship management, which should be applied to all projects for the customer in question. For general indirect costs, you will need to create an allocation formula for each type: marketing, legal fees, office electricity, etc.

For semi-indirect costs, there is a different process. If you have a large customer that you do multiple projects for or a suite of related products that are treated as a group, there are usually some costs that apply to those projects as a group, but not against any particular one of those projects. In this case, you might allocate these semi-indirect costs by revenue or by direct cost over those projects.

Regardless of your process, input from all of the managers involved is essential. If the allocation formulas are generally perceived as inaccurate or unfair, you may need to tweak them.

5. Bask in the Awareness of Per-Project Profitability

Imagine if your developers, support staff, marketing team and salespeople all knew which customers were making money for you and which were not. Since they want your company to succeed, don't you think this would alter their behavior in ways that will make you more money? This gives you an enormous advantage over your competitors during a down economy. After all, you know where your profits are coming from and they don't. You can eliminate the unprofitable work Per-project profitability knowledge can make your company far more effective in bad times and far more flexible in good ones. When times are hard and you need to cut, you will be able to cut intelligently. Through the economy continually changes, having great procedures in place to understand per-project profitability is the key to weathering any financial storm.

About Journyx, Inc.

Journyx is not your average software company. We strive to be relentlessly creative and to build tools that help you spend your time on things that matter. After all, time is all we have. Founded in 1996, Journyx offers customers two solutions to reach the highest levels of profitability: Journyx – project, time and expense tracking software – and Journyx PX – resource management software that provides work and financial forecasting for a complete picture of project and budget status, employee time and availability. Journyx has thousands of customers worldwide, including Crate&Barrel, Schlumberger, BP, Big Brothers Big Sisters, Callaway Golf, Honeywell and many others. For more information, visit www.Journyx.com.